

*Financing*  
**College**



*Practical tips  
and strategies*



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inancing a child's college education is often one of the largest expenditures a parent will make in preparing and launching their young adult into the world. This brochure is designed to help you understand the magnitude of the expense, assess your own need, and help to develop a plan to finance college.

## WHAT IS THE COST?

Tuition, room and board costs range widely from community or state schools to the most expensive private colleges and universities.

The costs of college have been increasing about 6% per year in recent years. Use this 6% annual increase as a good rule of thumb to project your future expenses. The current cost ranges for tuition, fees, room and board by type of school are shown below.

### *Estimated Annual and Four Year College Costs By Type of College\**

Type of College	Annual Cost Estimate	Four Year Cost Forecast
Public College	\$11,500 - \$18,500	\$47,000 - \$74,000
Less Expensive Private College	\$18,000 - \$21,500	\$72,000 - \$84,000
Mid-Range Private College	\$23,500 - \$34,500	\$94,000 - \$138,000
Expensive Private College	\$40,000 - \$49,000	\$160,000 - \$196,000

*\* Estimated costs include: Tuition, Average Student Curriculum Fees, Room and Board for undergraduate programs.*

**Hint:** To project two-year graduate school expenses use the Mid-Range Private College annual expense estimate range in the chart above.

## WHAT IS YOUR SITUATION?

A good way to review and forecast your own costs and establish savings requirements is to use the estimated costs mentioned previously and chart them out. The worksheet below has been provided to aid you in this process. To use the worksheet, simply follow the instructions.

The result is an estimate of what you will need to save to enable your child to attend their school of choice. The worksheet assumes you will have all of your savings in place prior to the first day of school. Remember, however, you also have the four college years to continue to save.

Once the projected costs for college are totaled and you and your student have agreed on the path to take, you can begin to develop savings and investment plans for the upcoming outlays. Fortunately there are many alternatives available to you and your child to save funds.

## HOW CAN YOU PLAN?

### **FIRST, Leverage tax advantaged savings programs**

✓ **COVERDELL EDUCATION IRA.** You can invest up to \$2,000 (after tax) per year, per student and not pay taxes on the interest and investment earnings. The funds must be used for school within 30 days of the student's 30th birthday. There will be taxes and a 10% penalty for funds not used for education, but funds may be transferred to another family member's education IRA or the student's IRA.

✓ **QUALIFIED TUITION PROGRAMS.** Also known as 529 programs, almost every state now offers these portable college savings plans with tax free earnings for qualified expenses. You can invest up to the annual gift tax exemption limit per student and no income limits apply. Some are state tax exempt as well as federal tax free.

✓ **US. SAVINGS BONDS.** Certain savings bond interest is tax free, if the funds are used for college. *continued on back*

### College Savings Requirements Worksheet

1. Age of Student	2. Years until College	3. Total Estimated Cost	4. Less: Current Savings	5. Less: Financial Aid	6. Equals: Required Savings	7. Annual Savings Required
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

#### How to use the worksheet:

- **Years until college.** Estimate the number of years until the first year of college. Place the result in #2.
- **Total estimated cost.** Using the chart at left, choose the type of college your child will attend. Multiply the four year cost times the factor below to account for the cost of inflation at 6%. Place the result in #3.
- **Current Savings.** Take your current college savings times the same factor used for costs to assume your savings will grow at the same rate as the costs. Place the result in #4.
- **Financial Aid.** 50% of all students receive some form of scholarship, grant, or loan. You may wish to estimate 10% up to 50% of the cost will be handled this way. Place your estimated value in #5.
- **Required Savings.** This equals Total Cost minus Current Savings minus Estimated Financial Aid (col. 3 - 4 - 5). Place the result in #6.
- **Annual Savings.** This equals Total Savings divided by number of years til college (col. 7 / col. 2). This amount is in future dollars. The actual amount needed can be reduced to account for any interest or gains in your savings. Place the result in #7.

Yrs. til College	Cost Factor	Yrs. til College	Cost Factor	Yrs. til College	Cost Factor
5	1.338	10	1.791	15	2.397
6	1.419	11	1.898	16	2.540
7	1.504	12	2.012	17	2.693
8	1.594	13	2.133	18	2.854
9	1.689	14	2.261	19	3.026

## ***How You Can Plan (continued)***

✓ **UTMA ACCOUNTS.** Establish a savings account in your student's name. The interest and gains are taxed at the child's lower rates versus yours. Be careful, however, the funds are now owned by the child and "kiddie tax" calculations can limit the tax benefit.

***Alert: The Kiddie Tax now applies to children under 19 (or 24 if a dependent student). Children in this age group with "excess" earnings are taxed at their parents' tax rate.***

✓ **STUDENT LOAN INTEREST DEDUCTIBILITY.** You can deduct interest expense on your tax return for qualified student loans.

✓ **HOPE SCHOLARSHIP.** A tax credit exists for up to \$1,800 of qualified education expenses in each of the first two years of a student's post secondary degree program. The credit covers 100% of the first \$1,200 and 50% of the next \$1,200 of qualified expenses. The student must attend at least 1/2 time for one academic period during the year to qualify and income limits apply.

✓ **LIFETIME LEARNING CREDIT.** Allows you to claim a maximum tax credit equal to 20% of up to \$10,000 of expenses. The maximum credit is \$2,000 per year. The credit is a per tax return credit not per student and income limits apply.

## ***SECOND, Try to leverage college savings strategies***

✓ **TIMING** – Time your investments so the funds are available as needed. Bonds and CDs should be timed to mature or come due just before you need them.

✓ **RISK MANAGEMENT** – Invest in higher risk, higher return vehicles if you have a number of years to invest for college. Shift the investments to lower risk accounts as the enrollment date approaches.

✓ **START EARLY** – Start early to take advantage of compounding interest acceleration with longer term investing.

✓ **USE DOLLAR COST AVERAGING** – Establish a college savings account and then make monthly deposits automatically. This approach will build a savings fund, while minimizing the timing risk of investing a pool of money and then having an investment fund drop in value.

### ***THIRD, Review other resources***

There are many additional ways to reduce the overall costs of college. Some of the most popular ideas are:

- ✓ **STUDENT CONTRIBUTIONS** – Have your children save to pay a portion of their college education. A nice rule of thumb is to have your student pay 15% to 25% of the cost.
- ✓ **SCHOLARSHIPS** – Seek scholarship opportunities for your child at the college(s) of their choice. Scholarships based on academic, athletic and extracurricular achievements are often available free of charge with no pay back obligations.
- ✓ **GRANTS** – Locate grants available in your hometown community and at your child's college(s) of choice.
- ✓ **WORK/STUDY PROGRAMS** – Colleges often administer federally subsidized work/study programs for students to work on campus for a professor or in some other capacity whereby wages earned go toward tuition or room & board.
- ✓ **LOW INTEREST STUDENT LOANS** – Loans are provided to students through the financial aid offices of most colleges, universities and banks. Make sure you fill out the federally required financial statement (FAFSA) to qualify.

*Approximately five million students across the U.S. receive some type of financial aid for college.*

- ✓ **LEVERAGE HIGH SCHOOL RESOURCES** – Look into advanced placement opportunities within your high school. Your student may be able to earn college credits through high school course work. Advisors also know the financial aid process and where to go to get scholarships and grants.
- ✓ **OTHER RESOURCES** – Check out the following additional sources of financial aid:

**Stafford Loans** – U.S. Government

**PLUS Loans** – Federally funded from local banks

**Pell Grants** – U.S. Government Grants

**College Financing Programs** – Many colleges offer monthly payment and Pre-payment programs

This publication provides only summary information regarding the subject matter. Please call with any questions on how this information may impact your situation.