College Funding, Inc.

How to Survive the High Cost of College

"153 Strategies to Cut College Costs"

BY
RICK DARVIS, CPA, CCPS

How to Survive the High Cost of College

"153 Strategies To Cut College Costs"

The following is a reference guide of 153 strategies to cut the cost of college for families of all income levels. Financial advisors can also use this handy guide to help direct their clients towards developing specific strategies for funding college.

ABOUT THE AUTHORS

Rick Darvis, CPA

As owner of College Funding, Inc. (solutionsforcollege.com), Rick Darvis provides college-funding services for his clients. He is a co-founder and director of the National Institute of Certified College Planners.

Rick is recognized as one of the leading experts in the college funding field. He has written more books, developed more software, and trained more financial professionals on the topic of college funding than any other person in the United States. His knowledge has enabled him to be invited to speak on the topic of college funding to his contemporaries at state CPA and FPA conferences in over 25 states. He has been a featured speaker at the Financial Planner Association's National Success Forum, the Northeast /Mid-Atlantic National Association of Personal Financial Advisors (NAPFA) regional conference, National Employee Benefit Forum, and the New York Society of CPAs Personal Financial Planning Conference.

Rick has been quoted in Forbes, CNN-FN, Newsweek, U.S. News and World Report, Money, Business Week, Kiplinger's Personal Finance, Smart Money, and the Wall Street Journal.

Rick graduated from the University of Montana in 1974 and lives with his wife and five children in Medicine Lake, Montana. Rick travels extensively training other financial professionals on how to provide college-funding services for their clients.

Ron W. Them

A Dublin, Ohio educational planner for the past seven years, Ron has helped hundreds of families plan financially for college. His company is an official Needs Analysis Servicer for the U.S. Department of Education. Over the past seven years he has provided accountants, financial planners, and guidance counselors with financial aid training, software and consulting services. He is co-author of *"College Financial Aid",* a technical manual on college financial aid planning published by Practitioner's Publishing Company, and co-developer of College QuikPlan™ software, financial aid software for CPAs and Financial Advisors. He presently provides continuing education programs for the Ohio Association of Life Underwriters and writes various articles for the OALU and the American Society of CLU & ChFC. Ron is a former Chief Financial Officer of a Fortune 500 company and currently maintains a Series 7 securities license in the state of Ohio.

Introduction

The State of Today's College Costs

The dream of a college education is becoming out of reach for too many American families. The cost of college is daunting, and a family's ability to afford college depends on many factors, including college costs, income, assets, availability of financial aid, and family size. However, the cost of not going to college significantly impacts the student's earning potential.

As a result, most families must rely on additional resources to supplement the high cost of college. Since the availability of government grants does not meet the demand for a college funding solution, students often create a tremendous debt burden to obtain a cherished degree. We are now witnessing a generation that starts their financial future with a $100,000 debt before they get married and own a house!

This dilemma is usually caused by a lack of financial planning. There is not enough paycheck at the end of the month to save for college. Consequently, financing a college education may involve three generations; grandparents, parents and children.

College Planning vs. Retirement Planning

"How old will you be when your last child graduates from college?" Consider the following data from Statistical Abstracts:

Aging baby-boomer population

- 1980 -20% of total births were to women over age 30
- 1996 -35% of total births were to women over age 30

Today, parents are waiting longer to have children and will have fewer years to "catch up" with retirement once their last child graduates from college. Many parents finance college expenses without even considering how it will affect their retirement goals. Without linking college to retirement and developing a total life financial plan, random withdrawals from a retirement fund to cover college expenses could force parents to work longer than they had expected until retirement, or live on less during their golden years.

Furthermore, this dilemma increases as income rises. The following table demonstrates the real cost of college to a family:

College Is Paid With After-Tax Dollars

Federal Tax Bracket	Public $64,000	Private $128,000	Elite $192,000
25%*	$ 91,428	$182,857	$274,285
28%*	$ 95,522	$191,044	$286,567
33%*	$103,225	$206,451	$309,677
35%*	$106,667	$213,333	$320,000

** These numbers include an assumed 5% state tax
*** This data represents the costs for only one child
Since a college education is paid using "after tax" dollars, the amount the family must earn to pay college expenses increases as their tax bracket increases. In other words, a family must first pay the IRS before

they pay the college.

Now let's take a look at how college expenses can affect retirement goals.

College Dollars Spent vs. Retirement Dollars Lost

Years	*Public*	*Private*	*Elite*
	$64,000	*$128,000*	*$192,000*
15	$203,008	$406,016	$621,712
20	$298,304	$596,608	$913,556

** These numbers assume an 8% investment rate in after tax dollars
*** This data represents the costs for only one child

As is shown, the amount spent on college expenses can dramatically affect the amount of money which could have been contributed to a retirement fund. This leaves a family with a difficult decision when it comes to choosing between a public university and a private college. Additionally, please remember that the above numbers represent the costs for only one child!

Information vs. Solutions

Regardless of income, every parent should research all avenues available to reduce their college cost burden. However, in a quest for college savings, families need to understand the difference between information and solutions.

This is the Information Age. There is information abound, especially related to college costs. There are websites specifically oriented toward reducing college costs. There are libraries filled with books on the same subject. You can spend hours alone searching for obscure scholarships. How then do you implement all this information to your advantage?

Information is not solutions

There are numerous books and software available on the subject of income taxes. Why then are there so many accountants? The answer is *time* and *implementation*. Most people do not have the time to sort through the volumes of material, nor the knowledge to implement the information.

Knowledge is not wisdom

Before embarking on your research of information that is available on financing a college education, a family should consider how much their time is worth and whether, or not, they will be able to implement the information to their advantage.

Financial Aid vs. Financial Planning

There is much controversy regarding financial aid today. College costs have been rising at twice the rate of inflation for the past 20 years. Since then, many fee-based scholarship matching services and financial aid seminar companies have arisen claiming they can help any family find additional monies for college expenses. Many of these organizations are scams!

It's important to note that much information is available on the Internet, or directly from the colleges themselves, on the subject of financial aid. While the financial aid officer at most colleges can help guide the family through the daunting financial aid forms, many families will find that they only qualify for loans. A general rule of thumb is for qualifying for aid is:

⇒ *If a family's income is above $75,000, they are unlikely to qualify for financial aid at most public universities.*

⇒ *If a family's income is above $120,000, they are unlikely to qualify for financial aid at most private colleges.*

However, even if the family does qualify for some financial aid, most families will still have a difficult time coming up with the balance of the money that is owed to the college. In college terms, this balance, or family obligation, is called the Expected Family Contribution or EFC.

So where does the family find the money to cover this EFC? Most families use a combination of current income, savings, loans and maybe a small gift from relatives. Some families may even resort to raiding their retirement funds to pay this obligation. There are also many cash flow, financial planning and tax strategies which could provide additional funds to cover the EFC. However, most families are not familiar with these educational funding techniques.

Opportunity

The following pages include several strategies which can enhance cash flow and increase liquidity to provide funds for college expenses. Many of these strategies will work well with other types of financial planning strategies; such as, creative borrowing techniques and the restructuring of debt.

19 Asset Strategies For Financial Aid Families

1. The family should inquire about the college's policy concerning annuities and the cash value of life insurance before considering the purchase of these investments. Some private colleges, usually the most elite ones, will assess these assets.

2. If the child has earned income, he may consider saving for college by purchasing a Roth IRA.

3. Since retirement accounts will not be assessed in the Expected Family Contribution (EFC) formulas, saving for college using retirement accounts and then borrowing against the accounts to pay for college may be a viable strategy.

4. If the family plans a purchase in the near future, it may be wise to use an assessable asset, such as cash, to purchase a non-assessable personal asset, such as a personal computer.

5. Personal debt cannot be used to reduce the net worth of an assessable asset. However, personal items, such as cars, boats, motorcycles or jewelry, are not considered as assets in the financial aid formula.

6. The family should consider paying down personal debt with an assessable asset (savings).

7. Claiming a second home interest expense deduction on Schedule A for a boat or motor home makes these assessable assets.

8. Since the Federal Methodology (FM) formula does not assess family farm assets, the family may consider using non-farm assessable assets, such as CDs, to pay down farm-related debt.

9. The family may want to delay signing the financial aid applications until after the older parent's birthday. Under the FM formula this will increase the "Asset Protection Allowance".

10. If the family has assets subject to a life estate, the family should appeal to the Financial Aid Administrator (FAA) because these assets cannot be liquidated to pay for college costs.

11. If the family has assets tied up in probate, the family should appeal to the FAA if there will be no distribution of assets during college years.

12. The family can reduce the value of a trust by spending the trust assets for the benefit of the student (e.g., trust buys a car for college or pays for the student's private high school tuition). If the family takes assets out of a trust or custodial account and the assets are not used for the benefit of the student, there can be some adverse legal and tax consequences.

13. If the family's child's access to trust funds is restricted until after college years, the value of the trust should be appealed to the Financial Aid Administrator (FAA).

14. If the family's child is the beneficiary of a Qualified Tuition Plan (QTP) and qualifies for financial aid, the family should consider rolling the QTP to another beneficiary.

15. If the family qualifies for the "Simplified EFC" exception, neither the family's assets nor those of the student will be assessed in the FM formula.

19 Asset Strategies For Upper Income Families

1. Funding a life insurance policy over a period of several years could be a viable option. It can allow the family to take maximum advantage of tax-deferred growth and tax advantaged withdrawals for college, as well as retirement.

2. Gifts that families pay directly to an educational institution (either elementary and high school or college) for their child's tuition will not reduce the annual $12,000 gift tax exclusion for that child. The gifts must be made directly to the educational institution.

3. If families wanted to transfer more funds to their child or grandchild than the annual $12,000 gift exclusion, they could accomplish this by making a loan to the child for the amount in excess of the $12,000 gift exclusion limit. They would then forgive up to $12,000 per year until the loan balance is zero.

4. There is a special rule for contributions to a QTP that exceed the annual gift tax exclusion. If a contribution in excess of the annual $12,000 gift tax exclusion is made in one year, the family may elect to have the contribution treated as if made ratably over five years.

5. Charitable remainder trusts can produce a double tax saving which can be used to help fund college costs. In a typical charitable remainder trust, you would donate a remainder interest in an asset to a charity. The family would receive a current charitable donation tax deduction, remove the asset from their estate, and retain an income interest in the asset to help fund college costs.

6. A highly appreciated low-yielding asset can be contributed to a charitable remainder trust.

7. Since the charitable remainder trust is exempt from taxation, the asset can be sold tax-free. The proceeds can then be reinvested in a higher-yielding investment without depleting the investment principal.

8. The Roth IRA is an attractive vehicle to use for college, with benefits such as the tax and penalty-free withdrawal of original contributions.

9. A grandparent can will his Roth IRA to his grandchild. The minimum distribution rules will require distributions from the Roth IRA to be based on the life expectancy of the grandchild. The grandchild could take minimum distributions (the balance of the account continues to grow tax-free) until college years and then withdraw additional tax-free funds for college.

10. A Voluntary Employees' Beneficiary Association (VEBA) can allow for large, flexible, and fully tax-deductible contributions. The assets will accumulate and compound on a tax-deferred basis while remaining protected from both personal and corporate creditors.

11. If additional funds for college are needed you should consider a Federal Parent's Loan for Undergraduate Students (PLUS loan). A PLUS loan is a signature loan with an interest rate capped at 9%. These loans can be made only for undergraduate college expenses.

12. If additional funds for college are needed the family should consider having their child obtain an unsubsidized Stafford loan. Since an unsubsidized Stafford loan is in the child's name, the child can deduct the student loan interest expense. Also, if the family cannot deduct student loan interest expense (because of the income limitations), an unsubsidized Stafford loan in the

student's name is preferable to a PLUS loan in the family's name.

13. If additional funds for college are needed the family should consider having their child obtain a Sallie Mae signature student loan. A Sallie Mae signature student loan is in the child's name and therefore, he can deduct the student loan interest expense. Because of the deductible interest expense, these loans may be preferable to a PLUS loan in the family's name.

14. The family can either use an equity line of credit or a second mortgage on his residence for college funds. The interest paid can be deducted as an itemized deduction.

15. The family can borrow, up to a certain amount, from their retirement account, if the account allows borrowing. Usually the interest rate and repayment terms are favorable. However, if the family loses this job, the outstanding loan balance may have to be immediately repaid or taxable income will occur. Also, if the loans are not repaid with a certain time period, usually five years, the outstanding principal balance will become taxable.

16. The family could loan money to their child for college. The family would receive payments on the loan from their child. The difference between the rate of return the family is receiving on the money loaned to their child and the interest rate their child would have paid from an outside source could be used to reduce the family's cost of college.

17. The deduction for alimony creates an opportunity to shift income from a higher to a lower tax bracket spouse. Additional payments that can be considered alimony are medical insurance and other expenditures, such as mortgage payments, real estate taxes, insurance, utilities, life insurance premiums, and college expenses, made on behalf of a former spouse under a divorce decree or separation agreement.

18. Under the financial aid rules for divorce or separation situations, the income and assets of only the custodial parent are used to compute a child's eligibility for financial aid. (Note: Some private colleges will also factor in the income and assets of the non-custodial parent.) Therefore, the family should carefully consider with whom their child will live during college years.

19. The family can use a 401(k) wraparound plan to put excess 401(k) contributions into a non-qualified plan. These excess contributions can be used to fund a child's future college costs. The family does not have to report taxable income before the excess contributions are put into the non-qualified plan. The family must make two separate elections: (1) to contribute to the 401(k) plan and, (2) to have the excess contributions transferred to the non-qualified plan.

17 Income Strategies For Financial Aid Families

1. Since loan proceeds are not assessed, it may be better to borrow funds during college years rather than attempting to pay for college by striving to increase earnings, which will decrease financial aid eligibility.

2. The student should avoid cash gifts from people other than parents during college years, as these are treated as "untaxed income" in the financial aid system. If cash gifts are going to be given to the student, they should be given in non-college years. Alternatively, loans could be given to the student during college years and then a cash gift could be given to repay the loan after college years.

3. Cash gifts, which are paid <u>directly to the college</u> for tuition and fees (from people other than the parents), should be avoided. These gifts will be treated as a student "resource" and a dollar-for-dollar deduction in financial aid.

4. Since the current year's contribution to a retirement plan will be assessed as "untaxed income", the family should maximize contributions to a retirement plan during non-college years and minimize contributions during college years.

5. Parents should avoid withdrawals from retirement, pension, annuity, or life insurance plans during college years because both the interest, included in the Adjusted Gross Income AGI, and the principal withdrawal, included as "untaxed income", will be assessed. If withdrawals of assessable assets are made, an assessment of this withdrawal should be appealed to the FAA. The appeal should be based on the fact that the transfer of principal from one type of asset to another type of asset does not create an additional source of funds to pay for college.

6. If a taxable conversion from a Regular IRA to a Roth IRA is made, the assessment of this taxable rollover income should be appealed to the FAA. Remember that non-taxable rollovers are not assessed.

7. Eligibility for the Employment Expense Allowance deduction is allowed only if both parents have earned income. Therefore, both spouses should have earned income in order to qualify for this allowance; this could be accomplished by hiring a non-working spouse in the family business.

8. The family should consider having the family's business establish a medical reimbursement plan (IRC Sec. 105) for an employee-spouse in order to shift medical expenses from Schedule A to the business schedule, and consequently, lower the family's AGI.

9. The student's income should be kept at approximately $2,500 during college years. Shifting income to the student should be considered if the student does not have this much income. This will lower the parents' AGI without having a negative effect on the student's financial aid eligibility.

10. Wages from closely held entities should be kept down during college years.

11. Minimize the amount of state or local tax refunds during college years. To insure that refunds are not received, accurate withholding or estimate payments should be made.

12. Consider accelerating or postponing capital asset purchases during college years in order to

lower business income through depreciation or Additional First Year Depreciation (AFYD) on the capital asset.

13. The family should consider accelerating tax deductible expenses during college years.

14. The family should consider obtaining commercial bank loans rather than taxable Commodity Credit Corporation (CCC) loans (farmers) during college years.

15. The family should consider selling stocks in non-college years that would generate capital gain distributions during college years.

16. Avoid income distributions from estates or trusts during college years.

17. The family should consider not itemizing tax deductions during college years.

13 Income Strategies For Upper Income Families

1. Outright gifts of appreciated assets to the child or grandchild may be an effective way to shift income and assets to the child or grandchild. Significant income and estate tax savings can be achieved by outright gifts. However, control of assets that are gifted outright to the child or grandchild will be lost immediately.

2. When a family's income reaches a certain level, all or part of their personal exemptions is phased-out. Therefore, they would not receive any tax benefit from their child's personal exemption. However, if the child can show that he, and not the family, is providing over half of his support, he can claim the personal exemption on his tax return.

3. If the family is in at least the 25% tax bracket, they should consider gifting appreciated assets to their child (over age 14) and then have the child sell the asset. If the child is in the 15% tax bracket, his capital gains rate would be a 5% rate, as opposed to the family's 15% capital gains rate.

4. Families can receive tax benefits if they employ their child. Since the child will receive "earned" income, he will not be subject to the "kiddie tax", even if he is less than 14 years of age. Also, because it is earned income, the child will be able to utilize his standard deduction. Another benefit of a child having earned income is that he can contribute to a Roth or regular IRA for future college costs.

5. A family can hire their spouse in their business and establish a medical reimbursement plan for the spouse and the rest of their family. In effect, this would make non-deductible medical expenses deductible business expenses.

6. A family limited partnership can provide the family with a way to shift income to their children and reduce their estate. Typically, in a family limited partnership, the family will be the general partner and their children will be limited partners. The limited partners cannot make investment, business, or management decisions. The family would make annual gifts of partnership interests to their children.

7. A sale or gift and subsequent leaseback from a child can be used to shift income to the child. The family could sell or gift property to their child with a simultaneous leaseback from the child. The sale or gift may be made directly to the child or in trust for the child.

8. A family may gift the maximum amount allowed by the annual gift tax exclusion ($12,000) and take a note from their child for the balance of the funds needed for college. Then, instead of the child having to make payments on the note, the parent could forgive a portion of the principal (and interest) each year equal to the annual gift tax exclusion.

9. A qualified tuition program (QTP) can be used to shift income to a child or grandchild. The income generated from assets gifted to a QTP grows tax-deferred. When the child receives distributions from the QTP for college, the accumulated income is tax-free to him.

10. Tax shelters are a form of deferring income. One of the best tax shelters for college is an oil and gas investment. As a general rule, the tax write-off on an oil and gas investment will not exceed 100% of the amount of the investment. Working interests in oil and gas ventures are generally not treated as passive activities.

11. Since the kiddie tax applies to unearned income of a child under fourteen years of age, one strategy to avoid the kiddie tax is to invest the child's assets in investments, such as municipal bonds or growth stocks, that generate tax-exempt or tax-deferred income until the child reaches age fourteen.

12. A parent can elect to have the interest on their child's U.S. EE savings bonds taxed each year and, if the child is not subject to the kiddie tax, the interest will be taxed at his lower tax rates. Therefore, in the year that a child redeems the bonds, he will not have to pay any tax on the proceeds.

13. A family's business can establish a fringe benefit program for their child/employee. If the type of fringe benefit established by the business is tax deductible and taxable to a child/employee (e.g., employer-provided automobile), this will cause an income-shifting effect. If the type of fringe benefit established by the business is deductible by a business but not taxable to a child/employee (e.g., medical reimbursement), the tax savings can be used to cut the cost of college.

7 Household Strategies For Financial Aid Families

1. The financial aid application should be signed on the date when the household status is the most beneficial.

2. If the student's parents are divorced, the income and assets of the parent with whom the student lived the most in the twelve months must be reported. Therefore, the income and assets of the parent with whom the student lives with during college years must be considered.

3. If the student's parents are divorced and the student lived equally with the parents (e.g., joint custody), the income and assets of the parent who provided the most support in the last twelve months must be reported. Therefore, the income and assets of the parent who provides the most support during college years must be considered.

4. When structuring a divorce agreement, it may be better to give the custodial parent more assets and less income.

5. If the student has a stepparent, the income and assets of the stepparent must be reported. Therefore, the timing of the signing of the financial aid application and the marriage of the parent/stepparent should be considered.

6. In order to list a child who is not living with the parent as a member of the household, the parent should provide over half the support of that child.

7. If the child does not meet one of the criteria to be automatically considered an "independent student", but is financially independent of the parent and does not live with the parent, the student can appeal to the FAA for "independent student" status.

11 Award Letter Strategies
For All Families

1. Check the deadline date for acceptance of the award letter.

2. Check the EFC on the award letter (if it is shown) with the EFC shown on the Student Aid Report (SAR) in order to check the accuracy of EFC shown on the award letter.

3. Make sure the "true Cost of Attendance (COA)" is indicated on the award letter. If a cost of attendance is not shown or it appears to leave out some costs, determine the "true COA". Ask for the PLUS loan eligibility and then add that to your financial aid award to compute the "true COA".

4. Federal PLUS loans or Unsubsidized Stafford loans should not be considered as financial aid, however they both have very favorable interest rates and the interest could be tax deductible.

5. Determine if the grant and scholarship aid is renewable and what the criterion is for renewal.

6. If a college has an acceptance deadline that cannot be met, the family should ask for an extension of time, and if the college will not grant an extension of time, the family should sign and accept the award letter. This will safeguard the award. Accepting an award letter does not commit the student to attending the college.

7. Accepting an award letter does not prevent the family from filing a future appeal of the award letter.

8. When all the award letters have been received, the family or a financial advisor should compare them to determine the best award.

9. If the award letter does not meet the expectations of the family, it should be appealed to the FAA.

10. Determine how "private scholarships" are handled. Do they reduce grants or loans in the award letter?

11. If the student has a "private scholarship", determine how it will affect a 4-year scholarship awarded by the college.

21 Education Tax Incentive Strategies For All Families

1. If the parents' AGI is too high to claim the Hope Credit (HC) or Lifetime Learning Credit (LC) the parents should consider giving up the exemption for the student so that the student can claim the HC or LC. The student cannot claim the exemption unless he is providing over half of his support.

2. The timing of the payment of qualified expenses may ensure that the maximum HC or LC can be claimed.

3. If a college does not have a set payment ordering system for tax-free grants and scholarships, the parent can arrange the payments to non-tuition and fee expenses in order to be eligible for the HC or LC. (This will cause all or a portion of the scholarship to be taxable).

4. Withdrawals from an IRA during years in which the student is eligible for financial aid should be avoided.

5. A family with two students in college at the same time could consider giving up the exemption for one of the students so that one student can claim the LC and the parents could claim the LC for the other student. Therefore, the family could claim two LCs.

6. The HC or LC can be claimed by the taxpayer that claims the student as a dependent, even if the college expenses are actually paid by the student or by a third party.

7. Parents whose AGI is too high to make a contribution to a CESA, can make a gift to other persons and then they can make the contribution.

8. The student should consider delaying the withdrawal of CESA funds until after December 31 of the final year of college. CESA accounts are assessed as an asset of the parents in the financial aid formulas.

9. Qualified Tuition Plans (QTPs) can be an effective method of shifting income to a child on a tax-free basis.

10. QTPs can be used as a vehicle to defer income

11. In certain states QTPs may be exempt from state taxation.

12. In certain states, QTP contributions may be deductible for state income tax purposes.

13. QTPs can be used to reduce estates without giving up control of the asset. The owner of the account can withdraw the account funds, subject to income taxes and penalty. A five-year averaging of the gift is allowed.

14. QTP accounts can be rolled over to another beneficiary if the current beneficiary will be eligible for financial aid.

15. The parents need to consider the financial aid impact of QTPs when deciding whether to

purchase them and what type to purchase (i.e., prepaid versus college savings).

16. Interest paid on loans from relatives does not qualify for the student loan interest deduction.

17. Student loan interest cannot be deducted until the interest is repaid.

18. If the parents' AGI is too high to claim a student loan interest deduction, the student could take a Federal Unsubsidized Stafford loan or a private loan in the student's name and deduct the interest.

19. The timing of repayment of student loans to increase the student loan interest deduction should be considered.

20. Parents who are ineligible for the student loan interest deduction may consider taking out a deductible home mortgage loan.

21. If withdrawals from Regular or Roth IRAs are needed to pay for college, the withdrawal should be timed to occur during college years in order to escape the 10% early withdrawal penalty.

8 Investment Strategies For All Families

1. U.S. Series EE bonds are tax-deferred or tax-free (when used to pay qualified education expenses), low-risk investments that can be used as part of the long-term college financial aid plan.

2. Zero coupon bonds are currently taxed investments that lock in the current rate of interest and a specific amount on maturity. They can be used as part of the long-term college financial plan.

3. Municipal bonds are tax-free, low-risk investments that lock in the interest rate. They can be used as part of the long-term college financial plan.

4. Mutual funds are growth orientated long-term investments that allow for the switching of investments without incurring sales charges. They can be used part of the long-term college financial plan.

5. QTPs are tax-deferred, and possibly tax-free, trust accounts that are used to pay for tuition, fees, and room and board at the colleges specified in the investment contract. The gifts to these accounts can be spread over five years, which allows for large one-time gifts to these programs. Since the owner of the account can switch beneficiaries, the owner can maintain some control over the funds.

6. A Roth IRA is a long-term investment that grows tax-deferred. The withdrawals made from these accounts after age 59½ are tax and penalty-free. The non-deductible original contributions may be withdrawn tax-free for any use. In addition, there will be no 10% early withdrawal penalty on withdrawals made before age 59½ that are used to pay qualified college expenses.

7. IRAs may be tax-deferred long-term investments. They can be withdrawn penalty-free (10% penalty for withdrawal before age 59½) to pay qualified college expenses. The contributions to these accounts are tax deductible.

8. Real estate is a long-term growth-oriented investment whose appreciation in value grows tax-deferred and will be taxed at the favorable capital gains rate when sold. If the real estate is rented, it may generate significant tax losses (through depreciation).

6 Academic Strategies For All Families

1. The student should try to increase their SAT/ACT test scores through study and preparatory courses.

2. The student should take as many honors or advanced courses as possible.

3. Parents should encourage the student to study. Good grades will result in grants and scholarships for the child.

4. The student should be encouraged to participate in extra-curricular activities. These activities will increase the student's chances of obtaining scholarships.

5. The student should investigate the College Level Examination Program (CLEP) at prospective colleges.

6. The student should take as many Advanced Placement (AP) courses as possible.

7 Admission Strategies
For All Families

1. The student should apply to at least six to eight colleges. This will give the student some financial options.

2. Some colleges will waive the admission fee if requested to do so, especially in the case where the fee is a hardship.

3. Some colleges waive the admission fee if the admission application is filed over the Internet.

4. The student should apply early to attract college scholarships that are not based on the financial need of the student, but on the college's desire to meet their enrollment quota at an early date.

5. The student should not apply "early decision" unless they are on the borderline of being admitted and the desire to be admitted is greater than the need for financial aid. "Early decision" often leads to poor offers of financial aid.

6. There are some students, such as athletes, minorities, or musicians who receive special consideration for admissions approval. The family should check with the college for the types of students that receive this special consideration.

7. A college considers the quality of the admissions package; this includes the resume' of outstanding achievement, the essay, and the interview, in its decision to admit a student. The student must know these admission strategies to have an impressive admissions package.

11 Appeal Strategies
For All Families

1. If a college's financial aid award offer does not meet a family's expectations, either in the amount of the offer or in the type of aid offered (gift-aid versus self-help aid), the family should appeal to the FAA. Do not ask to "negotiate" with the FAA; the word "negotiate" offends some FAAs. Ask to "appeal" an award offer.

2. The FAA has the authority to change the information reported on the financial aid applications in any way that the FAA thinks will more clearly reflect a family's ability to pay for college. This authority is called "professional judgment".

3. The family must have specific reasons why they need more financial aid. These reasons are known as "special circumstances". The "special circumstances" should be adequately documented to make it easy for the FAA to say "yes" to the appeal.

4. Special circumstances may include:

   ✓ Death

   ✓ Divorce/separation

   ✓ Disability or injury

   ✓ Unemployment

   ✓ Sickness, medical, or handicap expense

   ✓ Tuition for private schools

   ✓ Natural disasters

   ✓ Dislocated worker

   ✓ Unusually high child-care expenses

   ✓ Un-reimbursed expenses shown on Form 2106

   ✓ One-time bonus

   ✓ Unusually high income

   ✓ Unusually low expenses

   ✓ Anything that can be use to convince the FAA that the child has a special need for money.

5. An appeal should request a specific amount of increased financial aid.

6. In most cases, a FAA will consider an appeal only if a financial aid application or Student Aid Report has been filed or received by the FAA.

7. An appeal can be based on the following college's interests:

   - ✓ Reward a good student who is in the upper 25% of the incoming freshman class. The freshman class profile can be obtained from the college or from *Peterson's Guide to Colleges*.

   - ✓ The college admission officer, a coach (at NCAA Division III colleges), or department head can be enlisted to help with the appeal.

   - ✓ Apply to at least six colleges. This will create competition for the student. To create competition, the student should include the following types of schools in the list of colleges that they wish to attend; (1) an in-state public, (2) a private college that is known to give good award offers, (3) a college in the same athletic conference, and (4) a comparable college that is out of the student's region of residency (colleges encourage cultural diversity in their enrollments).

   - ✓ If a student receives a good award offer from a competing college, the student should ask the college of choice to "match" the other college's award offer. However, never use the word "match" in the correspondence or conversation with the FAA. The word "match" offends some FAAs.

   - ✓ Colleges with declining enrollments may be more willing to negotiate with a student because of their desire to fill empty seats.

   - ✓ Colleges may have scholarships for upper-middle class and affluent families to attract good students and future benefactors.

   - ✓ Colleges may have special scholarships for minority students. A student should inquire at the college for these scholarships.

   - ✓ Colleges may have special scholarships for students of alumni or legacy students. A student should inquire at the college for these scholarships.

   - ✓ A college's desire for cultural diversity in its enrollment may lead to increased financial aid offers for students who are from out of the college's geographic region, or who are culturally different from its "typical" student.

8. The greater the merit of the student, the better the chance of an appeal being granted by the FAA.

9. Private colleges are much more likely to grant an appeal than a public university.

10. Check the size of the college's endowment fund to see if they can afford to give more financial aid.

11. If possible, make the appeal in person or, at least, make a phone call to the FAA. Always give the personal touch, if possible.

14 Other Cost-Cutting Strategies For All Families

1. The Internet has several sites that offer discounts to students for books, travel, etc.

2. The student can participate in a three-year degree program which allows him to complete a bachelor's degree in three years, while pursuing a masters or doctorate.

3. The student can attend a college with a guaranteed four-year degree program (Guarantees graduation in four years).

4. Some colleges offer programs that allow the student to attend five years of college for the cost of four years.

5. Some colleges offer programs that combine undergraduate with graduate studies in one degree.

6. Some colleges offer a guaranteed tuition price for four years.

7. Some colleges offer financing programs that help families spread out tuition payments.

8. Some colleges offer tuition reduction plans that are excluded from gross income, if used for undergraduate courses.

9. The student can attend a community or junior college and obtain a college degree without a big cost.

10. The student can attend a low-cost Community (junior) college for one or two years and then transfer to a private college and earn a degree from the prestigious private college.

11. The student can reduce costs by taking advanced placement (AP) courses in high school and earn college credit, which will reduce time spent in college.

12. If the student is attending an out-of-state college, establish residency in that state order to pay in-state tuition.

13. A low-cost alternative to be considered is Canadian schools.

14. Distance learning can be used to earn college credits.

A Few Words About The New 529 Plans

The family should always consider the student's financial aid opportunity, prior to investing in one of the new College Savings or State Prepaid Tuition Programs (529 plans). Funding a 529 plan could seriously lower the student's qualification for any grant or scholarship and force them to borrow the balance of funding for college. 529 plans are assessed against the family as an asset (college savings plan) or resource (prepaid tuition plan) for financial aid purposes. Furthermore, if a student decides to attend certain private colleges, the amount accumulated in the student's siblings' 529 account are <u>also</u> assessed against the student as an asset of the parent.

Example: The student is a beneficiary of a $50,000 College Savings Account (529 plan) that is owned by the parents, of which $25,000 represents the original contribution and $25,000 represents the accumulation in the account. In Year 1 the student applies for financial aid, which will be reduced by $2,800 ($50,000 x 5.6% asset rate) due to his 529 account balance. Under the current financial aid rules, a distribution would have no impact on financial aid.

Furthermore, the family should never consider college alone, but should link college to retirement for a total LIFE plan. If the 529 plan is over-funded, the balance of the money would be taxed at the parent's (account owner) higher tax rate, including penalties. If the 529 plan was exactly funded, then there would be no tax obligation to the family.

The family should also consider their present portfolio and the desired asset allocation of their investments, prior to investing in a 529 plan. Once a decision is made on a particular investment and the asset allocation for a 529 account, changes can be make only once per year to the account until withdrawals begin.

Example 1: A highly compensated executive who holds a small amount of liquid assets, but does hold a large amount of highly appreciated stock or stock options, may decide against contributing to a 529 plan. He may be better off gifting this stock to the student with a lower tax bracket, or directly to the college.

Example 2: An under-insured family that has a small amount of liquid assets, little in retirement savings and a large amount of equity in their home may have a better option than contributing to a 529 plan. The family may be better off using the equity to pay off high-interest debts and use the increased cash flow to fund a combination college/retirement Variable Universal Life program. This way the student will have money to pay college expenses, even if the parents die or become disabled.

College costs are too high to narrowly focus on a college-fund alone. College is simply too expensive for the family not to consider their total income and asset structure and develop a total life financial plan. The family should also consider using a qualified financial advisor to assist in the development of this life plan.

As owner of College Funding, Inc. (www.solutionsforcollege.com), Rick Darvis provides college-funding services for his clients. He is a co-founder and director of the National Institute of Certified College Planners.

Rick is recognized as one of the leading experts in the college funding field. He has written more books, developed more software, and trained more financial professionals on the topic of college funding than any other person in the United States. His knowledge has enabled him to be invited to speak on the topic of college funding to his contemporaries at state CPA and FPA conferences in over 40 states. He has been a featured speaker at the Financial Planner Association's Success Forum, the Northeast /Mid-Atlantic National Association of Personal Financial Advisors (NAPFA) regional conference, National Employee Benefit Forum, the New York Society of CPAs Personal Financial Planning Conference, the AICPA's Tax Strategies for the High Income Individual Conference, and at Joe Hurley's 529 Plan conferences.

College Funding, Inc.
121 N. Main Street ~ Plentywood, MT 59254
Phone (406) 765-2030 ~ Fax (406) 765-2060
www.SolutionsForCollege.com

$14.95