

Managing Expenses During the College Years

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Introduction

For most parents, paying for a child's college or graduate school education is a major event. For some parents, it rivals only the purchase of a home in number of dollars spent. As the cost of college continues to rise, it's little wonder that parents view their ability to pay college costs with some apprehension. Yet, in all but the most affluent families, paying for college does not involve a 100 percent out-of-pocket contribution from parents. Rather, the average family uses a combination of strategies to pay higher education costs--savings, financial aid, education tax credits, out-of-pocket contributions, and other creative solutions.

Savings

Hopefully, you're one of the parents who have been saving money for their child's college education on a regular basis. If so, now's the time to use those funds. But in many cases, this won't be enough to cover all the bills.

Financial aid

The majority of college-bound students qualify for some type of need-based financial aid (as opposed to merit-based financial aid like athletic scholarships), and this can supplement your savings. The largest provider of need-based financial aid is the federal government, followed by colleges.

Need-based financial aid consists of loans, grants, scholarships, and work-study jobs. Loans eventually need to be repaid by you or your child, while scholarships and grants do not. Work-study jobs are paid jobs performed by students and are subsidized by the federal government or the individual college.

Every college that accepts a student will try to create a financial aid package for that student. Typically, loans make up the biggest portion of any financial aid package, though the exact percentage will vary by student. Most students take out at least some student loans, which lessen the financial burden on their parents.

All students should apply for federal financial aid, even if they're not sure they'll qualify, because eligibility criteria may change slightly from year to year and filing the federal government's aid application (called the FAFSA) is often a prerequisite for obtaining other types of aid, such as college aid.

After you become savvy about the financial aid process, you can learn about legitimate steps to take to position your income and assets to enhance your child's financial aid eligibility. Though it's best to become familiar with these steps while your child is still in high school (allowing time to implement them), you can also take advantage of these suggestions while your child is in college because financial aid must be reapplied for every year.

One final note: graduate students may not have the same breadth of financial aid programs available to them, or, conversely, they may have certain programs available to them that are not available to undergraduates. For example, the federal government's grant programs are limited to undergraduates, but universities may offer special grant programs to graduate students that are not available to undergraduates.

Education tax credits and deductions

There are several education tax credits and deductions that can help families weather college costs. All of the education tax credits/deductions have income limits. For more information, see IRS Publication 970, Tax Benefits for Education.

Out-of-pocket contributions

The way you pay the bill from your own pocket can range from the simple to the complex. It may mean tapping funds from any number of sources--your current weekly paycheck, your savings and investments, your IRA or employer retirement plan, your home equity, other loan sources such as banks or brokerage accounts, or other assets such as cash value life insurance. The commonality is that the money comes from you and is a drain on your financial net worth.

An important reminder: Paying for college out of pocket can conflict with other important financial goals, most notably saving for

your retirement. It can be hard to manage both goals, but it is possible to save for college and retirement.

Other creative solutions

Finally, there are other creative ways for parents to lower their college costs by lowering the actual cost of school. For example, a student could choose an accelerated program and graduate in three years instead of four; a cooperative education where education is interspersed with paid internships; or a live-at-home arrangement where money is saved on room-and-board costs.

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