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# Financing College Through Savings & Scholarships

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## SAVING MONEY FOR COLLEGE

With college tuition increasing at twice the rate of inflation, it is imperative that parents think ahead when it comes to saving money for college. A college education is an important step in your child's future successes and it can do wonders for their confidence as adults. The research conducted by the U.S. Census Bureau Statistics shows that people with college degrees earn over 80% more on average than people with high school diplomas. The research also indicates that college graduates have more employment options available to them when compared to high school graduates.

For a majority of households, family savings alone would not be sufficient to cover all college related expenditures. Many will rely on some form of financial aid, grants and student loans to cover all or part of the expenditures. CreditGUARD of America, Inc. has produced this comprehensive guide to educate parents and future undergraduates about saving money for college.

### FINANCIAL AID MYTHS

***My parents' income is too high to qualify for aid:*** This is one of the most popular myths' that is far from reality. When it comes to financial aid, there is no income cut-off to qualify for federal student aid. Other than family income, factors such as, size of your family, home mortgage costs, parents' age and other outstanding debt are also taken into account.

***My family can't afford private school tuition:*** If the college of your dreams has a hefty price tag, don't get discouraged. Usually, colleges with higher tuition fees are more likely to award additional financial aid to help cover the extra costs. Remember, the higher the tuition fees, the greater your chances of demonstrating your financial needs.

***I need to have exceptional grades to get financial aid:*** While most scholarship programs do take notice of exceptional grade point averages, the federal



financial aid programs do not consider student grades as criteria when selecting beneficiaries. However, it is important to maintain a satisfactory academic record in order to graduate from your field of study.

***My parents saved money for college, so we won't qualify for aid:*** This may be true when it comes to some private financial aid programs. However, federal student aid programs do not consider family savings as a selection criteria and only award financial aid based on family income and other factors.

## START SAVING EARLY

The earlier you start saving for college the better your chances of saving enough money to cover your child's tuition expenses. The power of compounding interest plays a prominent role in deciding how much you need to spend per month in order to achieve your goal.



For instance, if you save \$50 per month from the time your child is born you will build up more than \$16,000 in college savings by the time your child turns 18. Out of the acquired \$16,000, almost \$6,000 of the funds will be interest earnings.

However, if you wait until your child is seven years old to open a savings plan, you need to save around \$100 per month in order to attain the same level of savings. In such a case, you will only receive \$2,800 from interest earnings when compared to \$6,000 from the previous scenario.

## TYPES OF FINANCIAL AID

Financial aid can be defined as any type of financial assistance used towards students' financial needs. Basically, there are three types of financial aid available for students and these can be used in any combination.

**Grants and Scholarships:** Grants and scholarships are the most sought-after forms of financial aid. The reason behind this immense demand is simple, scholarships and grants are free money provided by federal, state, institutional and other private organizations, which do not have to be paid back.

**Student Loans:** The student loan programs provide low-interest and long-term loans for students. These loans are similar to any other conventional loan with one unique exception. The students do not have to make any principle or interest payments until they graduate from their study programs.

**Work/Study Programs:** These aid programs are a form of financial aid in which students work part-time on or off campus allowing them to earn money to help pay educational expenses.

## GRANTS & SCHOLARSHIPS

Grants are generally reserved for students with low-income families and who are unable to foot the tuition bill due to their poor financial situations. In addition to the U.S government, many private institutions, non-governmental organizations (NGO's) and other charitable organizations offer thousands of student grants each year. The following are the two most common federal student grants.

**Pell Grant:** With more than 5 million individual grants awarded each year, the federally funded Pell grant is the largest student grant available to date. The Pell grant is awarded solely based on the student's financial needs and has an annual cap of \$4,000.

**FSEOG Grant:** The Federal Supplemental Educational Opportunity Grant is reserved for the most needy candidates. The FSEOG grants are paid in addition to the Pell grants and students can obtain up to \$4,000 per academic year. In general, these grants are awarded for students with the lowest Expected Family Contribution (EFC).

Scholarships by and large are awarded based on students' exceptional educational achievements and other certain criteria such as sports, music and



artistic abilities. Many governmental organizations such as, the National Science Foundation, the Environmental Protection Agency, the Department of Homeland Security and etc. offer scholarships to thousands of gifted students each year.

In addition, many educational institutes, private companies, non-profit organizations and other charitable organizations offer scholarships to students who have attained exceptional academic and sport accomplishment.

## STUDENT LOAN PROGRAMS

The U.S. government offers many attractive financial aid packages to residents who meet their standard qualification requirements. These aid packages, commonly known as the



'Federal Student Financial Aid' are available through the U.S. Department of Education.

When applying for financial aid, students first have to complete the Free Application for Federal Student Aid (FAFSA). The information they provide on their FAFSA determines their eligibility for financial aid.

### Stafford Loan

The federal Stafford student loans are some of the most affordable federal loans available to students and families. One important aspect of the Stafford loan is that its fixed interest rate is uniform to all borrowers regardless of their credit, income or other debt. As a result, these loans do not require credit checks or collateral when selecting recipients. Repayment usually begins six months after the student graduates or drops below half-time enrollment. The standard repayment term is 10 years.

### Perkins Loan

The Perkins loans are awarded to undergraduate and graduate students based on their financial needs. The loan program is administered by the school's financial aid office and offers up to \$4,000 per year for undergraduates with a cumulative limit of \$20,000. The interest

rate is a fixed 5% with a nine-month grace period after graduation. There is a 10-year repayment period.

### **Private Student Loans**

For students who are unable to qualify for federal student loan programs or are in need of additional funding should look into other alternative or private loans. Most private lenders will allow students to borrow tuition expenses minus federal aid received.

In addition, some lenders will allow students a fair grace period of up to 12 months after graduation to make their first payment. This enables the graduates to find suitable jobs and begin making payments once they start receiving regular paychecks.

Interest rates for private student loans are generally higher when compared to federally funded Stafford and Perkins loans. However, parents, guardians or relatives with good credit can opt to co-sign the student loan application enabling the student to get the lowest interest rate possible. Sallie Mae Signature, Citibank Citiassist, NextStudent and Chase student loans are some of the most popular private student loan programs available to students.



## **WORK/STUDY PROGRAMS**

There are numerous work-study programs available for students including the Federal Work Study Program (FWS). Eligibility for this program is solely dependent upon the financial need of the student.

The college financial aid officer working alongside the employer manages the student's work schedule, salary and position responsibilities. In addition, all work-study programs require students to study full-time while restricting their work hours to no more than 20 hours per week. To learn more about work/study programs and other federal student aid, please visit the U.S. Department of Education website, <http://studentaid.ed.gov>.



## 529 COLLEGE SAVING PLANS

A 529 plan is a state administered college savings plan that allows parents to set aside money for college related expenses. The money that parents put into their 529 plan grows tax-deferred until college enrollment. The withdrawal funds are also tax-free for as long as you use them towards qualified college expenses.

### 529 Plan-Pros

- » The parents retain control over the overall 529 funds, enabling them to make sound decisions when it comes to college related expenses.
- » Your child can use the money in a 529 plan at any accredited college or university in the country. The funds can also be used for graduate studies.
- » Parents can open 529 individual plans for any number of children and contribute the maximum amount allowed to each account.
- » 529 plans have generous maximum contribution limits. In majority of states, the maximum contribution limit is as high as \$250,000 per beneficiary.



- » If the child does not want to go to college, parents can roll the account over to another family member.
- » Anyone can contribute to your child's 529 plan. This is a great gift opportunity for grand parents, uncles, aunts and family friends. The 529 plans can also provide significant gift-tax and estate planning benefits to contributors.
- » The 529 savings plan allows you to contribute regardless of your income or the age of the beneficiary. The no age restriction policy allows families to set up a common college savings fund to educate any family member despite their age.

### 529 Plan-Cons

- » If you withdraw funds from a 529 plan for non-educational expenses your funds will be heavily penalized. In such an instance, you will be charged a 10 percent penalty on

all your earnings as well as all foregone federal taxes. In addition, some states might charge an additional 10 percent early withdrawal fee.

- » 529 college savings plans differ substantially from state to state. As a result, the regulations, eligibility and investment choices change frequently.
- » There is no guarantee that a 529 plan will keep up with the ever-increasing college related expenses.
- » You can only open a 529 plan offered by your state of residence. As a result, you have limited number of options when it comes to choosing a 529 plan.
- » As most 529 plans are directly related to the stock market, the saving plans can lose value in the short-term. However, since these investments are highly diversified, the above scenario is highly unlikely in the long run.
- » Since the individual states controls the overall investment allocations of their 529 plans, you have limited control on how the money is invested.

## EDUCATION SAVINGS ACCOUNT

Education Savings Account (ESAs), formally known as Education IRAs are very similar to traditional 529 plans. Like 529 plans, parents or guardians can contribute towards an ESA for any number of children and the funds continue to grow tax-deferred until it reaches maturity.

### ESA-Pros

- » ESAs provide total control of funds to parents. The funds can be transferred to any qualified beneficiary without much of a hassle.
- » There are numerous ESA options available for parents. Many large banks and financial institutions offer various types of ESAs with diverse financial options.
- » Any adult can contribute towards your child's ESA.
- » ESA funds can be used towards elementary, secondary and higher educational expenses. This option enables parents to withdraw funds and pay for private school tuition while receiving all the associated tax benefits.





## **ESA-Cons**

- » Contributions to the Education Savings Account are capped at \$2,000 per year.
- » ESAs can be established only for individuals who are under the age of 18.
- » Tax savings are not available for high-income households. Contributors with adjusted gross income of \$190,000 (joint filers) or \$95,000 (single filers) are not eligible to make contributions.
- » High penalties for any withdrawals other than for qualified educational related expenses.

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