

Navigating the College Financial Maze



Most everyone would agree that in today's world, you need a college education to land the most attractive and

high-paying jobs. With the skyrocketing costs of tuition and fees, it is becoming more difficult for the average American family to afford a college education for their children.

Recent estimates determined that based on annual college costs increases, a child who entered kindergarten in 1995 will face four-year college costs exceeding \$100,000 if he or she attends a public college. You can double that amount for a private university.

As you sit down with your child and begin navigating the complex student financial aid paperwork, you might want to start with the Free Application for Federal Student Aid (FAFSA). This form is available through the Internet and will immediately identify mistakes and save the student's information, so that you do not have to start from scratch each year.

One study showed that 850,000 students who didn't file the FAFSA form would have been eligible for federal Pell Grants. This program is the largest federal grant program available to students. Unlike loan funding, these grants do not have to be repaid.

Here are some other options to consider when financing your child's college education:

Coverdell Education Savings Account—Up to \$2,000 pre-tax can be invested annually in an "Education IRA", which can be used to cover not only college expenses, but K-12 expenses, too. Income from these accounts is tax-free when used to pay for allowed expenses.

EE US Savings Bonds—Interest earned from these bonds may be excluded from income if used to pay for qualified higher education expenses.

Uniform Gift to Minors Act (UGMA)—Allows parents to make a joint tax-free gift of \$22,000 each year per child without affecting their lifetime gifting exemption. The downside to the option is loss of parental control when a child reaches 18 years of age. The child gains control of the money and may decide that a \$40,000 car is more important than a college education.

Prepaid Tuition Plans—Many states now offer these plans which allow parents to pay tomorrow's tuition costs at today's price. The major drawback with this type of plan is that some colleges will not guarantee that increases in costs will be covered, so you might end up on the short end of the financial stick. Additionally, these plans reduce a child's eligibility for financial aid based on dollar amounts. While parents can receive a refund if the child decides to forego college, they might not receive all of their interest accrued and may be charged a cancellation fee.

Don't forget to use the Internet to access thousands of sites dedicated to financing college education. Consult your financial planner or visit with the financial aid office at the college or university your child plans to attend. Check into scholarships. Millions of dollars in scholarship money go unused because parents do not think their child will qualify unless he or she is an academic or athletic achiever.

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