



## Making College a Reality

**Escalating college costs doesn't mean a college education is out of the question. The best way to ensure that funds are there when you need them is to plan ahead and start saving now. See our "Building Your Savings—Ten Simple Strategies" fact sheet for savings tips.**

**However, if you or your parents got a late start on college savings, don't despair. Here are a variety of options.**

### IMPLEMENT A SAVINGS BLITZ

Depending on how much time you have before enrollment, redoubling your efforts may enable you to close all or part of the gap between your resources and tuition bills. And by continuing to tighten your belt during college years, you may be able to foot at least some of the bill through current income. In addition, some schools offer tuition management services that, for a fee of about \$50, allow you to spread the school's annual tuition into eight or 10 monthly payments.

In addition, state-sponsored savings plans—such as the 529 savings plan—offer significant tax breaks and other advantages. While contributions to a 529 plan are not federally tax deductible, the earnings grow tax-free. Distributions from a 529 plan are also tax-free (through the year 2010 at least), as long as the money is used to pay for higher education expenses.

Most plans allow you to invest a lump sum, deposit funds periodically or sign up for an automatic investment program that deducts a specified amount from your bank account on a monthly basis.

Generally there are no income limitations for opening a Section 529 plan. Everyone is eligible to participate and the amount you can contribute is substantial. Since most states don't have an annual cap, it's possible to contribute \$11,000 each year without triggering any gift taxes.

### APPEAL FOR ADDITIONAL FINANCIAL AID

There are three major types of financial aid: scholarships or grants that do not have to be repaid; student or parent loans that must be repaid (usually after graduation); and work-study arrangements.

Financial aid is based primarily on two factors: the school's cost of attendance—which includes tuition and fees, room and board, personal expenses, books and transportation—and your family's ability to pay. That means if two families have exactly the same financial circumstances (and that is highly unlikely), one student could receive financial aid, and the other not, simply because one school costs more.

When you apply, the financial information you provide is keyed into a federal formula that takes into account your family income, assets, family size, number of children in college and other factors. It also calculates the amount you and your family are expected to contribute toward the education cost. If this amount is less than the total cost of attendance, you've demonstrated need and are eligible for aid. If your family has special financial circumstances, such as high medical bills or loss of employment, that are not apparent in the numbers you submit, you should send letters of explanation to the financial aid offices of the colleges to which you apply.

## SEEK OUT SCHOLARSHIPS

You don't have to be a straight A student or a star athlete to qualify for a scholarship. Many are available to students with special interests or skills. For example, scholarships are available for Swedish Americans who play the oboe and camp counselors who plan to study special education. Of course, these scholarships aren't always easy to find. The Internet is a good place to start or the department office for your major.

## TURN TO GOVERNMENT LOANS

Although some parents are reluctant to take on additional debt, federal student loan programs can be a relatively inexpensive source of education funds. Federally funded Parent Loan for Undergraduate Students (PLUS) allows creditworthy parents of college students to borrow up to the full amount of tuition. The interest rates on PLUS loans are variable with a 9 percent cap and you must begin repayment 60 days after the funds are disbursed.

Stafford loans are available to students at varying levels. A freshman can borrow \$2,625; the maximum loan amount increases to \$5,000 by the time you are a junior. In most cases, repayment begins six months after graduation.

## TAP YOUR HOME EQUITY

With mortgage rates at historic lows, a cash-out refinancing or home equity loan are attractive alternatives that offer a lump sum payment you can use to meet college costs. This strategy works particularly well for families who have insufficient cash flow, but a good deal of equity in their homes. As an added benefit, the interest you pay may be tax deductible. However, borrowing against a home is a decision not to be taken lightly—failure to meet payments could put your family's home at risk.

## FOCUS ON LESS EXPENSIVE SCHOOLS

Comparison shop when looking at schools. In some instances, location may cause a school to be more reasonably priced than another school. Also, public state colleges are less expensive than private schools, particularly when the student qualifies for resident tuition rates. Attending an in-state school also can defray travel expenses and long-distance phone bills. Another popular option is to attend a community college for the first year or two and then transfer to a brand-name four-year school.

## THERE'S NO SUCH THING AS A RETIREMENT LOAN

A word of caution from CPAs: do not use retirement savings to pay college tuition. More resources are available for funding an education than for financing a retirement. In addition to the tax implications of withdrawing from retirement savings, you're giving up valuable earnings.

