

# How to Pay for College



Ann Garcia, CFP®  
Independent Progressive  
Advisors

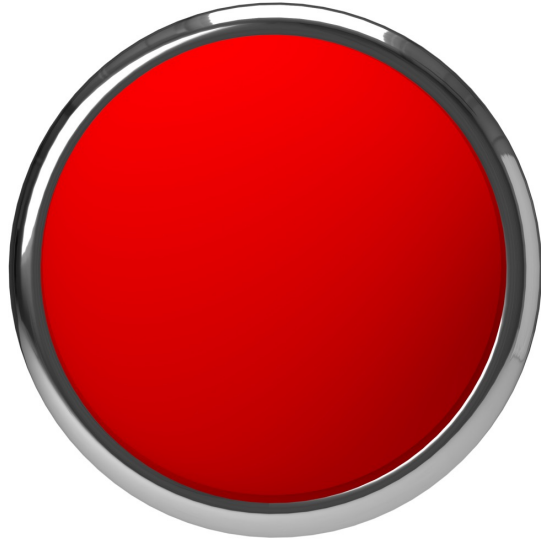






# Why college?





Planning for college is  
equal parts

**Financial Planning**  
and  
**Parenting**

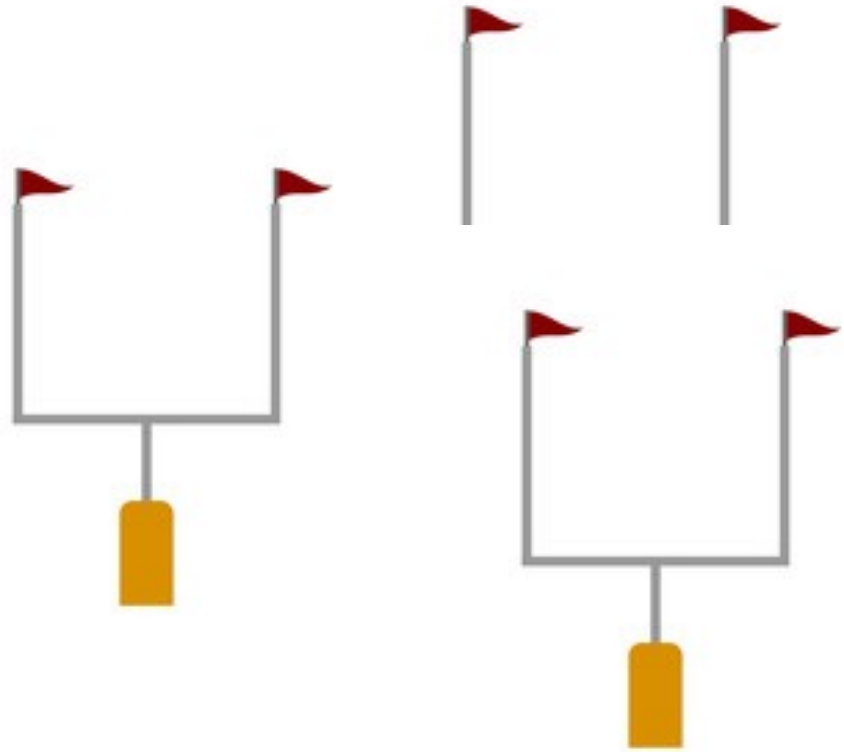
# Agenda

- Saving for college
- How much does it cost?
- Scholarships and how to get them
- The FAFSA and CSS Profile
- Paying for college
- That messy parenting stuff

# Saving for College

- How to Save
- How Much to Save

College is available at virtually any price. It's OK to use price as one of your decision factors.





# Savings Options

- Nondedicated Education Savings: Savings account, taxable investment account, I Bonds, Roth IRA
- Dedicated Education Savings: 529, Coverdell ESA



# 529 College Savings Accounts Are Better

- ✓ Growth and distributions are tax-free as long as they're used for Qualified Higher Education Expenses (better than taxable)
- ✓ Your state may offer a tax deduction or credit for contributions (better than taxable or Roth)
- ✓ 529 distributions not reported on tax return; don't reduce aid eligibility (better than Roth)
- ✓ Gifting page (better than taxable or Roth)
- ✓ Gives you an actual budget for college

# Bad Savings Options

- 401k loan
- Whole life insurance
- Annuities



# 529s and SECURE 2.0: Your Launch Fund

- Roll up to \$35,000 to beneficiary's Roth IRA
  - Earned income required; no income cap
  - Account open 15 years
- Planning opportunities
  - Open 529s for student *and* parent
    - Spend student's 529; roll parent's to Roth if surplus
  - When to transfer to Roth?
    - Start before college if aid eligibility



# How Much to Save?

- **Find an amount that works for you, considering your overall financial situation**
  - **10% rule:** If you're not maxing out retirement, no more than 10% of what you're putting into retirement goes into college
- **Commit to increasing it over time**
  - Child's birthday month?
- **Project what current savings rate will become**
  - \$350/month = 4 years of full-cost in-state
  - Are you OK with this? If not, what adjustments can you make?

# Want to Save More?

- Put your state tax benefit back into your 529
- Share the gifting page with friends and family
- Set up an automatic ongoing contribution
  - Increase it annually

# What Does College Cost?

- List prices \$82,000+ for private, \$25k+ public
- Average tuition discount >50%
- Alternate pathways: community college, dual enrollment, AP/IB courses
- 2 year? 3 years? 4 years?

*College costs whatever you're willing to pay*

# Factors in College Cost

- Willingness to pay
- Selectivity
- *US News & World Report* rankings
- Local cost of living



# Baseline College Budget

- Look up in-state costs
- Choose something that works for you now
  - 4 year? 3 year? 2 year?
  - Scholarships?
- Monitor/adjust as time goes on

RESIDENCY	ARIZONA RESIDENT			NON-RESIDENT		
	HOUSING	LIVING W/PARENT	ON-CAMPUS HOUSING	OFF-CAMPUS HOUSING	ON-CAMPUS HOUSING	OFF-CAMPUS HOUSING
<u>Tuition &amp; Fees</u>	\$13,600	\$13,600	\$13,600	\$41,000	\$41,000	\$41,000
Living Expenses - <b>Housing</b> & Food	\$4,050	\$14,400	\$12,000	\$14,400	\$12,000	\$12,000
Books, course materials, supplies, and equipment	\$800	\$800	\$800	\$800	\$800	\$800
Travel	\$2,250	\$2,250	\$2,250	\$2,250	\$2,250	\$2,250
Miscellaneous	\$2,050	\$2,050	\$2,050	\$2,050	\$2,050	\$2,050
Loan Fee**						
iCourse Fee	\$100	\$100	\$100	\$100	\$100	\$100
Estimate per Semester	\$11,425	\$16,600	\$15,400	\$30,300	\$29,100	\$29,100
Estimated total per Year	\$22,850	\$33,200	\$30,800	\$60,600	\$58,200	\$58,200

Core GPA Range	Resident Wildcat Awards	Non-Resident Arizona Awards
4.0	\$12,500	\$32,000
3.90 - 3.999	\$10,000	\$30,000
3.75-3.899	\$8,000	\$20,000
3.50 - 3.749	\$5,000	\$12,500
3.25 - 3.499	\$3,000	\$7,500
3.0 - 3.249	\$2,000	\$2,500
2.75 - 2.999	\$750	\$1,000

## Credit by Exam

Credit by Exam

Advanced Placement

(AP) Program

Cambridge International

Examination (CIE)

Program

College-Level

Examination Program

(CLEP)

DSST Examination

Program

International

## Credit by Exam

Students may establish proficiency/competency or credit in various disciplines under any of several modes. They are:

- **Advanced Placement (AP) Program**, administered by the College Board
- **Cambridge International Examination (CIE) Program**
- **College-Level Examination Program (CLEP)**, administered by the College Board
- Departmental proficiency/competency or exemption examinations (**below**)
- **DSST Examination Program**
- **German Abitur, French Baccalauréat, European Baccalaureate, and Italian Maturita** exams
- **International Baccalaureate (IB) Program**
- Special examinations for credit or grade (**below**)

**NOTE:** In no case may the sum of credits earned through the above examinations exceed 60 units applied toward an undergraduate degree.





# Other Pathways

- Graduate in less than 4 years
  - Dual enrollment
  - AP/IB courses
  - Make sure colleges you apply to give these credits
- Free community college, then transfer
- Employer support

# Baseline Cost

- \$32,000/year no scholarships
- \$24,000/year with scholarships
- 4 years = \$96,000
- 2 years = \$48,000

# Creating a College Budget

- ✓ Savings (projected balance) / 4\*
- ✓ Spending from income
- ✓ Student's contribution
- ✓ Gifts?
- ✓ AOTC
- ✓ Student loan?
- ✓ Start budget projections in middle school

# Scholarships

- Every college offers scholarships
- Every student is eligible for scholarships
- Not every college offers scholarships to every student

Students wanting scholarships need to apply to colleges that offer the type of scholarship they are eligible for.

**College application + FAFSA = scholarship application**

# 3 Types of Scholarships

- Financial aid
- Institutional merit
- Outside scholarships

# Need-Based Aid

- Scholarships, grants, loans and work-study that fill the gap between Cost of Attendance and the student's Expected Family Contribution/Student Aid Index
  - Based on FAFSA & CSS Profile
- Can combine institutional funds (scholarships & grants) and federal & state funds (Pell grant, work-study, student loan)
- Aid award calculated annually based on that year's FAFSA/CSS Profile
- ***Not all colleges meet financial need; less meet 100% of need through grants***
  - Use college's Net Price Calculator to estimate your aid package
- Financial aid ***eligibility*** is calculated by the FAFSA & CSS Profile; financial aid is ***awarded*** and ***allocated*** by the college.

# Merit Scholarships

- “Tuition discounts” used to attract students the college wants to enroll
- Primarily based on grades, test scores
- Also for special skills: athletics, music, ...
- Other attributes desirable to the college
- Usually awarded to students in the top 20-25% academically
  - Use Collegedata.com or College Navigator to see the school’s ranges
- Offered by public and private colleges
  - Check websites for automatic awards, application requirements
  - Google college name + incoming freshman scholarships
- Typically guaranteed for all 4 years as long as renewal criteria are met



# Net Price Calculators

- Tool to get estimate of your cost to attend a specific college
- Every college has one, usually on Financial Aid page of website
- It shows what students like you pay this year
- Only shows gift aid
- May include merit

# Outside Scholarships

- Offered by entities other than the college
- Added into aid formula as student income
- Don't overlook but don't overestimate
- Look close to home: employers, teachers, HS college & career center

# What is the FAFSA?



- **F**ree **A**pplication for **F**ederal **S**tudent **A**id
  - All federal aid including loans
  - Schools also use it for institutional aid
- Data calculates Student Aid Index (formerly EFC)
- Available Dec. 2023, Oct. 1 other years
  - Schools set due dates
- Filed each year for each student

# Understand the FAFSA

- Tool that allows colleges to evaluate all students' ability to pay on a consistent set of metrics
- All schools use it; few meet all need through grants
- FAFSA guarantees access to federal student aid programs and many state aid programs
- The FAFSA does not guarantee need-based financial aid at the school of your choice
- CSS Profile used by some private schools

# SAI's 4 Buckets

Parent



Student



# Parent Income

- Total income from tax return, not AGI
  - Add back untaxed income: IRA/SEP contributions, Roth distributions
  - CSS Profile adds back W-2 income (401k/403b contributions)
- Subtractions for family size, **tax liability**
- Incremental assessment rate 47%



# Parent Assets

- All parent-owned non-retirement assets
- 529s for all children
  - Not reported if owned by grandparents
- Investment properties, 2<sup>nd</sup> home
- Business/farm
- Assessed at 5.64% of value





# Student Income & Assets

- Income Protection Allowance
  - \$9,410 this year; subtracted from tax return income
    - Can have negative contribution from income up to -\$1,500
  - Income over \$9,410 assessed at 50%
- Assets assessed at 20% of value
  - Summer jobs at current rates can leave students with a lot of money
  - Money for college can be moved to 529
  - Can contribute to Roth IRA to remove from formula
  - Buy needed things before filing FAFSA

# Impact of \$1,000 on the FAFSA

- Parent income: \$470
- Parent asset: \$56
- Student income: up to \$500
- Student asset: \$200

# FAFSA Planning

- What matters, when?

2021	2022	2023	2024	2025	2026	2027	2028
Start Sophomore Year of HS	Start Junior Year of HS	Start Senior Year of HS	Start Freshman Year of College	Start Sophomore Year of College	Start Junior Year of College	Start Senior Year of College	Graduate From College
	Income	Income	Income	Income			
		Assets	Assets	Assets	Assets		
			AOTC	AOTC	AOTC	AOTC	AOTC

- Use Student Aid Estimator to model impact of changes

# 2023 FAFSA Changes

- Student Aid Index not divided by college students in family
- Divorced? Parent providing most financial support now files
- Income from tax return only
- Adjusted value of business, farm included
- No reporting of distributions from non-parent-owned 529s
- Formula adjustments: income protection allowance, employment expense allowance, negative contribution from income

# 2023 Issues

- Delayed FAFSA = delayed Student Aid Estimator, inaccurate net price calculators, financial aid scramble at colleges
- Net price calculators still show the college's aid policies
- Use EFC estimator on College Board website

# CSS Profile

- Used by ~400 private colleges
- Superset of FAFSA data
  - All income– W-2, gifts, etc.– not just tax return
  - Additional assets: home equity, insurance/annuities, all 529s for which the student is beneficiary
  - Divorced? Both parents file
- Colleges have flexibility in how they use data

# Grandparents Want to Help

- Open your own 529? Yes if:
- Student is eligible for need-based aid
  - Not reported on FAFSA
- Larger, ongoing contributions
- Access to state tax benefit
- Infrequent, smaller contributions? Gift to parents' 529

***Important: Parent should be successor owner of grandparent 529***



# When Do You Pay College Costs?

- Deposit due upon acceptance
- Tuition, fees, on-campus room & board due at beginning of academic term
  - Student's net cost often not posted until right before
- Loans, outside scholarships disbursed directly to college
- Payment plans usually available

# 529 Plan Withdrawals

- Can go to account owner, beneficiary or college
- 1099-Q from 529 has student SSN if to beneficiary or college, account owner SSN if to account owner
- School issues 1098-T with student's SSN
  - IRS flags 1099-Qs that don't correspond to a 1098-T
- Nonqualified distribution is taxed to the recipient

# 529 Withdrawals to Student

- Why?
  - Direct payment to school often confused with outside scholarship, can cost financial aid
  - Not all qualified expenses are paid to school– off campus room & board, books
- Set up a bank account in student's name, linked to parent account
  - Link to 529 as soon as set up
- Withdraw into student account, transfer to parent account, pay bills
- Not necessary to time distributions to bills

# Student Loans

- Who struggles with student loans?
  - Graduate degrees
  - For-profit school attendees
  - Students who don't graduate
- Low default rate among college graduates who only borrowed direct student loan
- Best practice: **Limit borrowing to direct student loan**

# “The Talk”

- Age-appropriate college conversations
  - Don't wait until high school
- Goal-based, not constraints-based
  - “Our goal is that you can graduate from college without student loan debt.”
- Be your student's partner, ally, guide
  - Otherwise their friends will be

# Questions?

**Ann Garcia**, CFP®

Independent Progressive Advisors

[ann@ipawealthmanagement.com](mailto:ann@ipawealthmanagement.com)

[howtopayforcollege.com](http://howtopayforcollege.com)

 [collegefinanciallady](https://www.facebook.com/collegefinanciallady)

 [@anngarciacfp](https://twitter.com/anngarciacfp)

