YOUR

STEP-BY-STEP

BLUEPRINT TO CUT YOUR COLLEGE COSTS

17

Steps to Making College More Affordable

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The
COLLEGE COST LAB
With Lynn O'Shaughnessy

The aim of The College Cost Lab is to provide you with the information that you need to shrink the cost of a bachelor's degree. To make the journey easier for you, I have summarized the course lessons in this step-by-step cheat sheet.

1 Understand the concept of Expected Family Contribution.

Generating your Expected Family Contribution (EFC) is the natural place to start the college process! An EFC is a dollar figure that represents what a financial aid formula determines that a family should be able to pay for one year of a child's college education. The higher the family's income and assets, the greater the household's EFC. The lower the EFC, the fewer resources a family has to cover college costs.

Once you have your EFC, you need to compare it to the cost of the school to see if your child would be eligible for financial aid.

Example 1

Cost of private school	$58,000
EFC	$34,000
Aid eligibility	**$24,000**

The student would be eligible for up to $24,000 in need-based aid.

Example 2

Cost of state university	$25,000
EFC	$34,000
Aid eligibility	**$0**

While the family's EFC in each example is identical, the student would be eligible for need-based aid at the higher priced school and none at all from the lower priced school.

Whether you are eligible for aid will depend heavily on these critically important factors:

- Your EFC
- The price of the college
- How generous a school is with its financial aid dollars.

2 Obtain your EFC.

Parents can obtain their Expected Family Contribution by using the College Board's EFC Calculator. With this calculator, you should generate two EFC figures by using the federal and institutional EFC formulas. The federal formula is linked to the Free Application for Federal Student Aid. The institutional formula is linked to the CSS/Financial Aid PROFILE.

It's best to get a ballpark idea of what your family's EFC will be as early as your child's freshman year in high school. Or even earlier. Don't stress, however, if your child is older. Just do it now. Obtaining a preliminary EFC will give you a rough idea of the minimum amount that you will be expected to pay for college.

Here is an example of what the College Board's EFC calculator's results page looks like:

Federal Methodology (FM) Results	
Parents' Contribution for Student =	$24,995
Student's Contribution =	$0
Total Estimated FM Contribution =	$24,995

Institutional Methodology (IM) Results	
Parents' Contribution for Student =	$25,167
Student's Contribution =	$2,000
Total Estimated IM Contribution =	$27,167

Oftentimes the institutional and federal EFC figures are similar, but that won't always be the case.

3 After generating your EFCs, target your college search.

When money is an issue, it's important to know what your EFC is because it can provide direction on what type of schools you should be focusing on.

Families will usually have to pay more for college than their EFC indicates they can afford because most schools do not meet 100% of a student's demonstrated financial need. Consequently, it's important for families looking for need-based aid to identify the most generous colleges that would consider a child an attractive candidate.

Families, who discover that they have a high EFC and aren't eligible for need-based financial aid, should look for schools that provide merit scholarships that are given regardless of need. Most schools fall into this category.

4 If you have a lower EFC, locate schools where your net price will be more affordable.

If your EFC is modest, you generally should:

1. Include in-state public universities and colleges on a child's list. Attending a public institution in your own state can make you eligible for need-based aid at the school and potentially also financial aid from a statewide program.

   Families with household incomes of $60,000 to $80,000 and above often find that they do not qualify for need-based aid at their own state universities, but they may qualify for need-based aid at private schools.

2. Look for aid programs that your state government might offer by visiting the website of the National Association of Student Financial Aid Administrators.

3. Once on the NASFAA site click on:

   - *Students, Parents and Counselors* link.
   - *Financial Aid in Your State* link.
   - *State Financial Aid Programs* link.
   - The appropriate state on the interactive map of the 50 states and territories.

4. Investigate private colleges. An easy way to locate private schools that offer the most generous financial aid packages is to read the course guide, *The Ultimate List of the Nation's Most Generous Colleges*. The guide includes a list of the schools that say they meet 100% of the financial need of all or many of its students.

   Percentage of financial need example
   Here's a quick example of what it means when a school says it meets a certain percentage of financial need:

Cost of school	$60,000
EFC	$10,000
Financial need	**$50,000**

   A school that says it meets 100% of financial need would provide this family with $50,000 in aid.

   That aid should be exclusively grants (free money) with the exception of the federal Direct Loan. Nearly all schools put the Direct Loan into their packages. The Direct Loan for most freshmen will be a maximum of $5,500.

5. Check out the course video on how to locate schools that say that they meet a greater percentage of a student's financial aid. You can search for these schools by using the tools on the College Board and COLLEGEdata. See steps 8 and 9.

5 If you have a higher EFC and money is an issue, here is how to look for more affordable schools.

1. **Apply to your public universities in your state.** The vast majority of state colleges and universities give out merit scholarships. These scholarships are routinely based on a child's grade point average, test scores and sometimes class rank.

   You can often find the requirements for these scholarships on a school's website. You should also be able to find these awards, by Googling *scholarships* and the name of the school.

2. **Look at public universities outside your state.** Over the years, state institutions have been devoting a growing amount of their in-house money to merit scholarships. You can often find scholarships by Googling *non-resident scholarships* and the name the institution.

3. **Consider private colleges and universities.** This is critical to understand: the private schools with the highest rankings from *U.S. News & World Report* give little to no merit scholarships and reserve all or most of their institutional money for need-based aid. These institutions don't have to give out merit scholarships because so many high-income students want to attend them and there are plenty of parents who will pay full price whether or not they can afford to do so.

   The vast majority of private schools give merit scholarships, but how prevalent they are will depend on the type of school and how sought after they are. Popular research universities are less likely to provide merit scholarships because they are more likely to enjoy brand names. Colleges and master's level universities give tuition discounts in the form of merit scholarships or need-based aid to the vast majority of freshmen.

   Here is a quick description of the three main types of institutions:

   1. The No. 1 focus of **research universities** is professor research, and secondly, the education of graduate students with undergrads representing the third priority. These schools are more likely to have leading researchers in their academic fields, but graduate students do most of the teaching and interacting with undergrads.

2. **Colleges** are small institutions that focus on educating undergrads in small class settings. Professors exclusively teach the undergrads because there are usually no grad students at these schools.

3. **Master's level universities** don't have a heavy focus on PhD programs—their advanced degree programs are typically on the master's degree level. They can be a hybrid between research institutions and colleges in terms of how important undergrads are at their schools.

The more popular the institution is in each of these categories, the less likely it is to provide many merit scholarships.

6 Look for additional institutional scholarships.

When students apply to a college or university, they are often automatically considered for an institution's merit scholarships. Schools, however, often dispense additional scholarships that require a separate application.

These secondary scholarships are given for specific majors such as engineering, business and political science. I once had the admission dean at the University of Rochester tell me that philosophy majors got extra money because they need to attract students to this less popular major.

Schools also award scholarships for such things as musical and art talents, entrepreneurship, writing and leadership. There can even be scholarships established by alumni for students who live in certain counties, or graduates of specific high schools, or who intend to pursue specific vocations. Ask a school where you can find these scholarships on its website.

You can also locate at least some of these institutional scholarships on Cappex.com. Look for the heading entitled, *Merit Aid Scholarships Offered by Colleges*.

7 Check college sticker prices.

As you've learned in this course, price tags are meaningless. Most families don't pay full price. However, a smaller sticker price can ultimately lead to a lower net price (what you actually pay after grants and scholarships are deducted). A $15,000-a-year scholarship from a university that costs $33,000 is going to reduce the cost considerably more than the same size scholarship from a school that costs $65,000.

You can sort schools by price nationally or by individual states by using a handy tool from *The Chronicle of Higher Education* with this awkward name:

Tuition and Fees, 1998-1999 through 2016-2017

This tool will also allow you to search for private or public schools by price.

Schools that have a higher *U.S. News & World Report* rank often charge the highest prices. In this post that I wrote for my blog at TheCollegeSolution.com, I discuss how rankings and price can correlate: Paying Attention to College Prices.

8 Use College Board's tool to evaluate schools financially.

When researching potential schools for a student, use the tool on the College Board's website to get a quick sense of how generous a school might be for your family.

Take these steps:

- Type in the school's name in the College Board's search box.
- Click the *Paying* link in the left-hand column.
- Click on *Financial Aid by the Numbers*.
- Look at these important figures:
  - Percentage of need met
  - Percentage of students who receive their full need
  - Average need-based aid award
  - Average non-need-based aid award (merit aid)

To learn how to use this important CollegeBoard tool, watch the course video.

9 Use COLLEGEdata's Tools to evaluate schools financially.

You can discover much of the same financial information that College Board provides by looking up a school's profile on COLLEGEdata. There is, however, an important statistic that you won't find on the College Board site, which is why I'm recommending that you use this site too.

What you'll find on COLLEGEdata, but not on the College Board, is the number and percentage of freshmen who receive merit scholarships (referred to as non-need-based aid) at a particular school. Those are important figures when determining what the chances are that a high-income child will receive a merit award.

Here's how to access the relevant figures on COLLEGEdata:

- Click on the *College Match* hyperlink on the home page.
- Type in the school's name to access its profile.
- Click on the school's *Money Matters* link.
- Scroll down to the heading *Profile of Financial Aid*.

Using the COLLEGEdata's search tool, you can sort institutions by the percentage of students who receive merit aid. You can also search for schools by the percentage of financial need that they say that they meet.

Watch the course tutorial to learn how to use COLLEGEdata's tools to research schools financially.

10 Use net price calculators.

Before your child applies to any college, you should absolutely use the institution's net price calculator. The aim of these calculators is to provide you with a personalized estimate of what a particular school will really cost you.

If you want to avoid budget-busting schools, it's critical to know what the actual prices of particular schools will be *before* your child falls in love with them. In fact, turning to net price calculators could ultimately save you tens of thousands of dollars by focusing your efforts on schools that will be more generous to your family. If calculator results show that the price of a college will be unaffordable, a family should keep looking.

Read the lesson on net price calculators to learn more about how to use them and how to determine whether a calculator is a good or bad one.

11 Check college graduation rates.

A shocking percentage of students take longer than four years to earn a bachelor's degree, which leads to higher costs.

Here are the grim statistics:

- Four-year grad rate private schools: 33.3%
- Four-year grad rate state schools: 52.8%

Don't assume that your child will graduate in four years. Investigate the chances of graduating on time at any school on his/her list. Here are two ways to look up graduate rates:

- College Completion, a microsite of *The Chronicle of Higher Education*
- College Results Online, a service of the Education Trust

The most elite schools will have the highest four-year grad rates because the students are usually well-prepared for college and have the financial resources to attend. Within peer institutions of the same selectivity, however, there can be significant differences.

Families need to explore what it takes to graduate in a timely manner from the schools on their lists. Don't automatically eliminate schools with unimpressive graduation rates without researching what it takes to obtain a bachelor's degree in four years. For instance, students within a university's honors college might have a better chance of graduating on time. Students who select certain majors could face better or worse odds. Sometimes non-residents at state universities graduate faster than residents.

12 File early for financial aid.

If you hope that your child qualifies for financial aid, you must file the Free Application for Federal Student Aid (FAFSA). Without submitting the FAFSA, your child can't qualify for federal or state grants or borrow for college through the federal government.

If applicable, you should also file the CSS/Financial Aid PROFILE, which nearly 230 undergraduates schools require. These schools use the PROFILE to determine who qualifies for their own in-house financial aid. Here is the link to the PROFILE schools.

Parents can file the FAFSA and PROFILE as early as October 1 of their child's senior year in high school. There is no reason not to file promptly because parents use two-year-old tax returns.

Here are reasons to file as soon as possible:

- Federal statistics show that overall students who file for financial aid within the first three months receive more than twice as much grant aid from state programs and public universities.
- Numerous states have first-come, first-served state grants that can run out.
- Money for a federal grant program—FSEOG—can run out quickly on individual college campuses.
- Work-study money can run out.
- Some colleges give out scholarships and grants until they exhaust the funds.

If you have questions regarding how to complete the FAFSA or the PROFILE, call the respective consumer phone number:

- FAFSA: (800) 4FED-AID
- PROFILE: (844) 202-0524

Also check out the course guide entitled, *FAFSA & CSS/Financial Aid PROFILE Resources*.

13 Continue saving for college!

Many parents worry that their investments will hurt their chances for financial aid and start viewing their hard-earned savings as the enemy. Don't do this! Savings rarely impact a family's chances for financial aid, but it will provide you with more college choices.

It's important to understand this reality so you don't do anything foolish. That would include spending down money in your college accounts for other things due to the belief that this will generate more financial aid. Another poor move would typically be buying life insurance or annuities to hide assets.

Assets that Don't Count

A big reason why parent investments usually don't hurt aid chances is because not all assets are considered by the aid formulas. Investments that aren't considered include qualified retirement accounts such as:

- Traditional Individual Retirement Accounts
- Roth IRAs
- 401(k)s and 403(b)s
- SEP-IRAs
- KEOGHS
- Qualified annuities

Equity in a primary home will also not hurt aid chances for most families. That's because FAFSA-only schools—and most are in that category—don't even ask if the household owns a primary home.

The nearly 230 colleges (almost all private) that use the PROFILE do ask about home equity and will assess it differently.

Assets that Do Count

Parent assets that do count toward financial aid eligibility include:

- 529 college savings plans and Coverdell Education Savings Accounts
- Checking and savings accounts
- Taxable investment accounts
- Certificates of deposit

These assets are assessed at a maximum of 5.64% using the FAFSA formula and up to 5% for schools using the CSS/Financial Aid PROFILE formula.

Example

529 assets	$50,000
Asset multiplier	× 5.64%
Reduction in aid eligibility	**$2,820**

Both formulas automatically shelter some parent assets from the aid calculation. The PROFILE formula is proprietary, but the entire FAFSA formula is published annually in a federal document called *The EFC Formula*. The PROFILE formula allows parents to shield even more assets than the federal formula.

Here is the latest federal EFC document: The EFC Formula, 2017-2018.

EFC Formula 2017–2018

The asset protection chart has always been located on page 19. Here is the latest one:

Table A5: Parents' Education Savings and Asset Protection Allowance
for EFC Formula A Worksheet (parents only)

*Age of older parent as of 12/31/2017**	*Allowance if there are two parents***	*Allowance if there is only one parent*	*Age of older parent as of 12/31/2017**	*Allowance if there are two parents***	*Allowance if there is only one parent*
25 or less	$0	$0	46	$19,300	$10,900
26	1,100	600	47	19,800	11,200
27	2,200	1,300	48	20,200	11,400
28	3,400	1,900	49	20,700	11,700
29	4,500	2,600	50	21,200	12,000
30	5,600	3,200	51	21,700	12,200
31	6,700	3,800	52	22,400	12,500
32	7,800	4,500	53	22,900	12,800
33	9,000	5,100	54	23,600	13,200
34	10,100	5,800	55	24,100	13,500
35	11,200	6,400	56	24,800	13,800
36	12,300	7,000	57	25,600	14,100
37	13,400	7,700	58	26,200	14,500
38	14,600	8,300	59	26,900	14,900
39	15,700	9,000	60	27,700	15,200
40	16,800	9,600	61	28,500	15,600
41	17,100	9,800	62	29,300	16,000
42	17,500	10,000	63	30,100	16,400
43	17,900	10,200	64	31,100	16,900
44	18,400	10,500	65 or older	31,900	17,300
45	18,800	10,700			

Going back to the example, let's assume the parents who saved $50,000 were both 50. The calculations on how many assets are protected are based on the age of the oldest parent on the last day of the year. The 50-year-old parents would automatically get to shelter $21,200.

Assets to be assessed	$50,000 – $21,200 = $28,800
Reduction in aid eligibility	$28,800 × 5.64% = $1,624.32

As you can see from the example, it's much better to save for college! Wouldn't you rather have $50,000 to pay for college than be eligible for an additional $1,624 in aid? And that aid could very likely be in the form of loans!

If you are worried about how your assets and home equity will impact financial aid, run a school's net price calculator with your assets and home equity then run it again without them and compare the results.

14 Evaluate financial aid letters like a pro.

When evaluating a financial aid award, look for these four pieces of information:

- Cost of attendance
- Expected Family Contribution
- Grants and scholarships
- Loans

Ignore loans when determining what your actual price will be.

If the aid award doesn't provide the EFC upon which this award was based, contact the school and obtain it. You can't know if the award is a good one or not without knowing what this critical figure is. Once you have the EFC that the school used, you will be able to see if there is a gap between the cost of attendance and a combination of a student's financial award and EFC.

15 Appeal financial aid and merit awards.

It is possible to appeal an aid award and it doesn't always have to be strictly for such traditional reasons as:

- Death in a family
- Divorce/separation
- Large medical bills
- Loss of job or full-time employment

You can appeal, for instance, on the basis that a gap exists between the school's cost of attendance and your EFC. That's why it's important to be able to interpret a financial aid letter correctly. How successful a family will be depends, in part, on how much a school wants a student and how successful the institution has been in filling its freshmen slots. It also depends on how generous or stingy the institution typically is with its awards.

Arguably, more schools will be willing to take a second look at an award if it's for a student who requires need-based aid. Private schools will generally be more likely than state schools to entertain an appeal for a larger merit award for an affluent student, who has no financial need on paper.

If your child received higher awards from other institutions, use them as leverage. Explain to a school's contact person that your child really wants to attend the institution, but money is an issue and better awards are on the table. Providing proof of superior offers could end up generating a better award at the No. 1 school.

Find out whom the correct person is to approach at an admission/financial aid office about receiving a better award and what the procedure is.

16 Borrow smartly.

When you have to borrow for college, the best loan is the federal Direct Loan. The Direct Loan is strictly for students.

Here is why the Direct Loan is superior to other alternatives:

- The interest rate is almost always better than the rate for a private loan.
- Students regardless of their income qualify for this loan if they are enrolled at least half-time and complete the FAFSA.
- Students receive the same rates regardless of credit scores.
- The loans offer student repayment plans based on a grad's current salary rather than what they owe.

In most cases, this is how much students can borrow each year:

- Freshman year: $5,500
- Sophomore year: $6,500
- Junior year: $7,500
- Senior year: $7,500

Students, who take more than four years to earn a bachelor's degree, can typically borrow up to $31,000 through the Direct Loan. Students can borrow considerably more—up to a total of $57,500—if a parent is turned down for the federal PLUS Loan.

Families must file the FAFSA to qualify for the federal Direct Loan, as well as the less desirable parent PLUS Loan.

Federal Parent Loans

The PLUS Loan is the federal borrowing option for parents. It is a far less attractive loan. The interest rate is higher and it doesn't offer the safety net that the Direct Loan does.

The federal PLUS Loan is designed to allow parents to borrow to pay the costs that aren't covered by a child's financial aid package. Consequently, the maximum amount that a parent can borrow will depend on how much aid a student received in grants and federal student loans, as well as the school's cost of attendance.

The qualifications to borrow through the PLUS Loan is minimal, but a parent's credit history can't be marred in the past five years by such events as:

- Bankruptcy
- Foreclosure
- Wage garnishment
- 90 days late on repaying a current debt totaling more than $2,085

It is possible to appeal if a parent is rejected for a PLUS Loan. Also, if the parent is denied, he/she can still borrow with a cosigner who does not have an adverse credit history.

Private Loans

Another alternative than can be less expensive than the PLUS Loan for parents with very good to excellent credit scores is the private college loan. These loans were originally designed for student borrowers, who almost always need an adult cosigner. Recently, some lenders began offering private college loans specifically for parents.

Private loans don't have the safety net features of the federal Direct Loan.

To research private loans, head to this informational site, Private Student Loans Guru.

17 Don't make emotional decisions.

When the final college decision needs to be made, take a deep breath. Focus on removing the emotions that can go into selecting a college. What you don't want to do is cause financial harm to your family. Don't mortgage your own future or your child's future to pay for an expensive bachelor's degree.

If you are tempted to borrow too heavily, don't just focus on what it would take to pay for one year of your child's dream school. Calculate the cost of four or five years at the college.