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Planning a Debt-Free College Education

By Elaine Floyd, CFP®

With the cost of a college education rising higher and higher each year, consider all the options available to you before you take out expensive college loans.

Each year the College Board issues a Trend in College Pricing report, and each year the trend is upward. And every year the message from the Board is the same: don't worry, there's plenty of financial aid available. But most of this aid is in the form of loans—not grants—and the combination of rising college costs and higher interest rates means students are starting adult life with ever-higher levels of debt. The rates on federal Stafford and PLUS loans are still fairly reasonable (see below), but there are limits on these loans, which means more education is being financed with private loans that can carry interest rates of 18% or higher.

ACADEMIC YEAR	STAFFORD LOANS		PARENTS PLUS LOANS
	Subsidized Rates	Unsubsidized/ Graduate Rates	
2017–18	4.45%	4.45% / 6.00%	7.00%
2018–19	5.05%	5.05% / 6.60%	7.60%
2019–20	4.53%	4.53% / 6.08%	7.08%
2020–21	2.75%	2.75% / 4.30%	5.30%
2021–22	3.73%	3.73% / 5.28%	6.28%
2022–23	4.99%	4.99% / 6.54%	7.54%

Source: Federal Student Aid; US Dept. of Education

The Project on Student Debt (<https://ticas.org/our-work/student-debt>) is studying the question of how much student debt is too much. Amid stories of some students' debts exceeding \$100,000, there is now evidence that high debt loads are impeding students' future plans. Graduates report waiting to buy cars, purchase homes, marry, or have children due to the burden of high monthly payments. Others are giving up their hopes of pursuing careers in public service or attending graduate school in order to avoid taking on more debt. Today's 20- and 30-somethings are finding that those loans that were so easy to get in college are now a huge ball and chain keeping them from getting what they want in life.

KEEP THOSE SAVINGS ROLLING IN

So, parents and grandparents of pre-college-age children should keep utilizing 529 plans and other college savings programs to help them get kids through college debt-free. Revisit those savings plans each year as college costs are announced. And keep in mind that the numbers announced by the College Board report are averages. There are wide variations among individual schools, so a family that has its sights set on a particular school may want to use that school's costs as a savings target. Look up costs for specific colleges at the National Center for Education Statistics (<http://nces.ed.gov>) and use the calculator at FinAid (<http://www.finaid.org>) to determine savings goals.

JUST SAY NO TO LOANS

Although most financial-aid packages include loans, students do not have to accept them. Instead, they may wish to cover the costs through savings, scholarships, and work-study programs. By refusing those oh-so-easy payment plans that entice them toward expensive schools, students may decide to become smart shoppers and seek out colleges that offer quality education at an affordable price.

START THE SCHOLARSHIP SEARCH EARLY

Freshman year of high school is not too early to start thinking about which scholarships a student might win. This is the time to start really developing a child's strengths, whether it's academics, athletics, or the arts. Knowing which scholarships are out there and what the requirements are can help motivate the child to excel

and also provide direction to the learning process. Fast Web (<http://www.fastweb.com>) is a good source of local, national, and college-specific scholarships. Be sure to visit the site early and often.

The College Board also offers some valuable tips on finding and applying for scholarships. Just as important, parents should reinforce the idea that kids need to do their part to help pay for college, whether that means getting scholarship-worthy grades, becoming a star basketball player, or working part-time during high school to build savings.

SHOP FOR AN AFFORDABLE SCHOOL

Several of the college lists now include rankings for "best values." Kiplinger (<http://www.kiplinger.com/tools/colleges>) is one that ranks schools based on a combination of quality and cost components, with quality making up about two-thirds of the score.

Quality measures include admission rates, student-faculty ratios, the percentage of faculty with the highest degrees in their field, how much each school spends on instruction for each student, how much each school spends on its library facilities, and four- and six-year graduation rates.

Total costs are measured on an absolute basis (tuition, mandatory fees, room, board, and estimated expenses for books and supplies), as well as the average cost for a student with need after subtracting grants (but not loans), the average cost for a student without need after subtracting merit-based grants, the average percentage of need met by aid, and average debt a student accumulates before graduation.

For public schools, the survey takes into account both in-state and out-of-state tuition. For private schools, it takes into account tuition discounts (common at private schools) and generous aid packages (both need and non-need), which can knock thousands of dollars off the sticker price. Once again, keep in mind that these are averages. An exceptional student who manages to wow an expensive private school and score a big aid package may pay less than if he were to go to a public college with lower posted tuition.

Remember to take into account total college costs for your own situation. In addition to in-state or out-of-state

tuition, consider airfares between home and college and multiply that by the number of trips your child (and you) might take over the four (or five) years. Will the child need a car (including insurance, repairs, gas, campus parking permits), or is there a good public transit system in town? Will the child be living on or off campus, and what is the cost of living around town? Will the child need a new winter wardrobe?

As helpful as college rankings are, every family should calculate its own estimate of college costs. The list of potential colleges should include mostly affordable ones, with one or two selected dream colleges where the child has a chance of getting an attractive aid package.

FIND CREATIVE WAYS TO SAVE COLLEGE COSTS

In addition to building savings, getting scholarships, and shopping for an affordable college, cost-conscious students can find other ways to shave hundreds or thousands of dollars off the cost of their education. Here are a few ideas.

- **Get free college credits.** Students can save thousands of dollars by taking advanced-placement classes in high school and passing various standardized tests and then applying for college credit. But colleges vary in what they'll issue credit for, so students should check out their prospective schools and find out what subjects merit advanced-placement credits and which tests they require. Dual-enrollment, or taking classes at local colleges during high school, is another option for obtaining college credits.

- **Start at a community college, and then transfer.** Community colleges represent one of the best values in higher education, especially if students are willing to live at home. Many excellent four-year universities have agreements with nearby community colleges that make it easy for a student to transfer in his or her junior year and apply lower-division coursework toward a bachelor's degree.
- **Pursue an accelerated program.** By taking extra classes each quarter or semester, going year-round, or taking accelerated classes that cram a semester's worth of material into six- or eight-week sessions, it's possible to earn a bachelor's degree in three years instead of four. Some schools combine master's and bachelor's degree programs in ways that save both money and time.
- **Join the military.** All branches of the military offer various scholarships, tuition reimbursement, and loan repayment programs.
- **Be on the lookout for free offers.** As the cost of education continues to escalate, more benefactors are stepping up to the plate with unique offers of free education. For example, a \$100 million donation to the Yale School of Music has made advanced music education free. Keep your eye out for these opportunities.

In the face of strong evidence that the free flow of student loans over the past 10 years is impeding graduates' lives, a debt-free college education should be a goal for all families.

Elaine Floyd, CFP® is Director of Retirement and Life Planning for Horseshoeth, LLC, where she helps people understand the practical and technical aspects of retirement income planning.

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