

## Tips about Saving for College

It is cheaper to save than to borrow. If you save \$200 a month for 10 years at 6.8% interest, you will accumulate \$34,433. If instead of saving, you borrow \$34,433 at 6.8% interest with a 10-year repayment term, you will pay \$396 a month, almost twice as much.

Time is your greatest asset. Start saving for college as soon as possible. If you start saving from birth, about a third of the college savings goal will come from earnings. If you wait until your child enters high school, less than 10% will come from earnings.

It is never too late to start saving. Every dollar you save is about a dollar less you will have to borrow.

Plan on saving a third of projected college costs or the full 4-year costs the year the baby was born. Like any other life-cycle expense, the cost will be spread out over time, with one third coming from past income (savings), one third from current income and financial aid, and one third from future income (loans). Since college costs increase by about a factor of three over any 17-year period and  $3 \times 1/3 = 1$ , your college savings goal should be the full 4-year cost of college the year the baby was born. You might not be able to predict which college your child will choose, but you probably can predict the type of college, such as an in-state public 4-year college, out-of-state public 4-year college or a non-profit 4-year college. For a baby born in 2012, this means saving \$250/month, \$400/month and \$500/month, respectively, from birth to matriculation.

Save in the parent's name, not the student's, as this will reduce the impact on eligibility for need-based financial aid. A dependent student's 529 college savings plan is treated as though it were a parent asset.

When choosing a 529 college savings plan, choose the plan with the lowest fees. This will maximize your savings. You can invest in any state's plan. Likewise, choose the direct-sold version instead of the advisor-sold version, since the fees are lower. All else being equal, choose your own state's plan if it offers a state income tax deduction on contributions to the state's plan.

Make saving automatic, as it makes it much easier to save. Set up an automatic monthly transfer from your checking account to the college savings plan. Start saving what you can, and gradually increase it, especially when a regular expense like diapers or day care ends. Redirect at least half of windfalls, like income tax refunds and inheritances, to college savings.

## Tips about Scholarships

Search for scholarships at free sites like Fastweb.com. Every dollar you win is about a dollar less you'll have to borrow.

Start searching for scholarships as soon as possible. There are scholarships with deadlines throughout the year, so the sooner you start searching, the more scholarships you will find. If you wait until the spring of the senior year in high school, you will miss the deadlines for about half of the scholarships available to high school seniors. But students in younger grades can also win scholarships. There are also many scholarships that are available only after you have enrolled in college. The sooner you start searching for scholarships, the more you will find.

In any targeted scholarship matching service, answer the optional questions in addition to the required questions. Students who answer the optional questions match about twice as many scholarships, on average, as students who answer just the required questions. The optional questions are there to trigger the inclusion of specific awards.

To win more scholarships, apply to every scholarship for which you are eligible. It's a numbers game. Even among talented students, winning involves a bit of luck, not just skill. Pursue less competitive scholarships, such as small awards and essay contests. They are easier to win and help you win bigger scholarships. You can't win if you don't apply. It gets easier after your first 6 applications. Essays can be reused and tailored to each new application.

If you have difficulty writing essays, record yourself as you answer the question out loud and transcribe the recording. Most people think and speak faster than they can write or type. Write an outline afterward to organize your thoughts.

Google your name to ensure that you have a professional online presence. Use a clean email address, such as `firstname.lastname@gmail.com`. Review your Facebook account, removing inappropriate and immature material.

**Beware of Scholarship Scams:** If you have to pay money to get money, it is probably a scam. Never invest more than a postage stamp to get information about scholarships or to apply for scholarships. Nobody can guarantee that you will win a scholarship. Do not give out personal information like bank account, credit card or Social Security numbers. Beware of the unclaimed aid myth. The only money that goes unclaimed is money that can't be claimed

## The Free Application for Federal Student Aid (FAFSA)

File the Free Application for Federal Student Aid (FAFSA). The FAFSA is the gateway to financial aid from the federal and state governments and most colleges and universities. You can file the FAFSA online at [www.fafsa.ed.gov](http://www.fafsa.ed.gov).

Beginning in 2016, you can file the FAFSA as early as October 1<sup>st</sup> of your senior year in high school and each subsequent year. Do not wait until you have been admitted or you file your federal income tax returns. Some states have very early deadlines for state grants, as early as February 1, and other states give out money on a first-come first-served basis until the money is gone.

Use the IRS Data Retrieval Tool, if possible, to prefill some of the answers on your FAFSA. This will reduce the likelihood that your FAFSA will be selected for verification. If you can't use it to file the initial FAFSA due to timing considerations, use it to update the FAFSA after you've filed your federal income taxes.

Apply for financial aid every year even if you think you won't qualify or even if you didn't qualify last year. The need analysis formulas are complicated enough that it is difficult to predict whether you will qualify. Changes in the number of children in college at same time can have a big impact on aid eligibility. The best way to evaluate eligibility is to apply. Families often overestimate their eligibility for merit-based aid and underestimate their eligibility for need-based aid. You can't get aid if you don't apply.

## Tips about Comparing Financial Aid Award Letters

Compare colleges based on the *net price*, the difference between the total cost of attendance and just gift aid (grants, scholarships and tuition waivers). This is the true bottom-line cost, the amount you will have to pay from savings, income and loans to cover college costs.

This is in contrast with the *net cost*, the difference between the cost of attendance and the financial aid package. The financial aid package includes loans, which must be repaid, usually with interest.

When evaluating the net price of a college, ask the college whether it practices front-loading of grants. Colleges that practice front-loading of grants provide more grants during the freshman year, making them look less expensive. Likewise, ask about a college's outside scholarship policy. Some colleges will reduce grants instead of loans when a student wins a private scholarship.

## Tips about Student Loans

Always borrow federal first. Federal student loans are cheaper, more available and have better repayment terms than private student loans. Federal student loans are eligible for income-based repayment and public service loan forgiveness, while private student loans are not. The unsubsidized Stafford and PLUS loans do not depend on financial need, so you do not need to be poor to qualify for low-cost federal education loans.

Before you spend student loan money on anything, ask yourself if you'd still buy it at twice the price. Every dollar you spend in student loan money will cost you about two dollars by the time you repay the debt.

Education debt may be good debt because it is an investment in your future. But too much of a good thing can hurt you. Don't borrow more than \$10,000 for each year in school. Undergraduate students who borrow \$10,000 per year will graduate with more debt than 90% of their peers. Undergraduate students who borrow \$7,500 per year will graduate with more debt than 75% of their peers. If you have no choice but to borrow from private student loan programs, that may be a sign that you are overborrowing.

Consider tuition installment plans as a less expensive alternative to student loans.

Pay the interest on unsubsidized loans during the in-school and grace periods to prevent the loan balance from growing larger due to interest capitalization.

Total education debt at graduation should be less than your expected annual starting salary, and ideally a lot less. If your debt is less than your annual income, you will be able to repay your student loans in about 10 years. If your debt exceeds your income, you will need an alternate repayment plan like extended repayment or income-based repayment in order to afford your monthly loan payments, which means you will still be repaying your own student loans when your children enroll in college. If you borrow more than twice your starting salary you will be at high risk of default.

Try to minimize credit card debt. College students often get into trouble with credit cards, not just student loans. Do not charge more than you can afford to pay off in full each month. Spending \$500 with plastic feels the same as spending \$5, so it is hard to exercise restraint.

## Tips about Student Loans (continued)

Choose as short a repayment term as possible. Increasing the loan term on an unsubsidized Stafford loan from 10 years to 20 years cuts the monthly payment by a third, but more than doubles the interest paid over the life of the loan.

After you graduate, accelerate repayment of the highest interest rate loan first. Student loans do not have prepayment penalties. Making an extra payment can save you money. After you make the required payments, direct any extra money toward accelerating repayment of the most expensive debt first. The most expensive debt is the debt with the highest interest rate, not the lowest monthly payment. Usually this is credit card debt and private student loans. Paying an extra \$100 on a 10% loan is like earning 10% interest, tax-free, and may save you more than \$200 over the life of the loan depending on the type of loan.

Avoid extended periods of non-payment, as this causes the size of the loan to grow. A year of capitalized interest will increase the size of the loan by 7%, and ultimately 25% when you consider the cost of paying interest on interest.

Sign up for auto-debit with electronic billing, where the monthly loan payments are automatically debited from your bank account. Many education lenders offer a 0.25% or 0.50% interest rate reduction for this.

Up to \$2,500 in student loan interest on federal and private student loans can be deducted as an above-the-line exclusion from income on your federal income tax return. You can claim the deduction even if you don't itemize.

## Tips about Student Employment

Work part-time while you are in school. Even if you don't qualify for Federal Work-Study, there are plenty of part-time jobs on or near college campuses. Working 10-12 hours a week will help improve your grades by forcing you to learn time management skills. Working a full-time job will hurt your performance by taking away time from academics. Enroll full-time and work part-time, not vice versa.

## Tips about Education Tax Benefits

You can get a Hope Scholarship Tax Credit (also known as the American Opportunity Tax Credit) on your federal income tax return. The Hope Scholarship provides a tax credit of up to \$2,500 (of which \$1,000 is refundable) based on \$4,000 in qualified higher education expenses, which include amounts paid with cash or loans for college tuition, fees and course materials (textbooks).

## Tips about Cutting College Costs

Live like a student while you are in school so you don't have to live like a student after you graduate.

One of the most effective ways to save on college costs is to enroll at an in-state public college. You may need an extra year to graduate with Bachelor's degree at public colleges, but you'll still graduate with less debt.

You can also save money by buying used textbooks or selling your textbooks back to the bookstore at the end of the semester.

Visit home less frequently to cut travel costs.

Live at home during college, especially if at an in-state public college, to graduate with thousands of dollars of less debt. Tell your parents that it is better if you live at home during your college education than be forced to after you graduate.

If you live off-campus, get a roommate to split the costs. Otherwise you might have higher costs than students who live on campus.

Don't switch majors or transfer colleges. This increases time to finish by about a year and increases debt.