

NAVIGATING THE COLLEGE FUNDING JUNGLE

A Guide for Students and Parents

By Andy Hickman, CCPS

PLANNING for the college expense begins at one of two points: birth or high school graduation. If it's birth, time is on your side. If it's the latter, you are in short term mode and the focus is on how to pay and borrow efficiently and repay without dramatically sacrificing future lifestyle.

There are three elements to determine before creating a college funding plan.

1. How much should I save and where?
2. Will I be eligible for Financial Aid?
3. From where should I borrow?

HOW MUCH TO ACCUMULATE

First, understand that college will compete for retirement dollars. Unless you are confident that your retirement is on track, recognize that diverting cash flow to college will negatively impact your retirement wishes.

Second, understand the true cost of college. The price of college will include tuition, room & board, fees, books, transportation and miscellaneous costs. Added together, what at first was simply \$6000 in annual tuition, has ballooned to an outlay of \$15,000-\$20,000 per year at most state schools and can exceed \$40,000 annually at private schools.

Once you understand the probable expense, you may begin forecasting savings requirements. Also consider that higher education expenses in recent years have risen at roughly double that of inflation.

As for where to save, the options are vast. The more common approaches include 529 plans and Coverdell accounts. While contributions to Coverdells are currently limited to \$2,000 annually, 529 plans allow for virtually unlimited contributions. Proceeds of the Coverdells may be used for private high school while 529's may not. Investment options may also be selected based on student age or parent risk tolerance. Choosing one or the other largely depends on how these funds are to be used. There are tax advantages to both.

A less common but very legitimate alternative college sav-

ings vehicle could be a ROTH account. A ROTH account, unlike prepaid tuition or 529 plans, do not negatively impact financial aid eligibility. Another advantage over the more traditional 529 and Coverdell plans, is the absence of penalties if the funds in a ROTH account are NOT used for higher education.

Other funding plans and considerations can be as varied as the financial circumstances of the families themselves. Small business owners, investors, divorced or separated parents, and non-traditional higher education opportunities dictate specific options. No single plan is right for everyone.

Another funding strategy is to eliminate expenses to coincide with the startup of the college costs. If the mortgage and other debt is paid off by the time college starts, what used to be consumer debt payments can be redirected to college.

WILL I BE ELIGIBLE FOR FINANCIAL AID?

Financial Aid Eligibility is governed by sets of rules established by the schools and separately by the Federal and State Governments. Federal Aid awards use a methodology which assesses parents' income and assets and students' income and assets. Also considered: number of family members, number attending college, and age of the parents. Aid from the institution, can result from a combination of academic need as well as merit (academic excellence or athletic ability).

Aid eligibility is also impacted by cost of attendance. A family may get much more aid at an expensive school than they would qualify for at a less expensive institution.

The root of all financial aid is the FAFSA (Free Application for Federal Student Aid). This form must be completed annually. Even families who believe they may not qualify for financial aid, will need to complete the FAFSA to qualify for federal loans.

What are the most efficient borrowing opportunities if we have to borrow?

Student loans from Uncle

BEING BEAR IS 'BULL'

Things Will Get Better... Eventually

By Howard McEwen, CFA | hmcewen@cincygentlemen.com

NICK MURRAY, the 40-year veteran of the financial advisory profession, author of many books and articles, and recipient of the Malcolm S. Forbes Public Awareness Award for Excellence in Advancing Financial Understanding, is an opinionated man.

"Anyone who could look at the United States - where stock prices have risen 70 times since the end of WWII because corporate earnings have risen 70 times - and be fundamentally bearish is mentally ill," he said.

If so, that leaves a lot of crazies in the world.

In May, consumer confidence hit a 16 year low. In June, the *Wall Street Journal* asked the question: "Life is good, why do we feel so bad?" The Associated Press ran a story with the headline: "Everything Seemingly is Spinning out of Control."

But things aren't spinning out of control. Unemployment is low by historical standards. Inflation may be up but only after a 16-year hibernation. Home values are down, but they're still up by a third since 2000. Interest and mortgage rates are low. Many Americans do have threatened mortgages - but only 6% or so - and most of those people will keep their home.

For Murray the answer to why we feel so bad is easy. It's the media's fault.

"The oldest rule in journalism

is that bad news is good copy, so media has a built-in apocalyptic bias," said Murray. "Moreover, newspapers and mainstream broadcasters are currently going through a depression in their own business, and there may be a tendency to project that pessimism out onto the rest of us.

"All of that said, this is the most aggressive, relentless fear mongering I've seen the media produce in my 40 years as an advisor."

A recent example is the network news broadcasts conflicted reaction to a Friday 2.6% decline in the S&P 500 followed by a Monday 2.42% rise. In the 22 minutes of a nightly news broadcast, the Friday decline got 25 seconds on CBS, a full story on ABC, and 90 seconds on NBC. The Monday good news got 8 seconds, 20 seconds, and 20 seconds, respectively.

This fear mongering is a poison causing people to make bad decisions with their money. Yes, gas prices are up (about the price of a Starbucks), some people are losing their homes (which they shouldn't have bought in the first place) and the stock market is a roller coaster (when isn't it?). But, according to that *Wall Street Journal* piece, these "are complaints at the margin of a mainly healthy society."

The antidote, said Murray, is perspective.

"The last time we were

Sam (Stafford Loans) are the most logical borrowing well. Limited to \$5,500 and \$6,500 in years one and two and \$7,500 in years three and four; repayment may be deferred until after graduation. Parent Loans for Undergraduate Students (PLUS) are a college borrowing staple. With a slightly higher fixed interest rate, repayment on these loans begins after the loans are disbursed. A caution: without proper planning, parents can become overwhelmed as the parent loans accumulate from year to year.

Alternative borrowing sources may include private education loans, home equity loans, margin accounts, or borrowing from

cash value life insurance policies. Specific and the most efficient borrowing resource will largely depend on need and ability to repay.

SUMMARY

The financial landscape of college has evolved dramatically over the past 10 years. The rules change constantly and it's not an inexpensive proposition. While scholarships are the hope of every parent, the reality is that savings and loans will bear the brunt of most college expenses. The more educated you become on all facets of the process, the greater degree of confidence you will have during this financially challenging time. ©