

College Planning: Determining Your Best Strategy

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Higher education planning is valuable and time planning for it is well spent.

Financial planning for college is important; today, the cost of higher education often seems astronomical. Advance planning with an eye toward the future can help make what may seem impossible a reality.

The Concerns

I regularly advise my clients on funding and financing post-secondary education for their children and grandchildren. I believe this is important and can bring significant peace-of-mind to many. Obviously, recognizing this goal early provides for more options in the planning and often more flexibility in the implementation. Higher education is valuable and time planning is well spent.

That said, and this may sound counterintuitive, but perhaps *the greatest single mistake I see with financial plans is the over allocation of resources for college education and under allocation to retirement.*

COMMON MISUNDERSTANDINGS MADE BY PARENTS AND GRANDPARENTS

They believe they must set aside assets for eventual college educations without understanding the ramifications associated with this type of savings.

They are unaware or do not understand all the available options for financing higher education.

They do not have an accurate grasp of their personal retirement needs which generally involve much longer time frames, significantly greater funding needs and less viable alternatives when that time arrives.

I am certainly not suggesting ignoring the financial side of your children's education needs. Simply, I am sharing the fact that the financial aid and scholarship system, and their benefit to your children, can be directly affected by the way you have planned and funded their educations over time.

In short, over investing in education may negatively impact available aid and scholarships while leaving you unprepared for your retirement.

A Look at Higher Education Planning

The two most popular college savings vehicles are 529 Plans and Prepaid College Tuition Plans. It is important to understand each of their purposes as well as their limitations and ramifications.

Issue	Fully Funded Pre-Paid Plan	529 Plan
Subject to Market Risk	No	Yes
Reportable as an Asset to FAFSA	Yes	Yes
Provide flexibility in use	No	Yes
Allows for the transfer of benefits among siblings or family members of the same generation.	Yes	Yes
Offers a way to save for higher education without income or taxable gain consequences upon redemption for qualified expenses.	Yes	Yes
Provides for significant flexibility regarding timing	No	Yes

As seen above, while these plans are similar in many aspects, they do differ in a few key areas. 529 Plans are sponsored by a state who contracts with a specific mutual fund family (or families). If a 529 is right for your family, you also need to determine if there is a benefit to purchasing the plan from your state or use the plan from a different state.

Also, as illustrated, pre-paid tuition plans are NOT subject to market risk. In fact, they lock in a current tuition rate for future use. For example, plan purchased 18 years ago and fully funded will cover the cost of the current college tuition, regardless of that amount today at the approved (generally public, in-state) college or university. If a student with a fully funded tuition plan attends either a private school or out of state public school the purchased plan would pay the amount of tuition as if that student attended in state public school. See the chart below for further explanation.

University	Tuition	Florida Pre-Paid Allocation	Out of Pocket Cost for Tuition
In-State Tuition University of Florida 2018	\$6,380	\$6380	0
Out of State Tuition, University of North Carolina 2018	\$34,938	\$6380	\$28,558

Scholarships and Financial Aid

Any discussion of college financial planning would be incomplete with understanding how scholarships and aid may be earned and awarded.

FAFSA

Completing the Free Application for Federal Student Aid, commonly referred to as FAFSA, is always the first step when discussing scholarships and financial aid.

FAFSA Information
FAFSA becomes available on October 1st of each year and MUST be completed annually in advance of the school year.
Accurately completing this form and submitting it as early as possible helps to maximize your chances of receiving the most aid (grant, scholarship, loans and work study).
The Federal government deadline for FAFSA completion is June 30th before the year in which aid is required; many institutions' deadlines are often much earlier.
Delaying the submission may reduce the amount you receive and will certainly delay the receipt of the funds; you may not have the aid at the start of the school year when tuition bills are due.
529 accounts and Prepaid Tuition Plans owned by a parent with the student as the beneficiary ARE reportable to FAFSA as a "parent asset" and will count against your EFC.
Any qualified retirement accounts (IRAs, 401(k), Simple IRAs), Primary Residence Home Equity, Life Insurance Cash Values and Annuities owned by a parent are NOT reportable to FAFSA. These investments will NOT count against your EFC.
Completion of the FAFSA results in the identification of your family's Expected Family Contribution (EFC). Schools will use this number to determine your eligibility for financial aid.
Assets owned by the student will count 20% towards the EFC, while parent owned assets count 5.64%. (These assets also include 529 accounts and Prepaid Tuition Plans if parent owned.)
Income of both parents and the student (if there is income) will also have to be disclosed on a one year look-back basis, meaning the FAFSA for the 2019-20 academic year will require the disclosure of the 2017 tax returns and IRS filings.

It is important to note that your EFC is NOT the amount you will have to pay for college nor does it guarantee a specific amount of aid. This number is simply a tool used by institutions of higher education.

CSS Profile

Many private colleges who offer more competitive need-based financial aid will require another form through the College Board (the organization that operates the SAT Test) called the CSS Profile. This takes a deeper look at a family's financial situation, assets and condition and may provide access for your child to a much more generous aid package. It is important to understand which assets and whose ownership of those assets are reportable on each of the forms; many common mistakes are often made when completing them. Because each private institution can allocate its need-based aid using their own criteria, other asset related questions may be asked (for example, ownership of small businesses, farms and even the value of automobiles and other property.)

The CSS Profile will also ask a much broader range of income questions. Each school may ask their own CSS Profile questions including if other members of your family will be (or plan to) contribute to your child's education expense and what you believe you may be able to pay towards your child's education.

Be advised, the window for completing both the FAFSA and CSS Profile for the 2019-20 academic year opens on October 1, 2018.

Moving Forward

Each family has an individual dynamic and every student within each family has specific needs, wants and dreams. As parents (or grandparents) it is important to understand all the tools that are available in order to make informed choices and understand any related consequences.

Net Cost Calculator

Each school that accepts Federal financial aid is required to provide a "Net Cost Calculator" on their website. They can be tricky to locate, but generally can be found under either an admissions or financial aid tab. These can prove useful as you can input data and estimate costs using a variety of assumptions. While this is not an official offer of aid (ultimate awards based on need may be different), these are excellent guidelines to help understand possible scenarios and to compare alternatives when planning action.

Understanding the Cost of Higher Education

You may be surprised to find that some private colleges and universities are much more affordable than you thought. "Shopping" for college (from a financial standpoint) can be likened to shopping for a new car. We see the sticker price (akin to the total cost) but we all know that virtually nobody pays the sticker price. The same can be said for college; there is an extremely wide range of outcomes resulting from many different variables. Individual private institutions have vastly different policies on aid, the manner in which they calculate need and the type of student body they wish to attract. Schools with very

similar total costs may have vastly different net costs (for each individual student) when all factors are taken in to account.

In fact, there is a list of colleges that are committed to meeting “100% of demonstrated financial need” as well as colleges that have pledged to enroll and graduate students who exhibit certain financial conditions debt-free upon graduation.

The landscape for college financing is constantly evolving. Examples include the most recent update to the Bright Futures Scholarship Program in Florida and the recently announced policy by The New York University to offer free Medical School tuition. As this picture continues to evolve and legislation and school policies change, it is important to keep abreast of updates and amend plans as needed.

What This Means for You

There is no “one size fits all” solution; financial planning decisions need to be made with the best and most complete information currently available. Before you purchase a 529 (or Prepaid Tuition Plan) you should ask the following questions:

- What is a reasonable income and asset level I can expect to have when my child will be going off to school? Will we be eligible for significant financial aid?
- Will my child want to go to a public school or be forced to by financial considerations?
- Will my assets be adequate to allow me to retire and live the life I have envisioned (when that time arises)?

Seeking the advice of a trusted professional, who can look at the specifics of your situation and ascertain a plan for you your family, can help you use the answers to these questions to help structure a reasonable and attainable plan for the future of your family as whole. College planning is critical, but it should not be done in a vacuum.