

The Truth About Financial Aid and Paying for College

Updated for school Year '24-'25

Building blocks for a successful college funding plan

*Including... Top college funding myths you need to know before
your child falls in love with a college!*



VAYLARK
Financial Services

750 Main Street Suite 400
Hartford, CT 06103
860.218.2048 | www.Vaylark.com

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College Funding
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Charles Wareham
Financial Advisor,
Registered Principal
CEO Vaylark Financial

Introduction:

For the most part, this is a story about middle America. It's about hard working families with incomes north of \$120 k per year who struggle with the realities of paying for everyday expenses, saving for retirement, and managing the high cost of college. It often starts with an assumption that there is plenty of financial aid out there that you just have to tap into and suddenly expensive schools will become magically affordable. Parents often start dealing with that equation at the last minute when their teens are applying for college and they are in flat out panic mode over how they will pay for it. Imagine their surprise when they realize that no matter what they do, they will likely end up paying for the vast majority of the cost of college themselves.

The good news is there is a way out. But it starts with letting go of how you thought things might be, and instead accepting how they really are. Once we come to that realization, as painful as it may be, we can build a plan to be successful. I call this "the reality-based approach" to making college possible.

Parents, tax advisors, and even financial advisors understand on an intuitive level that dollars saved or invested for college may count against them towards their ability to receive financial aid. So much so that they often believe the TERRIBLE advice of "don't save for college, it will count against you. Save for retirement instead". Frankly that advice can do more damage than good. Sometimes it even leads to a perception that if they just "hide" those dollars from the financial aid officers then suddenly they will qualify for lots of support.

Unfortunately, this is a misinformed point of view. The reality is that assets counts very little towards ability to pay. In fact, its INCOME that counts far more than assets do. And as a family's income rises above the \$120k per year, the monies that we would normally consider to be "financial aid" from Uncle Sam evaporates. In fact in that situation, I believe that "financial aid" is a terrible word to describe what you receive. It would be better to describe it as a "loan package"!

But it's also true that many of the expensive schools do have endowments and can offer merit or scholarship dollars to high achieving students. In fact, I believe that positioning your student in the best possible light during the application process is critical to maximizing these scholarship dollars. But even in that case, because often those schools are expensive, the scholarship received only brings their costs down to be competitive with a State level school cost.

I began my career as a financial advisor in 1992, and since that time I have focused almost exclusively on working with families with college bound teenagers. For more than 30 years I've helped thousands of families manage one of the most expensive events of their lives with a reality-based approach to making college affordable, and retirement achievable. I am also the proud parent of a Penn State graduate. So I can talk about this topic not only as a financial advisor but also as a parent.

During this time, I've seen probably every scenario you can imagine, and I'd like to share with you what I have learned along the way. My goal is to tell you the truth as I have experienced it about how college funding and financial aid works, and give you tools that can help. I'll share with you the latest updates and rules regarding financial aid and scholarships, but also stories of families that have gone before you that perhaps you can relate to. In the end, I'll help you digest that massive amount of information about financial aid and paying for college into a "boots on the ground" plan that you can use with your family to help be successful today.

In the end, paying for college is often a project of managing multiple sources of funding, application and negotiation strategies, as well as setting realistic expectations with the kids. Our office has tremendous experience in helping families do exactly that and I hope you'll tap into our resources if needed. I hope you enjoy this booklet, I hope it helps you to reach an informed point of view. And as always please don't hesitate to reach out if we can support you in any way.

For Further Study

At Vaylark Financial Services, our team of advisors and client service specialists focus on the needs of the college bound family. We are intensely dedicated to this segment, and regularly provide research and strategy to parents, high school counseling professionals and financial professionals.

But it's more than just college funding. We specialize in the college funding to retirement transition. It starts with a realization that college may be your life's biggest expense, but you'd also like to put the finishing touches on your retirement plans.

The piecemeal process you've used in the past is no longer acceptable. You're ready for a comprehensive approach and an experienced team that understands your story. You want to take care of the kids, but you also want to take care of you.



VAYLARK
Financial Services

750 Main Street Suite 400, Hartford, CT 06103
P: 860.218.2048 F: 860.218.2236
Email: info@vaylark.com | www.vaylark.com

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The Financial Aid Forms and Process

Let's Start With the FAFSA:

The FAFSA, or Free Application for Student Aid, is generally the entry point for the financial aid process. Typically, it is completed at the same time that your student is completing their applications to college. The FAFSA historically opens for data entry on October first, but with recent attempts by the Department of Education to "modernize" the FAFSA, there have been numerous glitches and delays. For this year, the FAFSA will open on December 1st (we hope!).

It's important to recognize in spite of its name, the FAFSA is not in itself an application to receive financial aid. It is a tool that measures your family's ability to pay. And to the extent that your cost of attendance exceeds ability to pay, you MAY see financial support to help you. At least that's the theory. We'll see that in practice there are significant important details.

In years past, the form would generate an "Expected Family Contribution" that suggests – in the government's infinite wisdom—an amount that your family should be able to afford. With the recent revision, the terminology was changed to "Student Aid Index" but the concept is still the same. And here is the first truth about paying for college that is important to understand:

Myth

The Federal Financial Aid will cover any shortfalls in funding collage

Truth

Parents are expected to fund college to the extent they can, and the extent they can part is determined not by what a parent thinks they can afford, but what the government says you can afford.

In other words, the FAFSA is designed to inventory your family's income and assets and measure how much of that should be used to pay for school. Generally speaking, a family should receive financial support for costs of school that exceed ability to pay. *The difficulty becomes when we discover how much the government feels we can afford to pay, and that in most instances the support we receive is a loan package that must be repaid over time with interest.*

CSS/PROFILE:

So far we have discussed only the FAFSA, but lets quickly mention that there is a second possible application form called the CCS / PROFILE. While the FAFSA is from the US Government, the PROFILE is a private data gathering form from The College Board that is often used at more expensive schools. We often call those schools "mini-elite" schools and we'll discuss the details of that form shortly. Keep in mind also that many schools and states (New York in particular) have yet a third form that they generate on their own where they can ask whatever they like. It's important to understand what forms are required at each schools you apply to, and that each school may be different.

In most instances financial aid can be broken down into one of three categories: free money including grants and scholarships, loans that must be repaid, and work-based programs such as work study or loan forgiveness programs that require community service would qualify. A lot of information already exists on the details of these different programs, so we'll only summarize them here.

For more info, visit <https://studentaid.ed.gov/sa/types/grants-scholarships>
<https://studentaid.ed.gov/sa/sites/default/files/federal-grant-programs.pdf>

**The \$60K and below income category will have the most likely chances of receiving Grant aid.*

Types of Federal Financial Aid: Grants, Work-Study and Loans

(Subject to change. Confirm details as needed)

Program and type of aid	Eligibility and details	Annual award amount
Federal Pell Grant	For undergraduate students demonstrating exceptional financial need Typically awarded at the low end of the income hot zone	Up to \$7,395 for 24-25 school year
Federal Supplemental Education Opportunity Grant (FSEOG)	For undergraduate students demonstrating exceptional financial need. Typically awarded at the low end of the income hot zone	Up to \$4,000 per year
TEACH Grant, AmeriCorps and similar	Employment based grant loan repayment dollars	Varies. Google for details
Federal Work Study	For undergrads and graduate students demonstrating financial need Part time employment on or off campus during the school year	Can earn up to your award amount. Depends on when you apply, your financial need, and school's funding availability
Federal Direct Subsidized loan (Stafford Loan)	For undergraduate students, virtually every US Citizens qualifies.	Freshman can receive to \$3,500/yr., sophomores \$4,500, and Junior/ Senior up to \$5500/yr. US Dept of Education pays interest while student attends full time and up to 6 months after graduation (unless extended or deferred
Federal Direct Un-subsidized loan (Stafford Loan)	For undergraduate students, virtually every US citizen qualifies.	\$2,000/yr. Interest accumulates as you go
State and commercial lending	CHESLA, MEFA, SoFi, etc.	Up to \$125,000 per family depending on creditworthiness

What Information Will Be Required:

Ready to get started? Awesome. The first step is to log onto the FAFSA website at <https://studentaid.gov> and create a user profile for yourself AND for your student, and begin populating the form. You'll need your SSN and DOB's of course, but also have handy general information about your savings and investments. Your income information should self-populate from your last most recently completed tax return, although there can be some glitches that may require you to manually enter information off your last tax return.

Once complete, the system will instantly generate your Student Aid Index for your reference. It will also transmit this information to the schools you have selected. The schools will then match your FAFSA up with your common app for admission, essays and so forth. The student aid index can be considered your preliminary expected contribution. Be sure to check the FAFSA forms with your schools frequently to ensure they have everything they need on time to consider your student's application.

The CSS / PROFILE will have a similar process and require similar information, but with one or two important differences. *The FAFSA does not consider balances of 401k and IRA's or other retirement accounts, nor does it consider home equity, but the CSS / PROFILE does!* Therefore, it's important to know what forms each of your colleges will need, because that may end up determining how you position yourself financially in each case.

Checklist of items needed to complete the Free Application for Federal Student Aid (FAFSA®)

- Your Social Security Number
- Your Alien Registration Number (if you are not a U.S. citizen)
- Your federal income tax returns, W-2s, and other records of money earned. (Note: You may be able to transfer your federal tax return information into your FAFSA using the IRS Data Retrieval Tool.)
- Bank statements and records of investments (if applicable)
- Records of untaxed income (if applicable)
- A FSA ID to sign electronically.

Action Steps:

Go to: StudentAid.gov/Fafsa and begin the data entry process

For Further Study:

Consider whether you want to control your student's access or not, because when they enter their data they will also see your data

How will Assets and Income be counted?

Frankly, the FAFSA is a fairly easy form to complete and is relatively self-explanatory. It's generally not useful to spend too much time here discussing how to complete the form and there are plenty of other resources out there to help you if you need it. Probably its more important that we discuss strategy. In order to do that we have to understand two very important concepts – how family assets are treated, and how family income is treated.

Assets:

In general, for the FAFSA, assets owned by parents outside of a retirement plan or home equity, are counted at a rate of 5.6%, In years past parents could protect about \$17,000 from being considered but as of October 1, 2022 that has been removed. The asset protection allowance going forward is now zero! In other words, \$10,000 owned by parents that is not part of a 401k or IRA would generate an ability to pay of about \$560. This is a cumulative calculation, so the ability to pay is the cumulative total of all the assets a family owns, outside of retirement or home equity.

Assets owned by children have a higher assessment of 20% and there is no asset protection amount. In other words, the very first dollar in a child's name is assumed to be available for college at a 20% rate.

So right away, we often have an assumption that savings or investments will count against us to such a degree that they have to be "hidden" or "moved" in order not to show up on a financial aid form. But this doesn't tell the whole story. The rest of the story is that INCOME not assets is generally the more important factor.

Income:

Generally speaking, parents' income can be assessed at a rate anywhere from 0% to 26% depending on the total income in the household. Kids income is assessed at a flat 50% to the extent income exceeds \$6,700. Here's a little image that can help you to understand the impact of both assets and income for parents and children.

For further study:

Some less than scrupulous financial advisors recommend "hiding" your college funds by purchasing an annuity.

DON'T DO IT!

It rarely works out as planned, and surrendering the annuity can lead to penalties and taxes!

	Assets	Income
Parents	5.6% assets protection allowance = Zero!	0-25%
Children	20% No asset protection	50% Income protection allowance = \$10,840 yr

The Income Hot Zone:

It is not unusual to look at that image and think “my goodness, I’ve saved and invested money for college and now I see that it will count towards my ability to pay! I have to hide what I’ve saved otherwise I won’t get financial aid!” It would be normal to have that thought, but it doesn’t paint a realistic picture of what’s really going on.

Yes, assets will count. But when you factor in how much INCOME will count vs assets, the asset picture quickly becomes a non-issue. In other words, once your income exceeds certain levels, the hole that is created by that cannot be made any deeper by adding assets to the picture. It’s already as worse as it gets! In fact, it’s good that you have assets because they will be needed to cover the expected contribution created by the income!

This one point is so important that we’ve invented a concept called The Income Hot Zone that can help families to understand what happens at various income ranges. Irrespective of assets, we can determine a known outcome based almost entirely on income alone by using The Income Hot Zone.

The Income Hot Zone is the income range that exists between about \$60k of joint household income up to about \$120k of joint household income. Below \$60k of income there is a known outcome and certain steps to take in terms of planning for financial aid. Between \$60-120k of household income, again there are certain steps to take, and above \$120k are also known outcomes. Here’s a chart that can help you to understand these outcomes and steps to consider. Remember, this chart – for now – does not consider assets at all, only joint household income.

Joint Household Income Annual	Financial Aid Expected Outcome
\$0 - \$60k/yr	<p>Do Nothing. Likely to qualify for the max Financial aid available</p> <ul style="list-style-type: none"> • \$7,395 Pell Grant • \$4,000 FSEOG • \$1– 2,000 Perkins Loan • \$5,500 Stafford Loan • \$1– 2,000 Student Work Study • \$1– 2,000 State of CT Miscellaneous aid.
\$60k-\$120k/yr	<p>Financial adjustments may produce an improvement over the “Basic Package”. Might be able to increase chances of receiving some level of “free money / grants” as a portion of a total financial aid package (which includes loans) by moving assets around.</p>
\$120k/yr or more	<p>Focus on cash flow. Will likely qualify for “Basic Package” only of Stafford loan and work study Merit Dollars from schools themselves may be additional.</p> <ul style="list-style-type: none"> • \$5,500 Stafford Loan • \$1– 2,000 Student Work Study

Putting it All Together:

Now that we have addressed how assets and income impact ability to pay, let's put together everything we learned so far. Here's is a grid that can help you to understand where you fall for income vs assets (remember to exclude home equity and retirement accounts) and what sort of expected contribution that will generate. Keep in mind that all households have different factors involved in their financial picture, and this table is only a general overview and not meant to be financial advice.

Sample Expected Family Contribution (EFC)

*Sample EFCs based on income and assets to be used only as a general guide.

Notice that income, not assets, has the largest impact on a family's EFC.

Calculate yours at <https://studentaid.gov/understand-aid/estimate>

Assets (excluding primary residence and retirement accounts)

Combined Household Income	\$0	\$25,000	\$50,000	\$75,000	\$100,000	\$150,000	\$200,000	\$250,000	\$300,000
\$50,000	\$1,460	\$6,704	\$15,423	\$24,133	\$32,399	\$40,665	\$48,931	\$57,001	\$65,032
\$75,000	\$6,704	\$15,423	\$24,133	\$32,399	\$40,665	\$48,931	\$57,001	\$65,032	\$72,957
\$100,000	\$15,423	\$24,133	\$32,399	\$40,665	\$48,931	\$57,001	\$65,032	\$72,957	\$81,057
\$125,000	\$24,133	\$32,399	\$40,665	\$48,931	\$57,001	\$65,032	\$72,957	\$81,057	\$89,711
\$150,000	\$32,399	\$40,665	\$48,931	\$57,001	\$65,032	\$72,957	\$81,057	\$89,711	\$98,365
\$175,000	\$40,665	\$48,931	\$57,001	\$65,032	\$72,957	\$81,057	\$89,711	\$98,365	\$114,395
\$200,000	\$48,931	\$57,001	\$65,032	\$72,957	\$81,057	\$89,711	\$98,365	\$114,395	\$129,822
\$225,000	\$57,001	\$65,032	\$72,957	\$81,057	\$89,711	\$98,365	\$114,395	\$129,822	\$144,655
\$250,000	\$65,032	\$72,957	\$81,057	\$89,711	\$98,365	\$114,395	\$129,822	\$144,655	\$159,378

For further study: Net Price Calculator

Net price is the amount a student pays to attend an institution after subtracting scholarships and grants the student may receive. Federal law now requires all schools to make available a NPC tool on their website where you enter your data anonymously and receive a tentative offer from the school.

Action Items:

To access the net price calculator for each school, go to collegecost.ed.gov/netprice and run a calculation for your family and the schools you are considering.

Myth

The Federal Financial Aid System is meant to give all families as much free money as they need.

Truth

The Financial aid shortfall families face actually has less to do with what they have saved, but more to do with how much they earn.

SIMPLIFIED NEEDS ANALYSIS / AUTOMATIC ZERO

The Simplified Needs Test and Automatic Zero are alternate calculations of expected contribution that will greatly benefit some low income families. If the dependent student's parents satisfy certain income criteria and tax return requirements, the dependent student may qualify for more financial support. If the income is less than \$50,000 the applicant might qualify for the simplified needs test, and if the income is less than \$27,000 the applicant may qualify for auto zero.

The simplified needs test allows for some or all assets to be excluded. In other words, if income is low enough, you could have just won the Powerball and that asset might not be considered. Under the auto zero, again if income is low enough, your expected family contribution will automatically be set to zero regardless of any assets the family may have.

There are important additional qualifications that must be met that we won't go into here. But if you feel that you might meet the income requirements, please go online to find additional information and requirements about this option that may help you.

Short list of Key changes for FAFSA 2025:

- The FAFSA for 2024-2025 opened December 31, but it is unclear whether future FAFSA's will open in October or December.
- Families most affected by changes include two household or divorced families, families who already have a student in college, and families who make significant 401k/403b contributions 9.
- In previous versions, ALL 529 funds were counted towards the student applying for aid. In the new version, only the 529 funds for the applying student will be counted.

For further study:

Google for data on simplified needs and Auto Zero. The FAFSA help page isn't much help with this one!

Action Items:

Go to: collegecost.ed.gov/netprice and run a calculation for your family and the schools you are considering

What about the CSS / PROFILE?

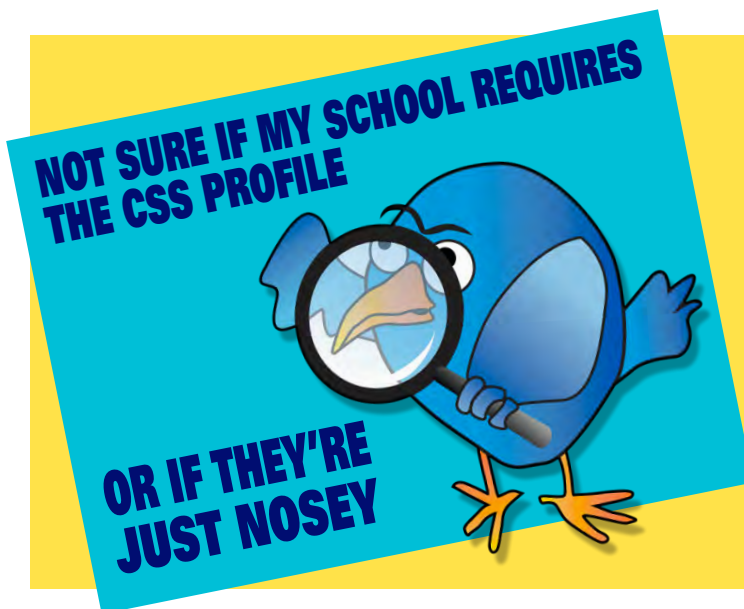
Remember there is a second form often required by more “elite” or expensive schools called the CSS / PROFILE. This form created by The College Board is much more invasive into your financial life, and is much more complicated. The CSS / PROFILE can be found at www.CSSPROFILE.collegeboard.org

Because the PROFILE is a private data gathering form, they can ask about anything they like. Whereas the FAFSA does not ask about retirement account balances or home equity, the PROFILE can ask about anything they like, and they DO consider home equity, retirement account balances, cash value of life insurance, annuities, and more. The methodology is much the same however in that income counts far more heavily than assets.

The PROFILE is often used at schools that do have endowments and can offer merit, scholarship, or needs based assistance. The form is used in that case to ensure that only those who actually need the funds will receive them. In other words, technically, for the FAFSA, it would be possible to have a gazillion dollar house, completely paid for, but if your income was low enough you would still receive financial aid. Under the PROFILE system however, that would not be possible. The PROFILE is designed to root out any “sheltering” of assets that someone may have done.

So in the end, for a more expensive mini-elite school that requires the PROFILE, it may be possible to see merit, scholarship, or needs based aid that comes directly from the school themselves. In fact, this is quite common. While the FAFSA may say that because of income a family will not receive financial aid beyond Stafford Loans, under the PROFILE system its quite possible the same family could receive needs-based aid directly from the school.

Bottom line, don't count out a mini-elite school because it appears to be too expensive, it's quite possible that in the right situation they will offer their own private support based on information provided on the PROFILE. But be prepared – the PROFILE is a bear to complete! Approach it with a cup of tea and a patient mindset. Fortunately, although you will complete a new FAFSA every year, the CSS / PROFILE is only done once. Whew!



A Tale of Three Families

So far we've learned that the most important factor in determining financial support for both the FAFSA and the CSS / PROFILE will be income. But there is important additional detail that is determined on a case by case basis. A lot will depend on what school the student is applying to, whether they have endowment dollars to provide or not, whether it is a State school or not, academic achievement, and more. So let's look at three hypothetical families, based on real world cases, that can help to illustrate these concepts further.

Rosie: Lower Income Range Offer Letter



First, let's meet Rosie, a single mom. Rosie earns about \$50,000 between her two jobs, has two children, is just able to make ends meet, and has no real savings for college. But her oldest daughter is a bright girl that has worked hard at school to achieve a high GPA. She would like to attend a liberal arts school in an affluent community, an expensive school that in any other case would be beyond her reach. This school cost about \$45k/yr to attend.

Rosie will need to file both the FAFSA and the CSS / PROFILE as this school requires both those forms and has endowment dollars to offer. But since her income is low enough to meet the simplified needs analysis, and her daughter is a high achiever academically, Rosie will most likely be pleasantly surprised with their financial aid offer. Based on real world experience, we can confidently say that the grid below outlines a realistic idea of what she might receive.

Dear Rosie,
Your request for assistance has been carefully reviewed and we are pleased to provide you with the following sources of financial aid for the upcoming school year:

Source:	Fall Semester:	Spring Semester:	Total:
College Award	6,500	6,500	13,000
Federal Pell Grant	1,450	1,450	2,900
Federal ACG Grant	650	650	1,300
Federal Federal FSEOG Grant	250	250	500
College Grant	1,550	1,550	3,100
CT Independent College Grant	2,000	2,000	4,000
Direct Subsidized Stafford Loan	2,250	2,250	4,500
Direct Unsubsidized Stafford Loan	1,000	1,000	2,000
Total Awards	15,650	15,650	31,300

- She also applied to an even more expensive school in Boston costing \$56k/yr. An acceptance letter from that school looked like this...

Dear Rosie,

We have calculated your tentative offer of Financial Assistance for the upcoming school year based on your financial need as demonstrated in the FAFSA and CSS/ Profile as well as your academic performance.

Source:	Fall Semester:	Spring Semester:	Total:
University Grant	8,450	8,450	16,900
Federal Pell Grant	1,900	1,900	3,800
Federal FSEOG Grant	1,500	1,500	3,000
Federal Work-Study Program	1,100	1,100	2,200
Federal Direct Subsidized Stafford Loan	1,750	1,750	3,500
Federal Direct Unsubsidized Stafford Loan	1,000	1,000	2,000
Federal Perkins Loan	1,000	1,000	2,000
Total Awards	16,700	16,700	33,400

But in either case, she would have some shortfall's to absorb roughly as much as follows...

Below are the financial totals for the cost of each school and shortfall Rosie will need to absorb.		
	Private liberal arts	Boston Mini Elite
Total Cost of Attendance /yr	\$45,000	\$56,000
Less total financial support	\$31,300	\$33,400
Shortfall to absorb	\$13,700	\$22,600

Realistically the only option she would have (aside from family or local scholarships) would be additional borrowing. We'll discuss loan options she might consider later in this booklet. But what if she attended a less expensive school – for example Eastern Connecticut State University? It is possible that she could see some needs based assistance from the state

Lets meet John and Emma next.



John and Emma have an annual income over \$60,000 but less than \$120,000 per year, which places them smack in the middle of the income hot zone. This means that there may be some strategies they could deploy to shuffle ownership of assets around, IF it would have a net impact on their financial aid outcome. They should be sure to seek out a qualified financial advisor who is experienced and knowledgeable about college funding to discuss their options.

In this case, we'll assume again that there is not a lot of savings or investments for college. Their son is a good student, but not necessarily top of his class, and would be happy to be accepted to a good state school. Their outcome is likely to be that they will receive some support from Uncle Sam, but not much support from the university since State schools do not have significant dollars to award. But also they are not as expensive as a mini-elite school.

Based again on real-world experience, John and Emma would likely receive an offer that looks something like this:

Dear John and Emma, Thank you for applying to State School. Your in-state tuition, room and board is estimated to be \$30,000. We are pleased to offer you the following support:		
Source	Fall Semester	Spring Semester
Federal Direct Subsidized Stafford Loan	\$1,750	\$1,750
Federal Direct Un-subsidized Stafford Loan	\$1,000	\$1,000
State School Merit Award	\$2,000	\$2,000
Federal Plus Loan eligibility	\$10,250	\$10,250

In this example it seems as if the school has met their entire need. But note that nearly their entire financial aid package is in the form of a loan! So they would still be paying for the entire cost of school, just over time! It is possible that if the student has excellent grades then even a state school could offer merit or scholarship support, but it's challenging!

Now, here's Mary and Tim: Upper Income Range



Mary and Tim earn well over \$120k per year but still feel that they are struggling to make ends meet. They have some very modest savings for college and are hopeful that the financial aid system will support their daughter's wish to attend a Mini Elite school in New Haven, CT costing nearly 50k/yr. Their daughter is a good student with A's and B's, and they are leveraging their student's academics to qualify for merit or scholarship dollars. They know from the income hot zone concept they are unlikely to receive any additional support from Uncle Sam beyond the Stafford Loan and possibly work study. But with their daughter's solid application and essay, the university offer came in like this:

Dear Mary and Tim,

The Financial Aid Office has reviewed your financial aid application, and we are pleased to offer you the following financial aid package:

Source:	Fall Semester:	Spring Semester:	Total:
Presidential Scholarship	10,000	10,000	20,000
Federal Direct Subsidized Stafford Loan	1,750	1,750	3,500
Federal Direct Unsubsidized Stafford Loan	1,000	1,000	2,000
Total Awards	12,750	12,750	25,500

Below are the financial totals for the cost of that school and the shortfall Mary and Tim will need to absorb for each semester.

Total Cost of Attendance (COA)	20,970	20,970	41,940
Less scholarship totals from offer letter	10,000	10,000	20,000
Less loan totals from offer letter	2,750	2,750	5,500
Total award	12,750	12,750	25,500
Funding shortfall to be funded by family	8,220	8,220	16,440

Examples provided are for illustration purposes only and may not be representative of all scenarios. Opinions expressed are believed to be reliable but cannot be guaranteed. The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

Their daughter also applied to a similar Mini-Elite in Boston and received a similar offer as follows:

Financial Aid Summary:

Source:	Fall Semester:	Spring Semester:	Total:
University Grants and Scholarships	14,000	14,000	28,000
Federal Direct Unsubsidized Stafford Loan	2,750	2,750	5,500
Total Awards	16,750	16,750	33,500

Below are the financial totals for the cost of that school and the shortfall Mary and Tim will need to absorb for each semester.

Total Cost of Attendance (COA)	33,800	33,800	67,600
Less scholarship totals from offer letter	14,000	14,000	28,000
Less loan totals from offer letter	2,750	2,750	5,500
Total awards	16,750	16,750	33,500
Funding shortfall to be funded by family	17,050	17,050	34,100

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Myth

The financial aid package that every student will receive will include a lot of “free” grant money.

Truth

The term “financial aid package” misrepresents what it actually is... it could more correctly be called the “loan package.”

Again, in this case they would need to cover any shortfalls with additional lending.

The message of the example of these three families is really this. We can safely say that parents are *expected* to contribute to the cost of college to the extent they can, and the extent they can part will be determined by outside parties. Most families will disagree with the amount those outside parties say they can afford, that they won’t be financially rewarded for making expensive school choices, and most shortfalls are filled with additional lending.

This is why we believe it is critically important to begin with a realistic impression of what college will actually cost. Be realistic about what your financial resources are, so that when you are talking with your kids at the kitchen table about what is affordable for school you are coming from a reality-based place. Later in this booklet we’ll discuss how to have that conversation, but for now let’s discuss lending options.

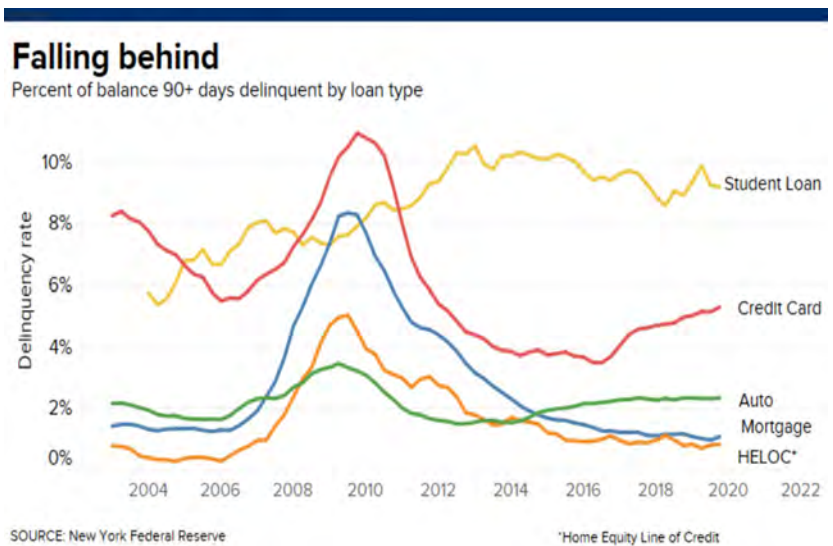
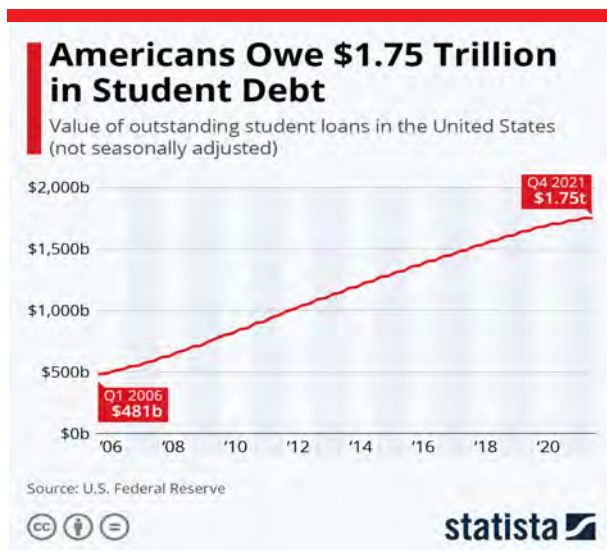
Lending Options and the Truth About College Debt

Clearly, there is an epidemic of college debt in America. At last count we are at \$1.75 Trillion in total US student loan debt. (Note: this figure shocks even me in that every time I update my figures the debt total has risen dramatically. Last time I updated it was at 1.4T, and now 1.75T?! gads). About 48 million Americans have student loan debt, 45 million of which have federal debt, with an average monthly loan payment of about \$300 before the White House instituted a repayment moratorium due to Covid. As of this writing 4.7% of student loans were 90 days delinquent.

But even that doesn't tell the whole story. That's only FEDERAL debt! There is also a significant amount of STATE debt, 401k loans, credit cards, equity loans and more being taken to pay for college funding shortfalls.

The sad truth is that the vast majority of parents have not saved enough to pay for college outright (in my experience, only about a handful of the families I encounter have saved the full cost of college), AND most families are dealing with a funding reality gap in terms of student expectations.

Also, students are typically the ones driving the conversation about school selection, and many students have an expectation that they deserve a certain level of (high priced) college experience. And as parents, we often want that same experience for our kids. They have worked hard, they studied hard, they got great grades, they did SAT prep and receive high scores, they volunteered in the community, they played sports or band all the things that we asked them to do with the implied promise that if they did so they could go to the school of their choice. And then suddenly we are faced with the realities of the funding gap for that kind of college experience, and in most cases the only way to pay for it is with high levels of lending.



While delinquencies dropped during Covid debt repayment freeze, they were at record levels in 2019, and expected to return to that level soon. Obviously, the solution is to have a reality-based conversation with the kids about what is affordable early on. Working early on with a knowledgeable and experienced financial advisor would go a long way to help with that, but often that's not the case. More often than not, parents only begin to understand the reality of college funding when they are in flat out panic mode after attending the financial aid night at their local high school.

Before you have a reality based conversation with the kids, it would be wise to think through what you'll say and be prepared for any pushback you may hear. The kids may already have their heart set on a certain experience, if not an actual school. (I don't know why, but it often seems that the boys are a little bit more loosey goosey about school choice, but the girls have had their heart set on a single certain school since they were 14.) This often makes it harder to have the conversation because often it may involve breaking their dream of a certain school. They might say "... but mom, dad, it's ok I'll just take out student loans! I'll study hard at school, I'll get a great job when I graduate that pays more, and I'll just pay off the loans!

OK, but the reality is that ..first.. it rarely happens that way. While it's possible that they could get a great job and make payments, it's also possible they would struggle to find meaningful employment, or be underemployed and struggle again. Also, kids have NO IDEA what it means to borrow nearly six figures of college debt. They have no experience with debt, no experience with paying bills, no income, no assets, and a head full of dreams. It's important that we - - as parents - - help them to make great choices in terms of school cost and college debt.

So... when you are talking about debt with your kids at the kitchen table, don't talk about the total amount they would be borrowing. Kids have NO IDEA what \$80,000 dollars of debt means. They don't know that's a condo mortgage without the condo. Instead talk about the payment they would have to make each month. We've developed a simple formula to help you do that.

PAYMENT FORMULA: Take the total amount of debt a student would have and divide it by 100. The result is "damn close" to what the actual payment would be. For instance, \$80,000 of debt divided by 100 would equal a monthly payment of \$800 per month! Kids DO understand what that would mean! Then you can add that their income would be reduced by taxes, by rent, car payment, groceries, utilities, student loan payments, and when all is said and done, what's left over for discretionary or lifestyle expenses – let alone savings for a house or retirement.

The sad fact is that many college graduates are SO SADDLED WITH DEBT that they are bankrupt the moment they graduate. They are unable to save for a house, unable to save for retirement, stuck with a roommate, driving a trash car, unable to get married, and in some cases they are a security risk at some employers and unable to be hired due to the amount of debt they have. **WHEW!**

I don't want to bash debt too hard here. Obviously debt is an important tool to help for college. I just want to shed light on the reality of college debt and encourage you to work with a qualified financial advisor to ensure your students don't get too far over the skis with it.

Types of Lending:

Lets review the most common types of college loans you are likely to encounter or should consider.

3 FACTS ABOUT STUDENT LOANS

1

About 1/3 of adults under age 30 have student debt

2

College graduates with student debt are more likely than those without loans to report struggling financially

3

About 36% of those aged 25-39 with a bachelors degree and student debt say the financial cost of their degree outweighs the benefits

Types of Lending:

Lets review the most common types of college loans you are likely to encounter or should consider.

Stafford Loan – sometimes called the Federal Direct loan, this is the most commonly offered type of student loan. In fact, every American citizen qualifies regardless of income or assets. There are two components – subsidized and un-subsidized – which simply means whether or not the interest and payments are deferred until after graduation or not. In the freshman year, it's possible if you qualify to have \$3,500 of the Stafford loan subsidized, but the remaining \$2500 is almost never subsidized and the interest accumulates right away. The loan is in the student's name, rarely requires parental co-signing, and is the last true remaining potentially deferred student loan. Interest rates are often some of the lowest available, and in almost every instance it makes sense to accept the Stafford loan when offered. Fun fact: While college costs have been consistently rising, the Stafford loan amounts have remained unchanged for decades

Federal PLUS Loan – PLUS stands for "Parental Loan for Undergraduate Students" and as such has the parent as the primary borrower. Which means you have zero chance of handing the loan off to the students when they graduate. Interest rates are often some of the highest around, and with those two negative features we frown on using the PLUS loan. Unfortunately it is often the only loan offered on the student aid award and that can be confusing. But know that there are other choices that are not generally shown on the offer letter, so if you do some research you'll discover some likely better options.

CHESLA, MEFA, or similar: CHESLA (Connecticut Higher Education Loan Authority) or MEFA (Massachusetts Education Financial Authority) are both two examples of a State lending system that exists to support the residents of many states. Generally the state legislature will authorize the selling of education bonds to the public, and those funds are used to provide college loans for those who qualify. Usually qualification terms are not too challenging, and rates are generally low. We would encourage you to research the state lending options in your state and you may find favorable terms and options there. In Connecticut, visit www.CHESLA.org for more information.

Commercial banks: Many commercial and public banks have made a concerted effort to appeal to the college lending market and have favorable and/or flexible terms. In Connecticut, we like Citizens Bank although certainly there are others. Again, Google around for college loans and see what pops up that may be useful.

SoFi – short for Social Finance, SoFi was funded in 2011 using a model of connecting alumni or institutional investors with students who needed lending support. Investors receive a financial return and borrowers receive rates lower than offered on some federal programs. The company focuses on low risk borrowers and graduate students, and certainly would be a legitimate option for some families to investigate.

Action items:

Before assuming that Chelsa or Mefa or similar will fully cover your shortfalls, it would be wise to call them, complete a preliminary application to understand what you would qualify for and for how long.

Contact info: Chelsa.org
Mefa.org

CLOSING THE GAP – Building a meaningful and realistic college funding strategy

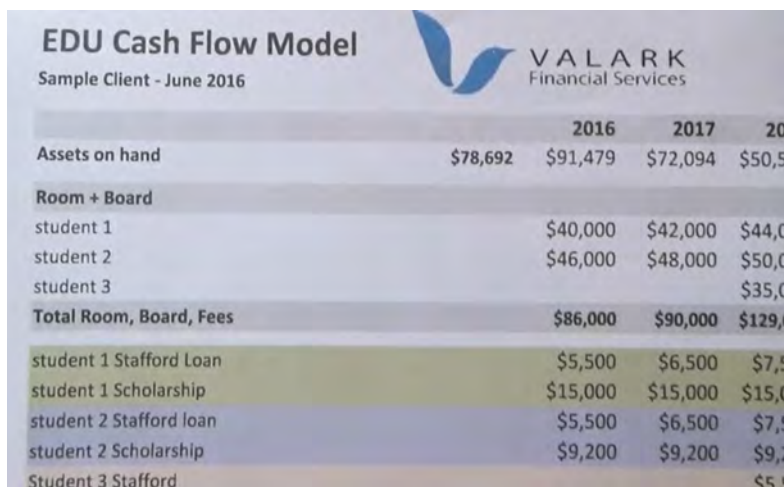
What's the best way to make college do-able, realistic and affordable? Here's the short answer. Start early.

As soon as you know you are expecting a child, open a state sponsored 529 plan and save about \$150/month per child into the large cap growth fund option**. If more people would do this one simple thing, the college debt epidemic wouldn't be nearly as bad as it is now. But it rarely works out this way. When families are young and new, often income is at some of its lowest points when expenses are often high. Often parents are starting a new mortgage, saving for retirement, paying for childcare, healthcare, and ever-increasing sizes of children's clothing! I get it. But still, the best advice I can give here is to strive to live within your means while still saving for the future.

That being said, and knowing that most families have a real funding gap, here's the long answer on how to close the gap.

Start with a college funding model

My experience suggests that the first thing to do is to build a college funding cash flow model. Rarely is college paid for in a lump sum, often it's paid for with many inputs of cash flow, scholarships, lending, withdrawals from savings, grandparents contributions and more - - and it happens over many years and spanning several children. In our office, we've built a proprietary Excel spreadsheet model that we use to track and manage all these cash flow inputs. If you like, you can view a short video of how it works here: <https://youtu.be/SimHhDDo7oA>



	2016	2017	2018
Assets on hand	\$78,692	\$91,479	\$72,094
Room + Board			
student 1	\$40,000	\$42,000	\$44,000
student 2	\$46,000	\$48,000	\$50,000
student 3			\$35,000
Total Room, Board, Fees	\$86,000	\$90,000	\$129,000
student 1 Stafford Loan	\$5,500	\$6,500	\$7,500
student 1 Scholarship	\$15,000	\$15,000	\$15,000
student 2 Stafford loan	\$5,500	\$6,500	\$7,500
student 2 Scholarship	\$9,200	\$9,200	\$9,200
Student 3 Stafford			\$5,500

Or, if you're an Excel wiz, you'll know just what to do to build something similar for yourself. But you don't need to be an Excel wiz. You can do this with a pencil on the back of a Wendy's placemat. But however you do it, please think it through and put pencil to paper – and not just for your first college bound student, for ALL OF THEM. Model all your kids at the same time to ensure you have thought through enough funding for each member of the entire family to have a reasonable college experience.

What goes into the model? Probably you should map out 4 years of college for each of your kids, with an assumption for what each of those years will cost for each student, with a factor for the rising cost of tuition each year due to inflation. Factor the amount you have already saved for college, and the amount you will continue to contribute while the kids are in school from your personal cash flow. Factor in the Stafford loan, factor in a reasonable assumption for scholarships or merit dollars if that college offers it, factor in grandparents or other contributions. Some folks might factor in redemptions of stock options, raiding IRA accounts, or additional lending from CHESLA or similar. Factor in a reasonable rate of return on your savings as well.

Once that is all built, now you have a tool that can help you realistically model various outcomes and help you to understand if you are short, or if your school options are too expensive. Share this model with your stakeholders, including not only the kids, but also the grandparents or other family members who might assist.

ACTION STEPS

Ask Yourself:

"What is a reasonable assumption for school cost after likely Financial aid"

Ask Yourself:

How will that cost inflate or change over time

Ask Yourself:

Am I thinking of only my first student or all of them

In most cases there are funding gaps that need to be closed. Here's a short list series of strategies you might consider to help raise additional cash.**

- Reduce 401k contributions in favor of increasing cash flow to college
- Reduce mortgage or credit card payments to the minimums and redirect found monies to college
- Convert a hobby to a business to raise cash flow
- Capture student's work income and redirect to college
- Consider raiding IRA's. Current law allows for penalty free withdrawals, although taxes are always due. See section on IRA's, and also the Covid update for withdrawal rules
- Recategorize a Roth – a Roth IRA can be favorable for college funding since it is penalty free if used for school, and taxes are usually minimal since the original deposit was done with after tax money. Consider surrendering the Roth, pay a little bit in taxes, then deposit it into your (hopefully) state tax deductible 529 plan and grow truly tax free from that point forward.
- Look to other family members ie. grandparents to inquire if they plan to assist or help support
- Negotiate and appeal your scholarship and merit offers (see section on negotiating and appealing)
- Use scholarship search tools such as Scholly to help find additional dollars
- Consider also the school's monthly payment plan to spread out any shortfalls over time

* Should not be considered a recommendation. Everyone's situation can be different. Consult with a qualified financial advisor to discuss your options.

Myth

You are too late to make a meaningful investment into your child's college education.

Truth

You are never too late! Even though a college education can be one of the biggest investments your family will make, there are many small strategies you can put in place. Working with your child to make a smart decision about where they attend school is the first step. Then, stacking lots of small solutions into one larger solution and allowing them to work together will be your best solution.

The Stacking Solution



Over the years and decades that I have worked on college funding for literally thousands of families I have developed a concept to help families understand how to be successful. I call it "stacking".

Stacking starts with the concept because there is no one single source of funding for college. Rarely is it paid for with giant piles of savings or investments. More often it is paid for with a combination of little things including investments, savings, cash flow, scholarships, loans, gifts, support from other family members, and sometimes even federal tax credits, work- study, or loan forgiveness.

The stacking strategy suggests that there's no one single source of funding, it is lots of little sources. And as you add up all of these little sources it starts to look like a way to pay for college. Most often stacking is best illustrated using a cash flow model as described in one of the previous chapters. It will help you to understand, track, manage, and verify all of the various little inputs that go into the stacking strategy.

For many families the first step in the stacking process is a recognition that they may be underfunded for college. As you read through this booklet, if you are feeling a little stressed, that just means you're normal! Paying for college is expensive and complicated, it would be abnormal NOT to be stressed about it. Besides, it's incredibly challenging to save enough to pay for college in a lump sum. Most people don't do it. Most people pay for college through a series of cash flows, lending, and scholarships.

Consider this.

Since college costs inflate at about 7% per year that means your investments may have to earn at least 7% per year after taxes just to keep pace! That also assumes you have a lump sum to start with equivalent to the total cost of college and that it would grow tax free! That's why it's so important to save a meaningful amount and to start early.

****Source: College Board – Trends in college pricing 2021**

So perhaps one of the first things we need to do is recognize that we now have to direct a meaningful amount of money to college. If you've been saving \$50 or \$100 a month for college for many years that's good, but it probably will not get us all the way there. For many folks we go through an exercise of finding additional cash flows through reducing expenses, and increasing income wherever possible. The foundation of any good college funding plan and stacking strategy is a meaningful amount of cash flow coming into the project each month.

Part of the idea is not so much that we are trying to save enough to pay for college in a lump sum. More realistically, you are training your household to have a meaningful amount of money budgeted from regular every day expenses and going into the college project. Early on, it's probably going into your state sponsored 529 plan for the tax advantages. But honestly, I don't care where it goes.

You can put it under the mattress for all I care. What I want to happen is for you to have a meaningful amount of money budgeted for college so that when college actually starts, you can redirect that money to the University on their monthly tuition payment plan.

Where can you find additional cash flow? Consider perhaps reducing your 401(k) contributions to the matching level. Consider reducing your debt payments to the minimum amount for now. Consider reducing discretionary expenses... Maybe we can get away with homemade coffee rather than Starbucks. Maybe you can convert a hobby to a business. Let's be sure that if the student is working somewhere part time that we are capturing their earnings and putting it towards college.

Next, we recognize that most families will qualify for and accept the Federal Direct Stafford program. Every United States citizen qualifies for it regardless of assets and income. And with the reasonable and fixed interest rates, and the potential for deferral, I would usually recommend taking that source of lending. Even if you have every penny you need to pay for college, you still might consider taking the Stafford loan program. It will help your students to have ownership in the process and skin in the game. It will help them to develop good money management habits especially if you have them pay the interest payments while they are in school. It also helps them to build a credit history, and it takes \$27,000 (total over four years) of pressure off of your total college funding plan. In some instances, kids don't even graduate on time. Four years ends up becoming five or six years, and in that scenario the Stafford loan will help you to extend your college funding. There's also the possibility the kids may have a scholarship, but their grades stumble and lose that scholarship at some point. Again, having the Stafford loan to take some pressure off of your finances can help you get through those circumstances. Consider also that using the Stafford loan allows your college funds to continue to grow tax-free in a 529 for just a little bit longer too.

In addition to the Federal Direct Stafford loan program, many families also look to state loans such as CHESLA, or MEFA, or similar. You might also connect with your local bank to see what college lending options they may have available. Because be careful here, once we start taking on debt beyond the Stafford loan, we often end up with more debt than we had planned. But in the event of a pinch, state level lending or local banks may be a good source of additional funding.

Next let's add all the scholarships on top of the stack. Not only the scholarships you would receive from the university perhaps, but also the local scholarships, the Fireman's club, the Kiwanis club, and even scholarships you might find from apps like Scolly or websites that search for scholarships. Be sure to connect with your school's guidance counselor and ask them for a list of scholarships they know about. Often there are local or town or municipal based scholarships that are not widely publicly known. But since guidance counselors do this every day, they often maintain a multi - page list of scholarships that can be useful.

Next on the stack, you might consider raiding your retirement accounts. And I know, I know, that's not what you had in mind. But often we have far more funds in our retirement accounts than we do for college, and maybe it's OK to raid some of that. We can fix it later on if need be. Be sure to work with an experienced financial advisor who understands this stuff and can model how much you can raid before it becomes a problem for retirement!

Covid Withdrawal rules

Individuals are eligible for penalty free withdrawals from retirement accounts and can use the monies for college if:

The individual (or the individual's spouse) was diagnosed with Covid,

or

The individual or someone in their household experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off, having work hours reduced, being unable to work due to lack of childcare, or having a reduction in pay, or closing or reducing hours of a business owned.

Action steps:

**Visit [AmeriCorps.gov](https://americorps.gov)
to learn about work based grants for school**

**Google “National /guard free tuition”
to learn which states offer free college in return for part time service**

Roth accounts in particular can be useful for college because they are not as tax heavy as traditional IRAs. Any dollar you take from an IRA will be subject to income taxes, but since a Roth was funded with after-tax money to begin with, you would only pay taxes on the growth. In many instances that growth is not significant enough to cause a huge tax burden.

Traditional IRA's may also be useful for college since under certain rules you can take money without a 10% penalty providing the funds are used for college in the current year. Currently, under Covid rules, you can take as much as \$100,000 from an IRA without penalty providing that you can prove you had a Covid hardship. Under regular rules you can take whatever you need to pay for college from an IRA in the current year without a 10% penalty. But taxes are always applied. Please consult a qualified tax professional to see how these strategies might pan out in your case.

Finally, be sure to explore work study, and other employment based financial aid plans. Part time student employment would also fall in this category. Many of us worked way back when we were in college, perhaps your student can as well.

Let's also consult with other family members and other stakeholders who might have an interest in your student's success. Often, we suggest taking the cash flow model that you have built to the family holiday dinner at Thanksgiving or Christmas. Share with the grandparents that you have built this model, and you would like to ask for their advice and input. Be sure to point out the section that illustrates grandparents' contribution. The cash flow model can be a great icebreaker to ask if grandparents intend to help fund college, and if so by how much.

Next, it's time to get creative. Here are a number of strategies you may not have considered before but it may apply in your situation that you can use to creatively raise funds to help pay for college.

Can you use a Roth for college? — Yes... and you can use it outright but there might be a better way. While this is not a direct conduit like a 401(k) rollover to an IRA is, there is a bona fide strategy to get money out of your Roth IRA and into your 529 plan. Under existing IRS rules, you can surrender a Roth IRA and pay some taxes on the gains and if you have a qualified education expense in the same tax year the penalty can be waived. Again, please consult with a qualified tax professional to understand exactly how this will apply for you. But once you have those funds in hand, now deposit them into your personal checking account and then write out a new check payable to your state tax deductible 529 plan. If you qualify, you may receive a state tax deduction on the deposit, and then grow both federal and state tax free from that point forward.

Use cash value of life insurance – do you remember a long time ago when your insurance agent told you that you could save for college in the cash value of a whole life or universal life insurance plan? They told you that the asset would not appear on a financial aid form and it's a great way to save for college. Well, they were half right. And now that we are here, it may be time to use that cash value. But let's use it more efficiently than you can in a life insurance policy. Consider surrendering your whole life insurance policy, taking the cash value, paying a small amount of taxes on the gains, and then putting the proceeds into your state sponsored 529 plan where you will get a tax deduction on the deposit and grow truly state and federal tax free from that point forward. Then replace your expensive whole life insurance policy with expensive term insurance. Take the savings in premiums and put that also into your 529 plan so that also can grow both federal and state tax free. In my opinion life insurance is a terrible way to save for college. As soon as you come to this realization, consider converting the cash value into a 529 plan instead.

Stock in lieu of tuition – this strategy only works in certain situations, but it has been known to work. This is where you gift a highly appreciated and taxable investment to the university to pay for tuition. Imagine if you have a highly appreciated stock, for example imagine you bought Tesla when it was \$30 a share and now it's over \$600 a share. If you were to sell that stock you would incur a massive capital gain and tax. But what instead if you gifted that stock to the University in lieu of a tuition payment? You would have to talk with the endowment folks and see if they are willing to do so, but if it were possible to gift that stock to the University and let them sell it! Well, they are a tax advantaged entity and very likely they will pay zero tax on the sale, and therefore harvest more proceeds than would have been possible if you had sold it. Now make an arrangement where they use some of those proceeds to pay tuition and use a few more of those proceeds as a contribution to their endowment fund. Your student gets tuition paid for, and you get a park bench with your name on it. Everyone is happy!

Consider ROTC – serving in the United States military can provide many attractive college benefits. Reserve Officers Training Corp (ROTC) can provide free tuition to those who qualify in exchange for a few years of military service. This doesn't have to involve front-line combat duty either. Many military careers can be essentially "desk jobs" such as drone operator, or Space Force satellite operators, or similar. Consider also the serving part time in National Guard for free tuition options, and of course straight enlistment can qualify an individual for college funds after completion of their tour of duty.

Free Community College - In some states, (Connecticut included) students can attend community college at no cost. But even where free community colleges aren't available, students can attend two-year schools to earn college credits for significantly less than they'd pay at four-year schools. Consider using this option to complete the basic degree requirements inexpensively, then transfer to a mainline university to finish up. The eligibility requirements vary by state, but they typically offer free tuition to students that lived and attended high school in the state. Some states restrict free tuition to students studying certain majors, such as science or engineering, or who live in low-income households.

Perhaps you can add your own creative strategies to this list, and if so, I would love to hear them. Feel free to email me your creative ideas and I'll add them to the next version of this booklet. But in the end remember that stacking is the way that hundreds of thousands of families get through this process. Remember it's not one single solution, it's many solutions piled on top of each other that starts to look like a way to pay for college.

Where should I save and invest for college?

Over and over again I am asked what is the best place to put college savings and investments, and in 99.9% of the cases I would suggest a state tax deductible 529 plan. In Connecticut, that plan is called CHET and it offers a \$10,000 deduction against state income tax (for married filing jointly, \$5,000 for single filers) per year on deposits made to the plan each year. Like other 529 plans, it also grows both free of federal and state taxes if used for a qualified education expense. There is simply no more powerful account on the planet when it comes to taxation than a 529. No other plan offers both Federal and State tax free growth AND a deduction on the deposit. Some folks will mention that a Roth has similar features in that it grows both federally and state tax free, and that's true. But it doesn't offer a deduction on the deposit, and you have to be over age 59.5 and have had your deposit in the account for at least 5 years for the withdrawal to be tax free. NOTE: not all state plans offer a tax deduction for the deposit or state tax free growth, but all offer federal tax free growth.

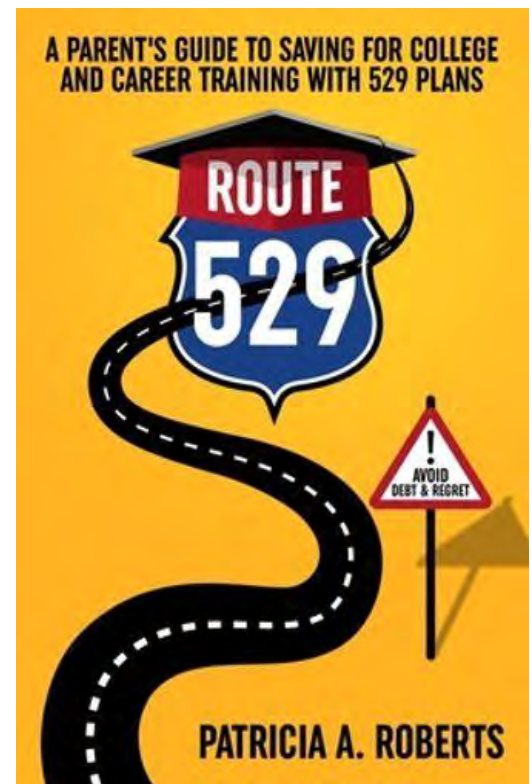
With that in mind, and while there are certainly other college savings vehicles (UGMA, education IRA, and more) in my opinion, for the vast majority of situations, the state sponsored 529 is probably the best option.

There are some caveats to be aware of however, including:

1. A 529 is owned by the parents with the children as beneficiary. This means that if you have more than one child, it's likely that ALL the 529's you own for each child will be required to be disclosed as a parental asset when you submit a FAFSA. In most cases however, this additional asset amount is irrelevant since INCOME matters the most. But in some cases where income is low, that may not be true. Be sure to consult with a qualified and knowledgeable financial advisor to determine what's a best fit in each case.
2. There are rare cases where a UGMA/UTMA may be a better fit if you need to put assets in individual children's names, for instance where one student is not attending college but another is. A 529 would not be a best fit in that case. Again, consult with a qualified financial advisor to discuss.

There are a myriad of publications out there that can help you learn about 529 plans. One of my favorites is **Route 529 by Patricia A. Roberts** and I would encourage you to look for it on Amazon if you want to learn more. But for our purposes here, since there are other references that discuss plan details and such, I'll just share some thoughts that are often not covered in most books.

Should I use my State sponsored plan or not – So much time is spent by well-intentioned folks investigating which is the best 529 plan on the planet Earth. Folks will look for the lowest expenses, the highest performing funds, the prettiest brochure – whatever – and I think that while well intentioned, that is not a best use of time. In my opinion, if your State offers a tax deduction on the deposit, that one single factor outweighs any other. Yes it's possible that if the State plan has slightly higher expenses than another then over time it may end up costing more, but I think that possibility is remote. In the end, it's my opinion that all investments gravitate to the norm in regards to expenses and performance and that time spent investigating all the options in the universe detracts from what the REAL situation is.



The reality is that most families don't start early enough or save enough, and anything that delays or detracts from that point is a distraction to be avoided. As soon as you know you are expecting a child, open your State's 529 plan and fund it as heavily as you can. If later on you discover the cold fusion equivalent of 529's, you can always transfer your account balance there.

Tax deductibility vs. contribution limit – If your state offers a tax deduction on the deposit, it's often confused with a contribution limit. For instance, in Connecticut, the deductibility amount is \$10,000/yr married filing jointly. But that is NOT the contribution limit! You can deposit well over six figures in one shot if you saw fit to do so! But you would only be allowed to deduct \$10k of it per year, and you would CARRY FORWARD any unused deduction allowance into future years. I'm often asked if families should deposit lump sums into their 529 if it exceeds the \$10k deductibility limit, and my answer is universally YES! Even if you can't deduct it all right away, a lump sum deposit allows for the that sum to be exposed to double tax-free growth for the longest period of time, and often you can harvest the tax deduction by carrying forward into future years. Be sure to consult with your tax advisor on the latest deductibility and carry forward rules for your state.

Investment Selection – age based vs. style based, vs. individual funds - this is one of my favorites. One of the objections to 529's I often hear is that they don't perform well, or that a family's advisor has recommended against the State sponsored 529 plan because some other plan performs better. GARBAGE! My experience has been that most investments – 529's included – gravitate to the norm. A S&P 500 index fund from company A is likely to perform damn close to an S&P 500 fund from company B over time. Where the real problem lies with 529 performance is often with the advisor. You see, most financial advisors don't want to be bothered with managing a 529 plan. They don't get paid on it very much, it's not very sexy, and they would rather manage the \$500k wealth management account. I get it. But if we do this right, we will have BIG MONEY going through your 529 plan over time and I believe it's just as important to properly manage those dollars as you would manage your 401k or IRA account.

529's generally offer an age based investment option, or style based, or the option to select individual funds as you see fit. Most folks, and most advisors select the age based option. The idea is that when the kids are young they can afford to be more aggressive and your portfolio will be mostly equities. But as they get older, the portfolio gravitates to a bond based portfolio on the theory that the account should be more conservative as the kids approach school. But in my opinion, ANY investment should not necessarily be managed based on the age of someone, *it should be based on the expectation for economic conditions and how that will affect growth.*



Case in point. After 9/11 we entered a long period of stagnant equity market growth. In fact, it's called "The Lost Decade" because equity investments essentially went sideways for 10-12 years. There was a lot of volatility, but no real forward movement. And if you had a young child in the age-based portfolio at that time, your account would have been in mostly equities at the worst possible time for equities! Then between 2005 and 2008 things began to heat up and we saw a period of rising interest rates in an attempt to slow down the economy. You might be familiar with the inverse relationship between bond values and interest rates... as interest rates rise, bonds tend to go down.

And again, if you had a youngster going on teenager at a time, your age based portfolio would have shifted to a bond based one in a rising interest rate environment at *one of the worst possible times for bonds!*

Cash back credit cards – some 529 plans come with a credit card option that offers cash back deposits into your 529 on your purchases. Fidelity comes to mind as one of the investment companies that offer it. This might be a cool option if you can train yourself to put most of your purchases on that card and receive a significant cash back deposit to your 529 each month. Then consider what if you were able to train other stakeholders such as grandparents or other relatives and friends to do the same? Imaging getting cash back deposits to your 529 based on the purchases from multiple people in your extended family? That's pretty cool!

Negotiating Your Grants and Scholarships

I believe that negotiating and appealing your financial aid awards is one of the most powerful tools you can use to improve your outcomes. When you receive your financial aid award offer from the colleges, you are not done. The next step is to narrow down your top two or three offers from the schools you like best and begin the process of negotiating and appealing those awards. This is where you prepare a written letter outlining your story on what we call the four appealable points.

The four appealable points are...

1. **Unmet need** - mathematically speaking, it is possible that you will have more need for funds than is met by your financial aid package. That is the number one thing that we should appeal. In your letter you will want to describe that mathematically you should be receiving more support to cover your unmet need and kindly ask if they would step up with a little bit more support
2. **Unrecognized achievement** - here we bring forward all of the wonderful things about your student that the school is not yet aware of. Share with them all of the hard work your student has done to position themselves as a fantastic college applicant. Examples include Eagle Scout, captain of the debate team, participation in student government, band, athletics, cheerleading, volunteer in the community, and more. Anything we can do to bring forward how ambitious and giving the student is and what a fantastic student they would be if the school could just step up with a tiny bit more financial support
3. **Unusual circumstances** – this is where we describe any financial hardship you may have had in your family, or any unusual circumstances of a similar nature. Examples could include a healthcare crisis, having to care for a new family member that comes to live with you, job loss, self-employed business struggles, and even divorce would count. Covid can also be counted here, and although we are mostly out the other side of it, many families are still suffering financially because they had to raid their savings or were under employed and didn't have enough income to continue to build savings. Let's be sure to bring those points forward. Be sure also to review the section on Covid in this booklet for additional details

Action items:

Visit www.vaylark.com and click on the "media" tab at the bottom you'll find several podcasts that can help you best position your student during the application process

4. **Competition between schools** – in this point we might pit one school against another. You might say to school A that your student was given a fantastic offer at school B but that school A is your first choice and that if only they would match the offer from school B you would send in your deposit for school A right away. You might even go so far as to show school A the financial aid offer letter from school B as evidence. Let's recognize also the strategy can backfire, because school a might say "So what. You can go to school B for all we care". Also recognize that schools are becoming used to this game, and they may take you right down to the wire in terms of making a decision by deadline time. Consider going into this process with a mindset of how much money you would be satisfied with, so if that amount or close to it is offered, you will be ready to accept it. This is also one of the reasons I would advise against early decision. If you apply to a school early decision, you've taken away a lot of your negotiating power. Consider applying early action instead.

So how do we approach this process? Do we call the school, do we email them? No. I believe it's important that you stand out from the crowd. I believe you should write a letter, 1 to 2 pages long, that outlines your story given those four appealable points. Send it to them FedEx, make them sign for it. Even if they tell you they have their own internal form for you to complete for an appeal, don't use it. Or use it, but in the space where it says describe your circumstances you write "see attached".

After they have received it, now you can call them to discuss. You can tell them that you would like to schedule a time for a conference call, or that you will be on campus next week for school visit in could you kindly pop in to discuss. I have found that each time we approach a negotiation process about half of the time it ends up with a positive outcome.

One quick side note, don't pay someone to do this process for you. Do it yourself. As soon as the school finds out there is a paid professional involved the conversation changes. At our office we do provide coaching on this process to our clients, but as a financial advisor I do not personally get involved otherwise the dynamic would be very different. Please feel free to reach out to us if you'd like to discuss this process further.

For further study:

Consider reading the book "The Price Of Admission" by Daniel Golden

For more info on how schools negotiate and appeal their incoming Freshman Class.

Action items:

Contact one of our advisors through www.vaylark.com
to discuss how we can coach you through the negotiation
and appeal process

Biden Loan Forgiveness Plan

In early September 2023, President Biden announced a new federal student loan repayment plan to assist lower and middle income borrowers. The Saving on a Valuable Education plan (SAVE) is estimated to benefit over 20 million borrowers by cutting monthly payments, prevent balance accrual due to unpaid interest, and bring borrowers closer to a forgiveness opportunity sooner.

SAVE is an income driven plan (IDP) that calculates a borrowers monthly payments based on their income and family size rather than the loan balance. While there currently are a number of income driven repayment plans offered by the Department of Education, SAVE offers the lowest monthly payment out of any plan to nearly every federal student loan borrower. Other plans have also been updated with reduced payments. For instance, instead of paying 10% of their discretionary income a month, under the proposal the Revised Pay As You Earn repayment plan (or REPAYE) borrowers would required to pay only %5 of their discretionary income towards their undergraduate students loans.

With SAVE your monthly payment is based on discretionary income, which is the difference between your adjusted gross income and 225% of the Department of Human Health and Services Poverty Guideline amount for your family size.

For 2023, if you are earning \$32,800 or less a year as a single borrower, or are a family of four earning \$67,500 or less, you won't owe a monthly payment. Those earning more likely would still save at least \$1000 annually when compared to other income-based repayment plans.

But with 5 possible IDP plans, its difficult to say which plan would be best fit for any particular student, and the complexities are significant.

It's also important to remember that whose income will be considered depends a great deal on whether the student meets the criteria of an independent student or not. To be considered independent, and to have only their income (not their parents) considered, they must meet one of the criteria for independent status. Generally, independent status is more often achieved only after marriage, age 24, having children, or becoming a graduate student.

Once enrolled in the SAVE plan, the education department will eliminate 100% of the remaining interest for subsidized and unsubsidized loans once the scheduled payment is made. All existing federal IDR plans require borrowers to make qualified payments for 20-25 years, however those enrolled in SAVE with principal balances under \$12,000 will receive forgiveness in less than 120 payments (or 10 years).

It remains unclear whether debt forgiven at the end of the repayment timeline will be taxable at the federal level, although some states have already indicated they will tax the forgiveness at the State level.

Biden Loan Forgiveness – good or bad?

The jury is still out on whether loan forgiveness is good, bad or neutral. The Administration says the program would cost \$240 billion over ten years, but the Committee for a Responsible Federal Budget says \$440-600 billion, and Wharton says \$1 trillion. But even that \$1 trillion figure might be way too low.

Cancellation of some student debt is only a small part of the policy change. The much bigger change is limiting future payments on debt to 5% of income - though only after the borrower's income rises above roughly \$30,000 a year. For example, if someone makes \$70,000 per year, then no matter how much they borrow, they're limited to paying \$2,000 per year (5% of the extra \$40,000). After twenty years, any remaining debt would simply disappear.

One might wonder how that could drive student's school choices. For some students, choosing this "income-based repayment" system would be a no-brainer. It's possible they wouldn't care whether the college charges \$35,000 per year, \$85,000, or even \$150,000. In fact, some students might be driven to pick the priciest college they can find, pay for it with federal loan money, and then have their repayments capped. Students could also take out loans *greater* than what they need because they can turn the excess into cash for "living expenses".

Colleges might even have an incentive to enroll substandard student, because no matter how poorly prepared they are, the college can charge whatever they want and get huge checks from the federal government. And the students won't care because they don't have to pay it back. In effect, colleges could create massive and perfectly legal money-laundering schemes.

This is all speculation at this point, but if implemented, college costs could skyrocket and academia might be flirting with a political backlash of enormous proportions.

Will my loans be canceled automatically? For most borrowers, no. The Department of Education will be creating a "simple" application for borrowers to claim relief, which will be available by early October. Borrowers who would like to be notified when the application is open can sign up on the Department's [subscription page](#). Once borrowers complete an application, their loan cancellation should be processed within four to six weeks. The Department recommends that borrowers apply before November 15 in order to receive loan cancellation before the payment pause expires on December 31, 2022. (The Department will still process applications even after the pause expires.)

Some borrowers, however, may be eligible to have their loans canceled automatically because the Department already has their income data on record.

Current students are eligible for loan cancellation, provided their loan was obtained before July 1, 2022. However, borrowers who are dependent students need to qualify based on parental income, not their own income.⁵

Graduate students are also eligible for loan cancellation provided income limits are met and it is a federal loan, such as a Direct Loan or Grad PLUS Loan. Private loans are not eligible.

PLUS loans also qualify for cancellation provided the income limits are met. However, any private loans taken out by parents to pay their child's college education are not eligible.

Taxation: As of this writing loan forgiveness is exempt from federal taxation. However, many states are now considering taxing it as income at the state level.

Action items:

The Biden administration has said that the Education Department will roll out a website some time in early October 2022. Borrowers can expect a self-attestation Form that is "simple and short" administration officials say.

For Further Study:

Student loan forgiveness could hurt your credit score! Be sure to research and weigh your options carefully!

Last Words:

This booklet is always a work in progress, always updating, and always expanding. Your comments and suggestions are always welcome!

Please don't hesitate to reach out at any time to discuss this material, your options, or to receive a complimentary copy of the latest updates. You can find our contact information at www.vaylark.com, or like us on facebook to receive the latest stream of updates.

Here's to wishing you and yours all the success in the world!

Charles

