

# PAYING FOR COLLEGE

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With the cost for one year of college now exceeding \$50,000 at some of the most competitive private colleges, what's a family to do? Starting early, very early, is a good beginning. As soon as a Social Security number has been obtained, you can start a 529 plan for a newborn for as little as \$25. And a regular monthly contribution for the next 20 years can make a big dent in the ultimate higher education cost. Grandparents can start plans as an alternative to baby gifts, which has the potential to pay big dividends over the long term.



Before reviewing college funding alternatives, a reality check is in order. The average published tuition at public four year colleges was \$6,585 in 2008 and \$24,143 for private four year colleges. After adjusting for various scholarships, grants, and adjustments, the actual average cost paid for public four year colleges in the 2008 - 2009 school year was \$2,850 and \$14,930 at the private alternatives. And, more than 50 elite schools have programs to reduce or eliminate loans. At Harvard, for example, families with less than

\$180,000 of income pay only 10% of their income. In addition, many students take on loans that they repay over a decade following college, thus defraying the burden on parents to fund the total cost.

The chart on the other side of this sheet illustrates a number of available programs to assist with college funding. Not enumerated are scholarships, grants, and work-study programs offered by various colleges and universities. Both merit based and financial need based programs offer considerable help as evidenced by the above mentioned differences between the published costs and the actual net amounts paid. These programs vary from college to college and the financial aid office at each place is worth contacting. All will require the completion of the FAFSA (Free Application for Federal Student Aid) form, even for merit based aid. The form can be completed on line.

Colleges dispense aid based on myriad factors and it may be fair to generalize that they make aid available based on who they prioritize

as the most desirable students. If your child succeeds in being accepted at their "reach" choice, they may fall in the lower level of available aid. This speaks in favor of applying to multiple colleges and including in the group a number of "safe" alternatives that may offer more generous aid packages.

The recession has had a number of devastating impacts:

- ◆ College endowments have lost 25% or more of their value
- ◆ Investments set aside to pay for college may have lost significant value
- ◆ Home equity, a traditional source of funding, has declined, sometimes to the point that additional borrowing is not possible

So how can families adjust to this new reality? One thought is to begin at a lower cost two year community college, then transfer later to a traditional four year college. Colleges also will review need based aid if circumstances change in a meaningful way, e.g. a job loss. The attached chart illustrates the easing of aid qualifications emanating from The American Recovery and Reinvestment Act.

Considerable help in sorting through options is available on the internet. Some include:

[www.fafsa4caster.ed.gov](http://www.fafsa4caster.ed.gov) provides a nifty calculator for figuring the expected family contribution and other information on aid qualification.

[www.savingforcollege.com](http://www.savingforcollege.com) offers data on various 529 plans. RegentAtlantic also evaluates and establishes these plans for clients, so speak to your wealth manager.

[www.meritaid.com](http://www.meritaid.com) provides a comprehensive directory of merit scholarships and academic scholarships from colleges across the country.

Paying for college is perhaps the second largest investment we make, after the purchase of a home. Start early and study the payment alternatives, even before starting a family! And the better educated we become, the less the sticker shock will be when the time comes in August of some year to write those first checks!



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# College Funding and Aid Worksheet



	Program	Dollar Limits			Interest Rate	Qualifications	How to Access
LOANS	<b>Stafford Loan</b> (students)	issued on or after 7/1/08 and <b>dependent</b> undergrad	issued on or after 7/1/08 and <b>independent</b> undergrad	issued on or after 7/1/08 and <b>graduate</b> student		All based on Financial Need	FAFSA www.fafsa.ed.gov www.finaid.org www.studentaid.ed.gov
	subsidized*	\$3,500 1st yr full-time \$4,500 if completed 1st yr \$5,500 if completed 2yrs	\$3,500 1st yr full-time \$4,500 if completed 1st yr \$5,500 if completed 2yrs	\$8,500 each year	6% <sup>1</sup>		
	unsubsidized*	\$2,000 1st yr full-time \$2,000 if completed 1st yr \$2,000 if completed 2yrs	\$6,000 1st yr full-time \$6,000 if completed 1st yr \$7,000 if completed 2yrs	\$12,000 each year	6.8% <sup>2</sup>		
	<b>PLUS Loan</b> (parents)	equal to cost of attendance less other aid			7.9% <sup>3</sup> 8.5% <sup>4</sup>	credit check	PLUS application school's financial aid office
	<b>Perkins Loan</b> <sup>7</sup>	\$5,500/yr (undergrad student) and \$8,000/yr (graduate student)			5%	financial need	through the school
Grants	<b>Pell Grant</b> <sup>8</sup>	\$4,731 (7/1/08 to 6/30/09) and \$5,350 (7/1/09 to 6/30/10)			NA	financial need	FAFSA www.fafsa.ed.gov
TAX CREDITS	<b>American Opportunity Credit</b> (formerly hope credit)	for 2009 and 2010 only - up to \$2,500 <sup>5</sup> per student			NA	full credit for married filing jointly with AGI under \$160,000 (\$80k for single filers)	consult with your tax advisor
	<b>Lifetime Learning Credit</b>	up to \$2,000 per tax return <sup>6</sup>			NA	full credit for married filing jointly with AGI under \$96,000 (\$48k for single filers)	consult with your tax advisor
SAVINGS VEHICLES	<b>Coverdell Savings Account</b>	\$2,000 per beneficiary (under age 18); money must be used by age 30 or earnings taxed at ordinary income plus 10% penalty			NA	AGI less than \$220,000 (\$110k for single filers)	approved entity or through advisor
	<b>529 Savings Plan</b>	total contributions vary by state - some as much as \$300k; coordinate with gift tax rules; tax deferred/free growth	contributions count as gift of present interest to beneficiary; no gift tax if annual gift per beneficiary does not exceed \$13k; can change beneficiary	large up front deposits allowed; can elect to treat contribution as made over five year period (\$13k * 5yrs = \$65,000 per donor)	NA	no income limits; some states may offer income tax incentive	direct from 529 plan manager or through advisor www.savingforcollege.com www.collegesavings.org

\* Federal government pays interest on subsidized loans while student is in school, up to six months after graduation if eligible/ the student is responsible for the interest on an unsubsidized loan while in school/ you may receive less than these maximum amounts based on other aid

<sup>1</sup> for loans issued on or after 7/1/08 and before 7/1/09; then 5.6% for loans made on or after 7/1/09 and before 7/1/10; then 4.5% for loans made on or after 7/1/10 and before 7/1/11; then 3.4% on loans made on or after

7/1/11 and before 7/1/12 (pay fee of up to 2% of the loan)

<sup>2</sup> fixed rate if issued on or after 7/1/08

<sup>3</sup> Direct PLUS loans issued on or after 7/1/06 (fixed); rates are variable for loans issued prior to 7/1/06 and reset every July (pay fee of up to 4% of loan)

<sup>4</sup> FFEL PLUS loans issued on or after 7/1/06 (fixed); rates are variable for loans issued prior to 7/1/06 and reset every July (pay fee of up to 4% of loan)

<sup>5</sup> new credit equals 100% of the first \$2,000 qualified

tuition and expenses and 25% of the next \$2,000 of expenses

<sup>6</sup> available for all years of post-secondary school and student does NOT need to be pursuing a degree

<sup>7</sup> Perkins Loan - financial need determined by US Dept of Ed; FAFSA form completed

<sup>8</sup> Pell Grant - not a loan so no repayment required. Financial need determined by US Dept of Ed; FAFSA form completed; cannot receive from more than one school at a time