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Financial Briefs

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How Much Do You Need to Save for College?

The ever-rising cost of college is common knowledge. Depending on the school a student chooses, the cost of tuition, room, and board for an undergraduate degree can easily exceed six figures. With costs so high, many parents are simply overwhelmed. Saving enough to cover all of a child's college education expenses may seem like an impossible goal, so many parents don't get started. Or if they do save, they don't save enough.

If you want to help your children pay for college costs, you need a clear savings strategy. Below are some simple guidelines for determining how much you really need to save.

Estimate How Much College Will Cost

According to data from the College Board, a year of tuition, room and board at a public institution costs $18,943 in the 2014–15 academic year and $42,419 at a private, nonprofit institution. Assuming future increases of 3% annually, that means in 18 years, a year of college will cost more than $32,000 at a public school and roughly $72,000 at a private school.

Those estimates are staggering; of course, it's possible that college costs will level off or increases won't be quite so steep. But in any case, the young children of today will certainly face much higher college costs than students do currently.

Why does all this matter? Because you need to get a sense of what it might actually cost for your child to attend college. If you have a baby who was born this year and hope to send him/her to a private four-year college, you'd need to save about $288,000 to cover all the costs.

Decide How Much You Want to Save

Once you have an idea of how much your children's college might cost, you can set realistic savings

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Financial Aid Tips for High-Income Families

When it comes time to fill out those lengthy forms for college financial aid, higher-income families may be tempted to skip the arduous process entirely. While it's true that getting financial help for college is more difficult for those in the top income tax brackets, you shouldn't write off the process entirely. Even children from families with six-figure incomes may get some aid, and you'll never know if you don't apply.

Tip #1: Fill Out the FAFSA and the PROFILE

FAFSA, or the Free Application for Federal Student Aid, is the form you'll need to complete to receive any federal student aid (including federal work study and subsidized student loans). Many schools also require the FAFSA in order to be considered for institutional aid (support the school provides itself). In addition, your student's school may require you fill out another form, the CSS/Financial Aid PROFILE, to be considered for aid they provide.

Filling out these forms takes some time, but they are the gateway to virtually all aid programs. And because aid programs are so diverse and vary so much from school to school, it's almost always worth it to complete the application.

Tip #2: Know What Counts — and What Doesn't

Financial aid formulas are complicated, which can lead to misconceptions about what factors affect a student's aid eligibility. The general rule is that your income, total assets, family size, number of children you have attending college, and the costs of the school the student is attending all play a role in determining your expected family contribution (EFC), or the amount you are

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How Much Do You Need?

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targets. Say you want to be able to cover 80% of the cost at a four-year, private college for your child, with the expectation that your child will either obtain grants or scholarships or take out loans to pay the remaining portion. That means a savings goal of $230,400 at the end of 18 years. To hit that target, you'd need to set aside about $595 a month, assuming annual returns of 6%. If you want to cover 80% of the costs of a four-year education at a public college (estimated at $128,000), you'd need to save $102,400. To reach that goal, you'd need to save about $264 a month, assuming annual returns of 6%.

If your initial savings estimates are high, consider tweaking your goals. Meeting 80% of your child's estimated college costs may be unreachable, but 70% may be a more achievable goal. Also, consider whether there are other sources you can tap to boost your savings. Grandparents may be willing to make contributions to a child's college fund. Monetary gifts your child receives for birthdays and other milestones can be added to a college fund. Finally, don't count out the possibility of financial aid — in the 2011–12 school year, 85% of first-time undergraduates obtained some amount of financial aid, according to the National Center for Education Statistics.

Create a Plan

The estimates above are just that — estimates. Unfortunately, many parents have little idea how to get started saving. Placing funds in a low-interest savings account reduces risk, but means you'll have to save more. A 529 college savings plan, which offers tax advantages and access to investments, could be a better way to reach your goals.

To create your own college savings plan, you'll need to think carefully about your family and your situation. Please call if you'd like to discuss this topic in more detail.

Five Facts about Student Loans

Given the cost of college these days, few people can afford to pay all the tuition and related expenses out of pocket. Many turn to student loans to make up the difference. There are some things you need to know before you take out the loan. Below are some less-known, but still important, facts about student loans. (Note: Most of these facts apply to federal, not private, student loans.)

1. You may be eligible for a loan forgiveness program. Depending on your career and your financial situation, you may be able to get all or part of your federal student loans forgiven. Some options include:

- Eligible teachers who work at low-income schools for a certain number of years.
- Government and nonprofit employees may be eligible after 10 years of service.
- Doctors, dentists, and other professionals who join the National Health Service Corps.
- People who complete a year of service with AmeriCorps.

2. You may be able to put off paying back your student loans. As long as they maintain at least half-time status, most students won't have to start paying back their student loans until after they graduate or leave school for another reason. Many loans also offer a grace period after the student leaves school during which payments aren't required.

If you return to school and still have unpaid debt from your earlier education, you should be able to defer payments on those loans. Deferments are also available to active-duty military members serving during a war or time of national emergency and for those who are suffering economic hardship or unemployment.

3. Even if you declare bankruptcy, you'll probably still have to pay back your student loan. As a general rule, most student loans cannot be discharged during a bankruptcy proceeding. However, there are a limited number of situations when declaring bankruptcy may allow you to get out from under burdensome student loans. If you can prove your loans are causing you undue hardship, you may qualify for relief, but that is a complicated and expensive task. Borrowers who are permanently disabled or have a serious medical condition may have more success in getting their loans discharged in a bankruptcy. Also, it's usually more difficult to discharge federal loans than private ones.

4. If you cosign for a loan, you're responsible for that debt, no matter what happens. Parents who cosign on their child's private student loan are just as responsible as their child for paying off that debt. If your son or daughter can't make the payments, you'll have to pay.

5. You may be able to adjust your student loan payment. If you have federal student loans, you can select a repayment plan that fits with your income and budget. The standard repayment plan requires fixed payments for 10 years, until your loans are paid off. But you can also select graduated repayment (where your payments start low and gradually increase until your balance is paid off at the end of 10 years) or extended repayment (where you have lower monthly payments, but it may take as long as 25 years to pay off your entire loan). Finally, there's income-based repayment, which caps your payments at 15% of your discretionary income. You make payments based on your income for up to 25 years, at which point any remaining loan balance may be forgiven. To be eligible, you must have a partial financial hardship. Other payment options include income-contingent, pay as you earn, and income-sensitive. You can find more information about all these payment options at studentaid.ed.gov.

Financial Aid Tips

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expected to be able to pay for a child's college expenses.

The FAFSA doesn't look at the equity in your primary residence, money in your 401(k) or IRA, the cash value of life insurance policies, or the value of a business you own that has fewer than 100 employees. Assets that are considered are any real estate you own other than your primary home, nonretirement investments, and money in your savings and checking accounts. Institutional aid formulas may differ from federal formulas.

Tip #3: Control Your Income during College Years to Increase Aid Eligibility

Obviously, you shouldn't try to take advantage of the financial aid system. But being smart about your finances while your children are in college can mean they'll receive more financial aid. Remember, as your income rises, your financial aid eligibility declines — for every $10,000 increase in income, aid decreases by roughly $3,000. That means you might want to avoid selling highly appreciated investments when your child is in school. Stock options that vest or big payouts from your company at retirement can also throw off financial aid expectations.

Tip #4: Be Smart about How You Save for College

Just because you're saving for your child's college education doesn't mean that you should save that money in their name. That's because colleges will view 20% of students' assets as available to pay for college. In contrast, only 5.6% of parents' assets can be tapped to pay for college. Also look for tax - advantaged ways to save for college.

Tip #5: Focus on Net Price, Not Sticker Price

It's easy to take a quick look at sky-high tuition prices at many colleges and assume that they're completely out of reach. It's better to focus on the net price, or what you'll actually pay if your child enrolls. Federal law requires that most colleges include net price calculators on their websites. Depending on how much you earn and other factors, the net price may be far lower than the sticker price.

Tip #6: Don't Forget to Negotiate

Financial aid offers aren't set in stone. While you can't haggle with a financial aid officer the way you would with a car salesman, you can appeal if you think your financial aid offer isn't what it should be. If one school offers a great aid package and another a lackluster one, you may be able to leverage the first school's offer to receive more aid from the second school. Another time to ask for a second look at your financial aid application is if your financial situation changes or you made a mistake on the aid application.

Need help figuring out how to manage college costs in your family? Please call if you'd like to discuss this topic in more detail.

Seven Ways to Pay Less for College

With the cost of college steadily rising, students and their parents are looking for ways to ease the financial burden. Fortunately, there are ways to reduce college expenses for your child.

1. Take college-credit courses in high school. Pack your child's high school schedule with advanced placement classes so they can start earning college credits now. Students who do well on AP exams may be able to skip general education requirements. Some high schools also offer dual-credit courses, allowing students to earn college credit.

2. Apply for aid. Always apply for financial aid, even if you think you might not qualify. If you make a lot of money, your child may still be granted some assistance, depending on your family circumstances.

3. Start at a community college. Tuition at two-year community colleges is more affordable than at four-year private and public universities. Many students can save money by beginning their college education at these schools and then transferring to a four-year institution to complete their degree. Community college may also be a good option for students who are not sure whether college is right for them, or those who are not sure what they want to study. However, if your child is considering this option, make sure you understand how credits transfer.

4. Stay close to home. Heading halfway across the country for college is going to be expensive. If your child stays closer to home for school, they'll spend less on travel and may even be able to live with you. Plus, in-state public universities and community colleges are typically cheaper.

5. Get a job. College is hard work, but many students benefit from working at least a few hours a week while in school. Consider having your child rely on their part-time job, rather than you, for spending money.

6. Look for scholarships. Scholarships aren't just for top athletes and those with perfect SAT scores. There's money out there for all kinds of students, including those belonging to certain ethnic or religious groups, pursuing certain majors, or attending certain schools.

7. Choose a school that charges no or minimal tuition. While admission to these schools is competitive, they are worth exploring, especially if you feel college is financially out of reach. The U.S. federal service academies charge no tuition in exchange for a service commitment. A number of work colleges allow students to attend for free or a nominal cost in exchange for working on campus. However, keep in mind that despite free or discounted tuition, students may still be responsible for room, board, and other fees.

Please call to discuss how college planning fits into your broader financial plan.

News and Announcements

From the Thurman Household

Levi is doing well and preparing for his prom and graduation. (Yikes!) Time does indeed fly. He is planning on going to OCCC for his first year to ease the transition into the college life. He's not sure what exact area, but physical fitness and helping others to be physically fit interests him.

He's limited on his workouts now with his broken thumb. He's looking forward to taking those pins out. The things we take for granted, like the things the thumb does for us.

Pati and I ran in the "Remember the Ten" run. She ran in the 10k, I ran in the 5k. She came in second in her age group, and I came in third. I beat my time last year, though. That's all I want…is to be faster every year.☺

After 6½ years of work, my book is finally out. *The All-Weather Retirement Portfolio: Your post-retirement investment guide to a worry-free income for life.* It's on Amazon and as of May 7, 2015, it has a five-star rating. It is now available also on the Kindle.

Have a great month,

Randy Thurman, CFP®, CPA/PFS

From the Flinton Household

The full swing of spring is underway at the Flinton house, and we are eagerly anticipating making some wonderful memories with family and friends at our home this summer. Courtney has been busy putting her personal stamp on the flower beds, and I just try to keep pace with mowing as to not detract from all the work she is doing.

Last month, I came home from work to find a wife who was exhausted and invigorated at once. "I've been planting for hours; not sure how many Periwinkles I planted, but it was a lot." It was 360! Oh, how I love my wife and love to see the joy that she gets from looking on with pride as she painstakingly completes a favorite project.

Our daughters, Samantha and Emerson, love to help mom as well, and seem to find so much happiness in frolicking around the property. I, for one, just try my best to be present in the moment and thankful for all the moments I get to experience with my family. A client recently reminded me to enjoy my children, as they are only children for a short time. It's easy to enjoy the pleasurable moments; but for me, it was a reminder to enjoy all the moments. So with that, I look forward to more tantrums and crying, more arguing and sibling rivalry. I eagerly look forward to spilled cereal, standing on chairs, and a lack of desire to help around the house. I will be thankful for the good and the not so good; but most of all, I will be thankful for them.

Have a wonderful month,

Andrew Flinton, CFP®

From the Bolander Household

"In the spring, at the end of the day, you should smell like dirt." ~Margaret Atwood

(award-winning writer of poetry, short stories, and novels)

I love digging in the dirt — especially in the spring when everything is full of promise. Some early perennial flowers are bright yellow daffodils and deep purple irises. The iris blooms in the flower bed were sparse this year while those less-pampered among the trees had their usual flags. Clearly, the roots in the beds have settled in too deeply, preventing them from achieving their full potential. This serves as a good reminder that we should not get too set in our ways, either.

When the early shoots first poke through the cold dirt, I eagerly await the time to add pops of color with annuals, too. A few weeks ago, my granddaughter and I visited the local greenhouse and brought home some flowers in her favorite shades of pink, purple, and yellow. She was so excited to have her own "just my size" shovel (a small hand spade) to turn the soil and hollow-out a spot to place each beautiful jewel. By the end of the day, yes we did smell like dirt, and she had a pink bubble bath as a reward!

Have a great month!

Brenda C. Bolander, CFP®, CPA/PFS