Is It Time to Rethink College?

College costs can seem staggering. For the 2008–09 school year, the average annual total cost was $37,390 for a four-year private university and $18,326 for a four-year public university, up 5.6% and 5.7%, respectively, from the prior year (Source: Trends in College Pricing, 2008). Over the past decade, average tuition costs have increased 4.2% annually after inflation at public colleges and 2.4% at private colleges (Source: Trends in College Pricing, 2008).

On top of that, many people’s investments set aside for college have decreased substantially over the last couple of years. Add concerns about the current economic situation, and it’s no wonder that students and parents alike wonder whether college is really necessary.

To help answer that, consider the median earnings by level of education for 2005 (most recent year available):

- Professional degree: $100,000
- Doctoral degree: $79,400
- Master’s degree: $61,300
- Bachelor’s degree: $50,900
- Associate degree: $40,600
- Some college, no degree: $37,100
- High school graduate: $31,500
- Not a high school graduate: $23,400

(Source: Education Pays, 2007)

It is estimated that college graduates will earn approximately $1 million more over their working lives than high school graduates. In terms of paying back college costs, the College Board estimates the typical college graduate who started college at age 18 will earn enough to compensate for tuition and fees at the average four-year public university as well as for foregone earnings during those college years by age 33 (Source: Education Pays, 2007).

While that doesn’t sound like a bad tradeoff — breakeven by age 33 and then earn substantially more for the rest of your life — keep in mind that those figures only include the cost of tuition and fees at a public university. Room and board adds another $7,750 annually to the cost. And if your student goes to a

Caught in the Middle

Many middle-age couples find themselves caught in the middle of competing needs from two generations. Having started families later than past generations, their children may just now be entering college or could still be living at home. At the same time, aging parents may require financial assistance. Don’t forget your own retirement. Consider the following:

- Calculate how much you need for retirement and how much to save on an annual basis to reach that goal. Start out saving what you can, resolving to significantly increase your savings once your parents’ or children’s needs have passed.
- Take advantage of all retirement plans. Enroll in your company’s 401(k), 403(b), or other defined-contribution plan. Also consider investing in individual retirement accounts, either traditional or Roth.
- Reconsider your views about retirement. Instead of a time of total leisure, consider working part-time at a less stressful job, starting your own business, or turning hobbies into paying jobs.
Over $162 billion of financial aid was distributed during the 2007–08 school year, with an average award of $8,896 per full-time student. Of that total, approximately 65% was in the form of loans and 32% in grants (Source: Trends in Student Aid, 2008). With so much money at stake, you should understand the financial aid process to maximize your share of financial aid.

The first step is filling out the appropriate forms so colleges can determine your financial need. After January 1 of the year your child enters college, you must complete the “Free Application for Federal Student Aid” form as well as any forms required by colleges your child applied to. These forms are used to determine your expected family contribution (EFC), which is the amount you’re expected to pay annually toward college costs. If college costs exceed your EFC, financial aid officers try to fund that difference using grants, scholarships, work-study programs, and student loans.

Be prepared — most families are surprised by how much they’re expected to contribute toward college. The calculation is based on a formula, not your actual expenses. After some adjustments, your EFC equals 2.6% to 5.6% of your eligible assets and 22% to 47% of your income, plus 20% of your child’s assets and up to 50% of his/her income (Source: Savingforcollege.com, 2009). Your EFC is the same no matter how many children are attending college, so you can expect more aid if you have more than one child in college.

Consider these tips to help maximize your financial aid award:

✔️ Understand how the financial aid system classifies income and assets. Your net worth, as defined by the financial aid system, includes bank accounts, stocks, bonds, and mutual funds, but not equity in your primary home, retirement funds, insurance, or annuities. However, individual colleges may have different criteria for certain assets. Loans against assets, such as mortgages, home-equity lines of credit, and margin loans, are deducted from your net worth, but consumer loans are not. Thus, you might want to pay off large consumer loans before starting the financial aid process and contribute as much as you can to retirement plans over the years. Capital gains are also included in income, so you may want to time sales carefully. To be excluded from financial aid formulas, investments would have to be sold before January of your child’s junior year of high school.

✔️ Consider using your child’s assets to pay school expenses before college. For financial aid purposes, 20% of your child’s assets are considered available for college expenses, while only a maximum of 5.6% of your assets are counted. You might want to purchase a computer or car for commuting to college with your child’s money.

✔️ Apply to several colleges, evaluating each financial aid package. Your awards can vary significantly among colleges, because financial aid officers use discretion when making awards. Some colleges use merit scholarships in addition to need-based financial aid to attract top students. Don’t just look at the total amount of the award — evaluate the composition of that aid. Grants, which are not repaid, are more desirable than loans. Even the types of loans offered can make a big difference. Some don’t charge interest or require repayment until the student graduates, while others require interest and principal payments while the student is still in college.

✔️ Don’t automatically rule out more expensive colleges. Your EFC will remain the same whether your child attends a public, private, or Ivy League college. Many private and Ivy League colleges have more merit aid and discretion than public schools do when making offers.

✔️ Make sure to adhere to application deadlines. Typically, colleges first evaluate applications submitted on time. Anyone filing late is evaluated later, after a significant portion of grants and work-study programs have been awarded.

✔️ Talk to the financial aid officer if you aren’t satisfied with the financial aid package. While financial aid officers don’t like the word negotiate, they are often willing to reevaluate a financial aid package. If there have been significant changes in your financial situation since the forms were filled out, call and explain. If your child received a more generous aid package from another college, see whether this college is willing to reevaluate its offer. Colleges will often increase a financial aid package, especially for a top student.
Rethink College

Continued from page 1

private university, the costs are typically double that of a public university. Those figures also don’t consider how you pay for that education. If you pay for that college education primarily with student loans, it could take a lot longer than age 33 to break even.

That doesn’t mean your child shouldn’t go to college, just that you may need to reevaluate how much you want to spend on that education. Consider these strategies to reduce the costs of a college education:

✓ Look for scholarships that are not based on need. Generous merit scholarships are often available to students with outstanding high school grades and above-average entrance exam scores. If your student has qualities that a college is looking for, that college may be more willing to offer scholarships to attract him/her.

✓ Apply to several different colleges. Don’t make the mistake of thinking that aid packages will be the same at all universities. You may be surprised at how wide the differences can be. Even if your child is set on one school, it is generally wise to apply to several different colleges.

✓ Talk to the university. If the financial aid package is not sufficient, talk to the financial aid officers at the university. By explaining extenuating circumstances or showing the offers from other universities, you may be able to increase the package.

✓ Don’t overlook state public universities. Costs of public universities, especially in your state, are typically much more affordable than private universities.

✓ Decide whether it makes sense to go to an expensive private college. First, you need to evaluate how much financial aid your student would be entitled to, since many private universities offer substantial aid packages. If you are still left funding much of the cost yourself, consider whether your child’s intended career makes it a good investment. If your child intends to pursue a career with limited salary potential, it may not make sense to go to an expensive college.

✓ Consider starting at a two-year college. Two-year colleges are often much cheaper than four-year colleges, especially when you consider that most students live at home while attending. For instance, for the 2008–09 school year, the average cost of tuition and fees at a public two-year college was $2,402 compared to $6,585 at a public four-year college and $25,143 at a private four-year college (Source: Trends in College Pricing, 2008). Before starting, however, your child should determine which four-year college he/she will transfer to and make sure all of the credits from the two-year college will transfer.

✓ Accelerate your child’s studies. You can save a significant amount of money if your child can complete a four-year degree in three years. Another alternative is to have your child take summer courses at a local community college. High school students may be able to take courses at a community college.

Please call to discuss this topic in more detail. ☑️

Rolling Over to a 401(k) Plan

If your 401(k) plan permits, you can roll over balances from a traditional individual retirement account (IRA), but not a Roth IRA, to a 401(k) plan. To qualify as a tax-free rollover, the balance must be rolled over to a 401(k) plan for the same person who owns the IRA, the balance must be rolled over within 60 days, and the maximum amount rolled over cannot exceed amounts that would be included in gross income if not rolled over. Thus, contributions to nondeductible IRAs cannot be rolled over, but contributions to deductible IRAs and all earnings in both types of IRAs can be rolled over. Also, any required minimum distributions for the year cannot be rolled over.

Why would you want to roll over these balances to a 401(k) plan? By doing so, you can utilize one of these strategies:

✓ After rollover, you could withdraw any remaining funds in your traditional IRA free of taxes or penalties, since only nondeductible contributions would be left in the IRA. If you withdrew funds before the rollover, a pro-rata share of the withdrawal would be subject to income taxes and possibly the 10% federal tax penalty.

✓ If your income is under $100,000 in 2009, you could convert the remaining funds in your traditional IRA to a Roth IRA with no tax cost. Again, since the IRA only contains nondeductible contributions, there would be no income taxes associated with the conversion. Also keep in mind that starting in 2010, there will be no income limitation for Roth IRA conversions.

✓ Once the funds are rolled over to the 401(k) plan, you could withdraw the funds without penalty at age 55 if your employment is terminated, rather than waiting until age 59 1/2 to withdraw the funds without penalty from the IRA. If permitted by the 401(k) plan, loans can also be taken to gain access to the funds. ☑️
**The Impact of Market Declines**

It certainly doesn’t seem fair. You’ve done your part by diligently setting aside funds for your child’s college education. But if your child will be entering college soon, market declines may have reduced your investments so much that you’ll need to find other ways to pay those college costs. Some tips to consider include:

 ✓ **Realize that everything doesn’t have to be finalized by your child’s freshman year of college.** College expenses will be paid out over a four-year period, so you have some time for your investments to recover.

 ✓ **Consider alternative strategies to pay for college.** For instance, you can keep your investments in stocks, obtaining loans to pay for college. Then if your stock investments recover, you can sell them and pay off the loans.

 ✓ **Keep saving for your child’s college expenses.** The average cost of tuition (not including room and board and other expenses) at a four-year public university was $6,585 for the 2008–09 school year (Source: *Trends in College Pricing*, 2008). Saving $550 per month for one year will pay that tuition.

 ✓ **Reevaluate your child’s and your expectations.** Don’t rule out Ivy League colleges without first finding out what financial aid packages they’ll offer. If an Ivy League college is out of your price range, there are many colleges providing a good education at a reasonable price. Look into other ways to reduce college costs, such as starting at a community college and later transferring to a four-year college or accelerating studies to complete a four-year degree in three years.

 ✓ **Have your child work part-time during college.** Make your child responsible for some of his/her expenses, perhaps books, room and board, or personal expenses. Even a contribution of a couple thousand dollars a year can help. It may also make your child appreciate the education more, since he/she helped fund it.

 ✓ **Monitor the market and your investments.** You can’t just purchase investments and then forget about them. While you don’t have to read everything in print about your investments, make sure to set aside enough time to review quarterly and annual reports and other major news about your investments.

 ✓ **Evaluate your strategies.** Once a year, thoroughly review your investment strategies to make sure they are helping you reach your financial goals. The other habits will assist in this review.

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**Save the Date!**

**Society for Financial Education and Professional Development, Inc.**

**Second Annual Financial Literacy Leadership Conference**

**October 5–6, 2009**

**The Grand Hyatt Hotel, 1000 H Street NW, Washington, D.C.**

The mission of the Society for Financial Education and Professional Development, Inc. (SFEPD) is to enhance the level of financial and economic literacy of individuals and households in the United States and promote professional development at the early stages of career development through mid-level management. SFEPD develops and presents financial literacy and professional development training to individuals and organizations.

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