Back to School

With students going back to school this month, and the cost of college going up year after year, I thought it would be a good idea to consider how to plan for those future university expenses. A child born this month will possibly be going to college in 2040. What will the cost of a state school be then?? OMG! For 2022, K-State 'in-state' tuition is $10,466; KU is $11,166 and MU is $12,399. The average is $11,344—just for tuition! In twenty years at 4.5% inflation, that amount will be greater than $25,000 for one year of tuition. What are we to do with all the other competing expenses a young family has to manage?

I wrote an article regarding 529s on 5/29, so I won't repeat myself (see ***529s on 5/29***). Many young families will have their children attend public school or will pay for private K-12 through their Spending Plan (see ***A Spending Plan***). So, no comment.

What are the considerations facing us as we plan for this future event? Will my student even attend college? What if I save for college, and they don't go to college? What if they get a full ride scholarship? Is it even my responsibility to save for my student's college expenses? All of it or just some of it?

My parents were working class with 5 kids. I worked full-time and went to community college, joined the Navy, and then stayed in the reserves. I used the GI Bill and reserve pay and part-time work to get my bachelor's degree. I did it myself. As my wife and I considered our three children's futures, we assessed whether we thought they would go to college. These were hard talks. Our son joined the military. Our oldest went to vocational school, and our youngest obtained her bachelor's. We were able to save enough to pay for about 1 ½ years' worth. Every family and student situation is different, and that is OK.

You will want to complete the Free Application for Federal Student Aid (FAFSA) every year (see ***Now that Taxes are Done…FAFSA!***). The FAFSA helps determine your EFC which is the "Expected Family Contribution." This determines 1) how much the family might be able to contribute, and therefore 2) how much a student might get in grants, and 3) the loans for which they might qualify.

Grants are a need-based program to pay for college tuition. A grant is free money that does not have to be repaid. Grants probably won't pay all your expenses, so you might also need to take out loans.

Federal subsidized student loans are a payment to the college for tuition/room & board, etc. They are not required to be paid back until 6 months after graduation (or when the student falls below half-time status). The most beneficial loan a student might obtain is a subsidized loan (also need-based), which is offered at a lower interest rate and does not accrue interest until payment is required.

Unsubsidized federal loans are not need-based, and because this type of loan is the student's own loan, the interest rate is usually the same, lower interest rate. The difference is that interest begins accruing when the payment is first sent to the college to pay tuition.

The last loan is a parental loan (PLUS), which will be made at a higher interest rate, and the interest accrues immediately. For example, if you take out a PLUS loan for $5,000 and that loan accrues $1,500 in interest over the four years of college, then when you start paying back the loan, the interest as added on the loan. So now you are paying pack $6,500 not $5,000.

Many parents hope (presume) their child is the exception and will get a full-ride scholarship. Less than one percent of college-bound students get a full-ride. With STUDY, planning and research the chances increase that your student will get some level of scholarships.

Scholarships are offered both through the university and through outside organizations. Scholarships from the school are essentially a "discount." Applying for scholarships through the school is relatively easy as it is imbedded in the enrollment. If scholarships are from an outside organization, they are typically paid directly to the school on the student's behalf. You apply for them directly through the organizations.

The last non-savings way to gain a financial benefit for college is Tax Credits. There are two. The American Opportunity Tax Credit (AOTC) is a credit for **qualified expenses** and is available for 4 years of undergrad expenses. There is a maximum of $2,500 per year per student, and it phases out based on an income limit. The AOTC requires a form 1098-T. The credit is applied against any tax due, and it can be included in a tax refund if there is one.

The Lifetime Learning Credit (LLC) is only a credit against tax due and is not refundable. It can be claimed for post-secondary education (college) or courses needed to improve job skills. The max credit for the LLC is up to $2,000.

I wish everyone could just simply afford college education expenses, but most of us have to figure out a way to help our kids. If you choose other goals as a priority, that is ok. If you do plan on helping, then planning early is better than later. Try to save in a 529 plan if it fits in your spending plan, even if it is just $25 a month. When you are 18 years down the road and need further help for your student, remember to complete the FAFSA on time every year. Determine if you might qualify for grants and from which loans you can select. Take advantage of tax credits, and then attend your child's college graduation! That is a day to celebrate!!

Respectfully,

Sean