

College Planning Special Report

It's that time of year when school starts kicking ahead, and thoughts of college start taking a more prominent role in people's thinking. In the spirit of the season, American Financial Literacy Institute (AFLI), is providing some useful insights into college planning.

Paying for College

Open Dialogue

College planning starts with a conversation. What colleges are your kids interested in attending, discussions about finances, what are the goals for their college education, and the expectations. It needs to be a candid dialogue where you set a budget, establish what you can afford or are willing to spend, and being realistic about what college choices make sense. There is no need to set unrealistic expectations, and you can prevent future disappointments when your kids know the guidelines of what they can expect from you for college. Don't apply to schools when there isn't a realistic chance to go there. Also, have candid conversations regarding college expenses, what it means to go into debt potentially for college, and the costs for daily living expenses. By having an open dialogue throughout this entire process, it keeps everyone on the same page, eliminates uncertainty, and creates an action plan for everyone to follow.

Do your homework

Look into the college profiles that you are considering, such as what are the average SAT's scores, what is their financial aid profile, the student mix, do they have major specialties, how are there job placement ratings upon graduation (for example, ASU has been rated as high as #5 for job placement after graduating), what does campus life look like, are major sports important, what are the costs for attending, and even considering visiting the schools that you are interested in attending, arrange a tour with the admission office, etc. The more you know, the better you will be prepared. Applying to many schools is costly and often is a waste, so focus your efforts on those options that make the most sense, apply strategically. For example: if you want to specialize in a particular field, but chose a school that isn't well prepared for that curriculum, why apply?

Apply for Financial Aid no matter what

FAFSA estimates that billions of financial aid dollars would have been available if people had just applied. It is very important that you fill the forms out correctly, meet all deadlines, and exhaust all possibilities.

Don't rule out the school because it's too expensive

Many colleges have increased their aid budgets to attract prospective students because colleges are very competitive in recruiting students. It's big business!



**The average student loan
balance is \$ 26,700
according to the N.Y.
Federal Reserve**

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how we can help you.**

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Consider in-state options

You may save quite a bit on tuitions costs. You can consider reducing costs even further by living at home, or spend your first 2 years getting your prerequisite course work out of the way at a local community college.

AP, AP, AP

Take as many Advanced Placement courses as possible because many colleges award course credits for them, which can reduce tuition costs.

Look into Federal Loans first if you need to borrow

Consider your various Federal loan options, look for the lowest interest options, and chose only the amount that you need- remember that loans need to be paid back! Unfortunately, student loan debt is growing exponentially, and the Class of 2017 might be the most in debt class to date. Over 34% of student loan debt is in some sort of default, late payments, missed payments, etc. Be very smart with your financial aid needs, and if necessary, get professional advice. There are also many stories of students that graduated with degrees and some sense of what salaries may be, only to find they can't get a job in their major, and settle for jobs paying substantially less than what they thought. Be very smart with your borrowing, and understand any rules or guidelines.

Scholarships, grants, and other aid options

Also don't be afraid to negotiate as schools know that student have many options available to them, so they will often try to work with you. There are plenty of websites that discuss scholarships and grants, like Tuitionfundingsources.com or Fastweb.com that you can use to help with your search.

Consider money options while attending school

Part-time work, work study opportunities, selling unwanted items, summer jobs, internships, look for ways to make money to help with college costs. Also, if you decide on joining the Greek system, studying abroad, travelling to different places or sites, it costs money so plan accordingly.

Save early and often

The sooner the better with any savings needs and college is no exception. Also, ask for Xmas, b-days, and gifts to made towards your college fund. Consider a UPromise rewards account where retailer participants deposit a portion of what you spend into a college savings account, and ask relatives and friends to help you by setting up accounts.

529 Tax Savings Plans, Borrowing from cash value life insurance, prepaid tuition plans, Hope Scholarship, Lifetime Learning Credit, and even borrowing from a retirement savings plan at work

These are examples of other things to consider when looking for ways to pay for college. However, be aware of any rules, penalties, get advice, and make sure that you pay strict attention to any of these programs guidelines.

Consider learning a trade or online service

There are many different types of educational programs that teach a trade and don't require going into lots of college debt. The national average on trade schools is about \$33,000 compared to \$127,000 for a 4-year private college degree. Trade schools provide hands-on



Over \$1.4 trillion of student loan debt is outstanding with over 44 million American borrowers of which 8 million borrowers are in default.

Between 2016 & 2017 published tuition and fee prices rose by 9% for 4-year institutions, and 13% for private schools.

Federal Student loans can't be discharged in bankruptcy.

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job training, real-world skills, good job prospects, and an opportunity to get to work much sooner. There are many options to choose from, such as automotive, electrical, medical support, legal assistant, construction services, etc. You can also look to online degrees and education as many fine schools offer competitive online degrees.

Get good grades, score well on the ACT or SAT

In our opinion, this is the easiest place to start for college planning and can have a significant impact on financial aid, scholarships, etc. The better the student's grades and test scores, the better the aid prospects. This is also a great way to have your kids help when planning for college, teaches responsibility, and can save thousands of dollars in college costs. Finally, being active in school activities, community involvement, having strong recommendations and well-rounded experiences in and out of the classroom, can pay great financial dividends.

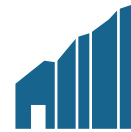
Financial Aid Overview

Once your child is accepted to college, you will likely look into financial aid. **First and foremost, apply for financial aid regardless of whether you think you will qualify or not.** Many parents may think they make too much, or loans are an embarrassing sign that you didn't do a good job saving for college. Ironically, college costs have been escalating so fast that most Americans couldn't keep up with college costs anyways. Federal aid estimates suggest that over 2 million people would have qualified for financial aid, but didn't because they didn't even do a FREE FAFSA financial aid form. Ironically, they further estimated that 1.3 million of those people would have been eligible for a maximum Pell grants award, or \$5,775.

It is very important that you meet all filing deadlines, fill your forms out properly, and start as early as possible when applying for financial aid, usually after October 1st. Most aid requests are denied because people didn't fill out the forms properly. Make sure to go to the correct website when filing, and you never have to pay to file. The official website is fafsa.gov It is important to get an FSA ID early for you and your parent specially to sign your form online, and it can take up to 3 days before you can use your sign in. Make sure that you have filed your taxes in previous years because the FAFSA form requires a number of items from your tax form, for 2017 they are using 2015 tax returns. When you are completing the FAFSA, you want to read each question and definition carefully, and don't input incorrect information. Common mistakes include the wrong social security numbers, or confusing parents and student information. Make sure to list all the colleges you are going to apply even if you are unsure, because you can put up to 10 schools for financial aid requests. Finally, one of the biggest mistakes with FAFSA forms is a failure to sign the form correctly with the correct FSA ID.

When you are planning for financial aid, your **Expected Family Contribution (EFC)** is the portion of your income and assets that you are expected to contribute before financial aid kicks in. It's important that you make sure your college savings accounts are owned properly, because assets held in the name of your child are counted more heavily against the financial aid formula, such as UGMA/UTMA accounts. 20% of assets owned by the kids are counted, but only 5.64% of the parent's assets are used in financial aid formulas. Grandparents gifts, cash value life insurance, and other college savings vehicles are different ways to reduce the impact of your EFC number. Also, make sure that you plan your college investments with the proper time horizon as you are going to use the money to help pay for college. Investing into

NUMBERS



90%

Student Loans have increased by 90% in the last decade



60%

60% of graduating college students have student loan debt



20Yr

While Federal Student loan debt is usually a 10-year repayment, the Citizens Financial Group estimates it takes 20 years on average to pay off the debt.

higher risk investments may not be acceptable because you don't have the proper long-term time window to ride out unplanned market drops. You actually may consider dialing down the amount of risk you are taking into more conservative strategies the closer you get to college.

Consider the **PROFILE** as a financial aid planning tool, which is offered by the College Board association. It helps connect students and colleges, and they currently have over 500 colleges in their network. The **PROFILE** form helps determine the amount of financial aid that you could receive. You can set-up an account online for \$5, and it's \$18 to register with the schools you are applying to. **Remember:** if your child has been accepted at several schools you should negotiate to get your best offers. Colleges realize that people have choices and will usually try to do their best to accommodate your needs.

Federal Loans

When you fill out your FAFSA and submit it signed, a query will appear that helps give you a feel for the possible types of financial aid you may be eligible to receive. This isn't in stone, but it does give you a better idea as what to possibly expect in the way of aid. There are 2 loan options:

1. **Federal Loans**- offered by the Department of Education. The Federal Direct Loans include Direct Subsidized and Unsubsidized Loans, Direct PLUS loans, and Direct Consolidated Loans. The subsidized and unsubsidized loans are available to undergraduates and graduate students who demonstrate financial aid needs, while the PLUS loans are for parents. Consolidation loan are for students that are already in repayment mode. Once you accept these loans, you sign a master promissory note, and then you have repayment terms.
2. **Private student loans**- are offered by credit unions or banks, and usually require a private loan application, and a cosigner.

Federal Loans have a fixed interest rate, which is around 4.5% currently, and the PLUS loan is 7%. While private loans normally depend on your credit rating, (the better a credit rating typically the lower the interest rate). Federal loans have a 6-month grace period upon graduation, and then your repayments begin. Private loans typically have their terms and conditions determined by the lending institution for you to follow. Finally, Federal student loans have many different repayment options, and give you roughly 10 years on average to pay them back. You can change repayment options as your needs change, and you may also have some lower consolidation opportunities. Private loan options have different requirements, so make sure you know what they are. Always try to look into the lowest interest rate options that are available, and borrow only what you need because it has to be paid back!

Student loan interest is deductible up to \$2,500 per year, but there are income thresholds which can affect your eligibility if you make more money than what is allowed. When paying back your loans, see if you can sign-up for auto pay as you may get a lower interest rate. Finally, if you get behind on student loans, consider pursuing a forbearance for up to 12 months, see if you're able to use an income-driven repayment option, or look to refinance your student loans.



VALUABLE INSIGHTS

The office of the Department of Education shares that if you decide to take out a loan, make sure you understand who is making the loan and the terms and conditions of the loan. Student loans can come from the federal government or from private sources such as a bank or financial institution.

Loans made by the federal government, called federal student loans, usually offer borrowers lower interest rates and have more flexible repayment options than loans from banks or other private sources.

Federal student loans are an investment in your future. You should not be afraid to take out federal student loans, but you should be smart about it. Before you take out a loan, it's important to understand that a loan is a legal obligation that you will be responsible for repaying with interest. You may not have to begin repaying your federal student loans right away, but you don't have to wait to understand your responsibilities as a borrower.

529 Plans

These programs were designed as a college savings incentive, and allow the earnings to grow federal tax-free if the money is used specifically for college costs. Arizona has the Fidelity state sponsored 529 plan, and requires just \$15 per month to get started. You can go to www.fidelity.com/529-plan/arizona, and once the account is established, anyone can contribute money into it. Funds are also exempt from state taxation when used for college costs. You should open an account for each child that you may send to college. 529 plans don't eliminate financial aid eligibility, but the account balance may be considered when determining financial aid. The program has different investment mutual fund options to choose from, or you can simply do an age-weighted investment strategy. You can normally make one investment change per year. The parents have better control of the money in the 529 plan as opposed to the UGMA/UTMA account. However, if your child doesn't use the money for college, investment earnings are taxable and a 10% Federal penalty is incurred. Finally, 529 plans don't have any income limits, age limits or annual contribution limits, and the AZ plan allows \$431,000 that you can place into it. This account is a great way for grandparents to make gifts towards college for their grandkids.

Coverdell Education Savings Account

This option allows up to \$2,000 per year as long as you don't exceed income limits of Adjusted Gross Income over \$220,000 for a married couple filing jointly. Coverdell can be used for many qualified education expenses besides just college costs with the 529 plans, and has tax-favored earnings growth.

Conclusion

College planning involves being prepared, and the early you start saving, the better you will be to help pay for college. There are many different options to fund college, for financial aid, and costs savings strategies. High Schools usually have college planning resources for you to consider, and also consult the colleges you are considering for advice. You can use college planning specialist, but know your costs. As a rule, you shouldn't have to spend a lot of money for college planning, or financial aid services. There are many different websites and resources on the Internet to consider for additional information. You need to do your research, and implement a plan that makes sense for your situation.

**Contact us to discuss how we can help you.
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Famous Student Loan Debt

Barack Obama
Paid off his student loans in his 40's

Ted Cruz
Graduated with over \$100k in loans

Marco Rubio
Had over \$150k in graduate law school loans

Cesil Shorts
Took out \$70k in loans and as of 2013 still had close to \$30k left to pay.

Kerry Washington
Gave a speech at the Democratic National Convention in 2012 about how important student loans were to her career