paracle

PERSPECTIVES

Getting Ready for College: It Pays to Plan Ahead

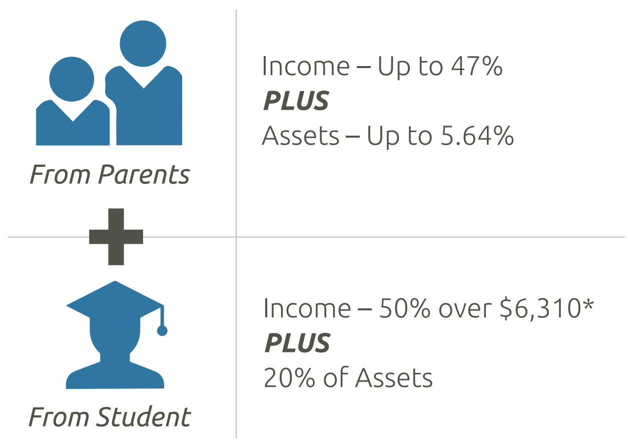
Paying for college can be a major challenge for any family. Planning ahead can help you lower your costs and broaden your educational choices. With some research and preparation, your child should be able to get a high quality education without taking on unreasonable debt or compromising your other financial goals.

One important step is to apply for need-based financial aid, even if you suspect you won't qualify. That's because the Free Application for Federal Student Aid (FAFSA) is also required to apply for merit-based aid, which can be significant. You may be eligible for more aid than you realize.

The FAFSA process determines the Expected Family Contribution (EFC), or the amount of money you can afford to pay toward your child's education. Let's take a hypothetical example, with an EFC of $20,000 for a college freshman. At a public state university with costs of $25,000 per year, your child would likely receive little direct aid, and instead be offered federal loans to make up the $5,000 difference.

But at a more expensive school, you might actually be eligible for more aid that keeps the final cost within your budget. Take a hypothetical private college, with a price tag of $50,000 per year. The extra cost could be reduced by a range of additional funding sources. These include merit scholarships, grants, and work/study options that could make the final cost quite competitive with that of the state university.

FAFSA EXPECTED FAMILY CONTRIBUTION (EFC)



This figure is adjusted annually

The FAFSA EFC formula includes several components: parental income and assets; student income and assets; family size; age of oldest parent; and number of family members in college. As the accompanying chart shows, parental income is assessed at a much higher rate than parental assets. So it's possible that adjusting your asset and income mix before applying for aid could increase your eligibility.

CONTINUED ON NEXT PAGE

Getting Ready for College: It Pays to Plan Ahead (cont.)

Students are expected to contribute 20 percent of their assets—a far higher rate than the 5.64 percent assessment for parental assets. Student income is also assessed at a higher rate – 50 percent, compared with parental contributions ranging from 22 to 47 percent. For grandparents who save money in 529 accounts, it should be noted that withdrawals will be considered student income, which will be assessed at the higher rate. Families should consider that factor when setting up 529 accounts.

Some families may have specific circumstances that would allow one custodial parent to receive better aid packages than the other. Divorced couples, single parent families, or families with multiple children in college might receive more aid.

The aid process includes many variables, some of which may create conflicts with traditional financial objectives. For example, federal and state tax payments reduce a family's EFC. But as you know, financial planners often aim to reduce tax payments. It might be worth taking a fresh look at your tax planning options.

Sound confusing? Well, it can be. That's why we recommend beginning to plan for college as early as possible. Your Paracle advisor can help you get started. For some families, it might also make sense to check with a college planning expert, and we'd be happy to recommend one. You can also find more information at https://fafsa.ed.gov/.

ASSETS INCLUDED IN EFC CALCULATION

- Mutual Funds, Stocks, Bonds
- Stock Options, Money Markets, CDs
- Vacation Homes
- Rental Property
- Student Owned Assets
- Trust Accounts
- Minor Accounts
- Section 529 Plans

Thank you to college planning specialist, Peg Keough, for contributing to this article.