

Financing College Expenses

The current cost of a UMass Amherst education is more than \$30,000 annually. Boston College tuition is more than \$80,000 annually! The scope of this article is to review various options for funding your children's education.

Grants & Scholarships. Generally, you want to start with "free money," which can include grants or scholarships. Each college may provide these as part of their overall financial aid package. However, this generally varies from college to college, and can be based on financial aid and/or athletic or academic abilities. It is worth spending time searching for these outside of the colleges as well. There may be programs available in your local community, with your employer, or with your child's High School as well.

Savings. The second bucket to consider is utilizing various savings/investment programs. 529 plans are investment accounts specifically for the purpose of financing education. Money pulled from 529 plans is generally received tax-free if it is used for education expenses. If you have a Roth IRA, you are generally allowed to pull out your contributions tax and penalty-free. Earnings in your Roth IRA, and most retirement plans (IRA, 401k, 403b, etc.) can generally be used for college expenses, but is generally taxed. There is normally a 10% penalty if money is withdrawn from retirement accounts before the age of 59 ½, but college funding is generally an exception to the penalty. One very important consideration is that using retirement accounts for college expenses will hurt your own long-term retirement planning. Because of this, I generally do NOT recommend utilizing your retirement funds for college expenses. Obviously, you may have other types of savings programs to utilize such as bank accounts, non-retirement brokerage accounts and employer-sponsored programs like ESPPs, ESOPs or RSUs.

Borrow. The third bucket to consider are various types of loans. For undergraduate students, a small amount of loans is available through Stafford loans, \$5,500 for the first year, \$6,500 for the second year and \$7,500 for third and beyond years, to a maximum of \$31,000. Up to \$23,000 of Stafford Loans may be subsidized if your income is low enough, which means the cost of borrowing is subsidized by the government. Once Stafford Loans are utilized, government-sponsored Parent PLUS loans are generally utilized. These are taken out in the name of the parent(s), and you need to qualify for them (e.g. have good credit). If the parents do not qualify for Parent Plus loans, undergraduates can borrow as much as \$57,000 in Stafford Loans instead of \$31,000. Borrowers in graduate programs can generally borrow as much as \$138,500 through government programs. There are several companies that offer private student loan borrowing programs. In almost all cases, it is generally best to utilize government-sponsored loan programs instead of private loans. If you will utilize private loans, there are several institutions that provide these. One advantage of private loans is that they can be taken out in the child's name, although the company will generally require the parent(s) cosign the loans. Some parents also utilize the equity in their house to finance college. This is done by taking out a Home Equity Line of Credit (HELOC). A HELOC provides a credit line to borrow against equity in your home, at a relatively low interest rate, with flexibility in repayment terms.

Work Study. Most colleges offer Work Study Programs. These programs allow your child to work for the school in return for a reduction in tuition. Your child may have to qualify for this type of program.

Payment Plan. Most colleges also offer payment plans at no charge. You can finance as much of the tuition each year, typically over 10 monthly payments.

Create a Plan. It is never too early to plan. If you have time before your children will attend school, you can set up a savings vehicle as a 529 Plan or UTMA account for as little as \$500 or \$50 per month. Once your child is in high school, it is good to make a more concrete financing plan. I encourage all clients to involve their children in the plan. For example, you may want to set a limit on how much you are willing to finance, with an understanding that your son or daughter will be responsible for the balance. This helps them consider the financial consequences of their decision as you get offers from colleges.

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