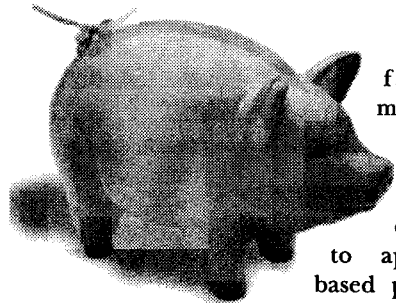


Focus on Education

David M. Freedman

Don't Pay Sticker Price for a College Education

By Joseph Orsolini, CFP



Many families make decisions about what college to apply to based primarily on tuition and other costs of attending. That's the wrong approach, not only from an academic point of view but from a financial one as well.

Encourage your kids to apply to the schools that best fulfill their academic, social, recreational, and other needs, according to your family's values and priorities. Then think about how you'll pay for it. Chances are, if your child qualifies academically, the college (in partnership with the state) will make it much easier for you financially, thanks to the college aid system. But you have to know how the system works, and you have to start planning a few years before your child graduates from high school.

Grants, scholarships, loans

Here's an analogy that will help you understand how the system works. Imagine visiting a fantasy Chevy dealership to buy a new car. You see several models: Cavaliers, Malibus, Tahoes, Corvettes, etc. Which would you like to own? Maybe you have a big family and would prefer the monster SUV. Or perhaps the car is for your daily commute – how about the 'Vette?

Don't worry about the sticker price. Just tell the salesperson which car you want to drive home. This dealership uses a revolutionary financing system. The dealer calculates the amount you can afford to pay for a new car, based on information you give him such as family income, assets, and certain living expenses. This amount he calls your "expected family contribution (EFC)." The dealer then puts together an aid package – consisting of discounts, rebates, and zero-interest loans – which bridges the gap between your EFC and the car's sticker price. Furthermore, if you

have an excellent driving record (no recent moving violations), the dealer will offer bigger discounts, rather than loans. How great would that be?

That's pretty much how the college aid system works. Instead of discounts and rebates, colleges offer to bridge the gap with grants, scholarships, and work-study programs, in addition to loans with various rates and terms. Based on information you provide on standardized aid applications, your EFC is calculated by the U.S. Department of Education, although some private universities do their own calculations using slightly different formulas.

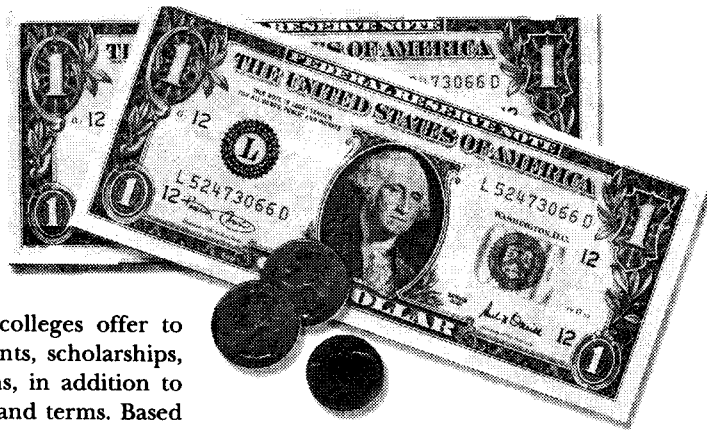
If your child is highly qualified (excellent grades, high test scores), the college will probably be more aggressive about offering grants and scholarships, which you don't have to pay back.

Lower your EFC to qualify for more aid

The government's EFC formula counts some kinds of assets and omits others. If you begin planning before your child's junior year of high school, you can reposition your assets to lower your EFC, which essentially creates a bigger gap and lets you qualify for more financial aid.

I recently worked with a single mom in Chicago who earns \$33,000 per year. Her son had \$38,000 in savings, thanks to gifts from his grandmother. Their initial EFC was \$24,000. But after we repositioned the family's assets, the new EFC came to \$5,500, creating an \$18,500 gap. The son got an aid package from a small, private university in Illinois consisting of \$13,600 in scholarships and grants, \$3,700 in student loans, and \$1,800 in work-study funds – a total aid package of \$18,100, which just about plugged the entire gap.

If you understand the college aid system and start planning early, your primary basis for choosing a college should be how well the school meets your children's needs – not what school you can afford.



Joseph Orsolini, a certified financial planner, is president of College Aid Planners, Inc. (www.notpayingforcollege.com). Based in Chicago, he lectures frequently on the topic of college financial aid.