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SAVING FOR COLLEGE

18 Years in the Making

By RON LIEBER

Want to pick up the tab at [Harvard](#) for a child born today? It will probably cost about half a million dollars come 2027.

Hey, at least you have 18 years to plan. Parents footing the bill for tuition this fall are facing down a perfect storm of ugliness. Unemployment is rising, while bonuses and commissions aren't what they once were for those who still have jobs. Others have no equity left in their homes thanks to declining housing prices. Those who do may have trouble finding a bank willing to hand out home equity loans that they can use to pay for college.

Beyond a more generous tax credit, President Obama's moves so far don't add up to much for most middle-class families. For low-income students, Mr. Obama wants to guarantee Pell grant financing levels and to match inflation increases, and his stimulus package provides more Pell and work-study money. He is pushing to change the way federal loans are dispensed and to expand access somewhat to federal loans. But students who borrow already graduate with an average debt of \$22,700.

Meanwhile, the devastation in the stock market has eroded not just families' savings but university endowments that underwrite scholarships and grants.

How bad is it? Earlier this year, Kevin McKinley, a financial planner and college savings expert at [McKinley Money](#) in Eau Claire, Wis., received his first-ever referral from a psychotherapist, who thought the patient could reduce anxiety by seeing a financial professional.

"That's not something that happens when the markets are doing well," Mr. McKinley says.

Still, if you can break the process of saving for college into smaller pieces, it starts to seem more manageable. Start by reminding yourself that almost nobody can save enough to pay for four years of private education, let alone for more than one child. That's not the goal here.

Mr. McKinley suggests an approach he calls "20-20-20." Take the current average cost of attending four years at a public university: roughly \$60,000. Save \$20,000 before your child begins college by putting aside \$50 a month starting at birth and assuming a 6 percent annual return. Then, pay \$20,000 out of current income while the student is in college. Finally, have

your child take out \$20,000 in federal [student loans](#) over four years. The \$200 monthly payments afterward are not a horrible burden for people in their 20s to bear, and they'll be debt free once the 10-year payback period is over.

"It's all doable with several very small sacrifices," Mr. McKinley says.

You can aim higher, or lower, but the longer you wait to start, the more money you'll probably need to borrow later. Better, then, to start at the birth of your first child and follow as many of the steps below as you can.

NEWBORNS AND TODDLERS

For most people, the best way to save for a child's college education is still through a [529 savings plan](#). With 529s, you deposit after-tax money, but any earnings are free of taxes as long as you spend them on tuition, room, board and other postsecondary educational expenses.

You can look up your state's plan at [savingforcollege.com](#), a directory of college saving plans and advice. Most states have their own accounts, and many have two different kinds: investment accounts and prepaid accounts (it's too early in the life cycle to discuss the prepaid variety, so more later on those).

Investment accounts are a bit like 401(k)'s in that you can usually choose from a handful of mutual funds and other investments, including one that gets less aggressive as your child's date of college matriculation nears. (Just be sure that the fund manager's definition of "aggressive" is similar to yours; some 529 investors have been surprised at the extent of their recent losses.)

Credit cards can help feed your savings. Some will reward you with refunds into a 529 account based on how much you spend. [The Fidelity 529 College Rewards American Express card](#), for instance, gives you 2 percent back on all purchases as long as you deposit it into your Fidelity 529 account, including the plans it runs for individual states. (Anyone can invest in any state's 529 investment plan; you aren't limited to your own state's).

Card earnings alone can easily add up to five figures after 20 years, depending on how much you put on the plastic annually. A few caveats, though. If you carry a balance or pay bills late, the interest and fees will more than wipe out the rewards. Credit card companies also often reduce rewards over time. And to maximize earnings, you'll have to give up using your other credit cards to collect frequent-flier miles.

[The Upromise college savings program](#) offers several ways to earn cash for a 529, including 1 percent back on most purchases on its MasterCard; refunds based on what you buy at grocers that link their discount cards to Upromise; and bonuses for shopping at partner retailers online and eating in affiliated restaurants.

Lisa Roll, a financial adviser in Glen Gardner, N.J., has saved about \$7,500 toward her two sons' college expenses in the eight years she has been enrolled in Upromise. She even enlisted her mother-in-law, who can contribute her spending power to Ms. Roll's account through Upromise's friends-and-family system. "I went to their house and took her wallet and signed up all of her grocery and credit cards," she says, adding that she also installed a Web browser toolbar that will help remind her mother-in-law to shop online at partner retailers.

THE PRESCHOOL YEARS

Once the grandparents tire of buying baby gear and cute outfits, you might sit them down for a conversation about how they can make a more lasting cash contribution to your toddler's future. This isn't always the easiest conversation to have.

"In most otherwise healthy families, the willingness of grandparents to save generally exceeds the willingness of parents to broach the subject with the grandparents," Mr. McKinley says. "That's good. It shows that parents aren't money-grubbing. But it means it's usually the grandparents' duty to bring the subject up."

If you're a grandparent and your financial plan for retirement is secure, putting aside just one Social Security check a year for 18 years could pay for a good chunk of a child's college education.

The question, however, is where to park that money during the intervening years. Grandparents can set up their own 529 accounts, which come with a few advantages. "If something were to happen and they really needed the money, they could take it back out of the 529 and pay taxes and penalties," says KC Dempster, director of program development at the consultants [College Money](#) in Marlton, N.J. If there's a falling out with the kids or the grandkids, they can also change the beneficiary and bestow their largesse on a more-favored family member.

Families wishing to qualify for financial aid, however, should keep in mind that a growing number of colleges and universities are asking whether grandparents or others have set up 529 accounts for a student and taking it into account when awarding their own grants.

Kalman A. Chany, president of [Campus Consultants](#) in New York City, advises that grandparents simply give money to the parents, who can then deposit it in their own 529. Many accounts will accept gifts from grandparents. Upromise facilitates 529 giving, too, as does [Freshman Fund](#), an online gift registry.

One other big financial decision looms during the preschool years: when (or if) to have another child. If you have two children in college at the same time, your eligibility for financial aid grows significantly. "My instinct would be that there are still a lot of people out there who don't understand how this works," Ms. Dempster says. "They space their children out because the thought of two tuitions and room and board at the same time freaks them

out.”

Mr. Chany says, only half-jokingly, that the best option may be to have twins.

GRADES ONE TO NINE

One decision you'll eventually face is whether to put some (or all) of your savings into a prepaid 529 plan. Not every state offers one, and some states' plans are closed to new investments. The rest, however, let you essentially pay today for tuition and fees in the future.

There are a number of catches here, depending on the state. You can usually participate only in your own state's plan, and it often covers only tuition and fees. (Another plan, called the [Independent 529](#), allows you to pay for member private colleges and universities around the country.)

There are also a number of ways states calculate the current “price.” While the idea of locking in a price may sound tempting, it's crucial to understand exactly what \$1,000 today will buy you when your child finally goes to college. What sort of discount do you get for prepaying part of the tuition each year? And what happens if you're in a state plan and your child decides to attend an out-of-state university? How much of a return will your money have earned in that case? In the Independent 529 plan, for instance, your money won't have earned more than 2 percent annually (nor can it lose more than 2 percent a year). That sounds good right about now, though investments in stocks over the next 15 years will probably do better.

By the time middle school draws to a close, you should have a clearer sense of your financial picture than you had 13 or 14 years earlier, and whether you'll have a shot at qualifying for financial aid. The government's expected family contribution calculator at www.fafsa4caster.ed.gov can help on this front.

Now you have to decide what to tell your child about the money situation and when. Mr. McKinley warns about revealing too much too soon. “Most kids are just so clueless about where they're going to go and what they're going to do,” he says. “It just adds one more pressure to start talking about it in eighth or ninth grade.”

By early in high school, however, colleges are already marketing to potential students. “If there are financial constraints, it's important for the child to understand that,” says Mr. Chany, who is also the author of “[Paying for College without Going Broke](#)” (Princeton Review, 2007). “I think it's not a good idea for them to spring surprises on the child” late in the process.

That said, he adds, perhaps the worst move is to forbid a student to apply to a dream school simply because of money worries. “All you need is one of the child's friends with similar financial circumstances to get in and get a nice financial aid package and be able to afford it,”

he says. “And then the child says to you for the rest of their life: ‘Why didn’t you let me apply to that school?’”

Freshman year in high school is also a good time to ratchet back investments in stocks, if you’ve had an aggressive asset allocation in your 529 funds so far. If you’re in a target-date mutual fund, with the date of your child’s matriculation in its name, check to see what percentage of the fund is in stocks and then reallocate your savings to something safer if you feel the need.

10TH AND 11TH GRADES

This is the moment to consider whether to hire an adviser who will examine your income and assets to better position your aid application. This can easily cost \$1,000 in fees, but it may pay for itself if you receive more grants or qualify for better loans because of it.

Whether you hire an adviser or try to sort out the financial aid applications on your own, remember that colleges and universities currently consider the year from Jan. 1 of junior year to Dec. 31 of senior year as the “base” year for figuring out what the family can afford to pay for the first year of college.

That means that if you’re going to make any big changes to qualify for more aid, you need to do it between Jan. 1 of sophomore year and Dec. 31 of junior year — and start planning those moves even sooner.

What sort of moves might you make?

Since financial aid offices will tap some of your assets in calculating what you can afford to pay, there’s no shame in spending them down a bit sooner than you might have. If you need a new roof or new car, spend the money before the base year arrives. And pay down credit card debt. A big balance doesn’t win you a break when applying for aid, but colleges could tap your cash.

Mr. Chany suggests a number of other ideas. Since colleges generally take more from your income than they do from your assets, the base year or right before is a great time to start your own business (assuming your income will fall for a while in the start-up years). And to lower the income number that the financial system uses, front-load individual retirement account contributions before the base year.

By now you may be wondering about the ethics of all of this money moving. Do not lie on financial aid forms, but aid planning, like tax planning, is perfectly legal and appropriate.

SENIOR YEAR

Just as students should apply to at least one college where they know they will be accepted and happy, add at least one school your family is certain you can afford.

“If you’re going to get need-based aid, then you have to target the colleges that have money to give it,” says Ms. Dempster of College Money. “Otherwise, the entire exercise has been pointless.”

The student also has to fit the college personally before you worry about money. “If not, they may drop out or transfer or do poorly,” she says. “They’ll end up doing things that make college last longer, and that just makes it more expensive.”

Then, finally, comes application time, a process you’ll repeat at least three more times because you have to refile each year. The Free Application for Federal Student Aid and other forms you may encounter are intimidating. Fill them out anyway, even if you don’t think you’ll win grants from your chosen college, because you never know where you might end up or how your financial circumstances may change.

If grandparents wish to step in at this late stage, be aware that giving money to parents or making tuition payments directly to the college can have a big impact on aid eligibility. Consider paying off the child’s loans (or the parents’) after college graduation.

Some of you are reading this with aid offers for your high school seniors in hand. If you are, you now know that a fair bit of randomness takes hold once you apply. Financial aid officers can and will do what they want and sweeten packages for more desirable students. While many a parent tries to play one offer off another, Mr. Chany points out: “The decisions of the financial aid officer are final and cannot be appealed to the government. It’s worse than dealing with the I.R.S. There’s no tax court.”

All the more reason, then, to start early. “Parents beat themselves up about having done nothing and then continue to do nothing because they think it’s hopeless or scary,” he says. “That’s the worst thing that anyone can do. The longer they wait, the harder it’s going to get.”

Ron Lieber writes the Your Money column for The Times.

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