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WHITE PAPER

Out-of-the-Box Ways to Pay for College

OUT-OF-THE-BOX WAYS TO PAY FOR COLLEGE

Many of these options go unrecognized.

Presented by Blue Rock Advisors

Today's average student borrower takes out more than $25K in loans. Education debt has reached record levels in America – more than $1 trillion. In the face of those numbers, parents and students are looking for assorted ways to pay for college without incurring big liabilities.[1]

In addition to grants, loans, merit-based aid and your student holding down a job, there are other ways to reduce college cost – some little recognized.

First, how expensive will college be? Can you project the total cost of your student's college education? Assuming five years in school (which is the average for today's undergrads) and no change in majors along the way, can a financial aid officer give you a ballpark figure? If not, an online resource such as Alltuition.com may be able to estimate it for you.[1,2]

Presumably, you opened a 529 plan or some other form of college savings fund for your student years ago. If those funds aren't enough, where can you find other resources to meet a projected shortfall?

What about outright gifts of cash? If you or relatives or friends have the money, that is an option. Will you suffer gift tax consequences as a result? No. If the money constituting that completed gift is used directly to pay tuition expenses at an educational institution, that gift is not taxable. It will not cut into your annual gift exclusion amount ($13,000 for 2012) or your lifetime unified credit (currently set at $5.12 million).[3,4]

One caveat, however: if you make any kind of tuition payment on behalf of your student, that will be characterized as untaxed income on the FAFSA (Free Application for Federal Student Aid). That could wipe out your student's chances of getting any need-based financial aid. This is why some families elect to put off tuition gifts until a student's senior year.[4]

Can you reduce your taxable income to get your student more financial aid? You may be able to do so. If getting federal student aid is your objective, knocking down your taxable income (through moves big and little) might make a big difference.

On the FAFSA, family income matters more than family assets. Retirement account balances, net worth attributable to home values and small businesses – none of this matters, it doesn't factor into the needs analysis. The FAFSA is used to determine the expected family contribution (EFC), which is the combination of funds that the parent(s) and student can make available for a school year. The gap between the EFC and the expected total education costs of the school year represents the level of financial need weighed in determining federal student aid.[5]

So the lower your EFC is, the greater your level of financial need will be – and the greater amount of federal student aid that may be available. This is why many parents and students elect to spend down their combined savings and assets set aside for college during the freshman year. With no assets left for the sophomore year (and by this same logic, subsequent academic years), eligibility for federal student aid is wide open. Of course, you may be also opening a door to potential long-term debt.

There are other ways to alter your tax picture to get your student some financial aid – aid not linked to lingering debt.

Have you heard of "tax scholarships"? No, not scholarships linked to a state tax credit (though those may be worth a look). These are *de facto* scholarships that you may be able to create for your student with the help of a CPA or financial advisor (and the IRS). If you can find or arrange new tax deductions this year, you can redirect that money toward your student's college expenses. Savvy business owners and professionals often make this move.

What about untraditional scholarships? For example, CollegeNet.com currently offers a "weekly scholarship" running between $3,000-10,000. Collegians themselves decide which applicant deserves the funds. There are other such examples.[1]

Can you negotiate tuition? At first instinct, does that seem rude, uncouth? It may prove smart – and it is done. There are such things as tuition discounts (and grant programs) offered to those who negotiate, even those not eligible for need-based aid. If a university really wants your student, you may have some leverage.

Are you willing to go the JC route, or the online route? Going to a local junior college for the first two years of study toward a bachelor's degree can save a student and family tuition, housing and travel and auto expenses, and maybe a little anxiety – if your student decides he or she wants to major in oceanography instead of marketing, you haven't paid $10,000 or $20,000 a year to arrive at that conclusion.

Recognizing the costs of housing, commuting and parking permits, some colleges are offering parts of their curriculum online or in more accessible settings – for example, Virginia Tech offers introductory math courses through computer labs and the University of Minnesota's new Rochester campus uses part of a local shopping mall to hold classes. While taking classes on a computer or at some obscure satellite campus may not give you the full university experience, it may help to reduce expenses.[2]

Need help with college planning? Talk with a financial professional well versed in the matter – sooner rather than later.

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Citations.

1 – www.dailyfinance.com/2012/04/19/paying-for-college-two-websites-offer-outside-of-the-box-ideas/ [4/19/12]
2 – www.businessweek.com/printer/articles/70120-student-loans-debt-for-life [9/6/12]
3 – www.irs.gov/uac/In-2012,-Many-Tax-Benefits-Increase-Due-to-Inflation-Adjustments [10/20/11]
4 - www.education.com/reference/article/pay-college-saving-understand-gift-tax/ [9/6/12]
5 – thechoice.blogs.nytimes.com/2011/01/11/fafsaq-and-a/ [1/11/11]