The Savvy Parents' Guide to Cutting College Costs

By Lynn O'Shaughnessy

How did it get so late so soon?
It's night before it's afternoon.
December is here before it's June.
My goodness how the time has flewn.
How did it get so late so soon?

–Dr. Seuss

The Cost of College Today

The cost of college is not cheap. You already knew that. You may not know, however, just what a bachelor's degree costs today. Here are the latest figures:

State Colleges and Universities		Private Colleges and Universities	
✓ Tuition/fees:	$10,560	✓ Tuition/fees:	$37,650
✓ Room/board:	$11,620	✓ Room/board:	$13,120
✓ Total:	$22,180	✓ Total:	$50,770

Source: The College Board

College costs roughly triple from the time a child is born until the day he or she heads off to college.

Most Students Don't Pay the Sticker Price

While college costs continue to outstrip inflation, there is some good news here. In reality, most families do not pay full price for a bachelor's degree. Seventy-eight percent of students, who applied for aid, received grants at state universities and the percentage climbs to 92% for students at private colleges.

In this guide, you'll learn a variety of ways to cut the cost of college, including where to find the biggest sources of college money and how to answer this all-important question:

Will my child qualify for financial aid?

Saving as Much as You Can

You can boost your chances of covering your college tab by saving as much as possible. Every dollar you save is a dollar less that you have to borrow. And every borrowed dollar will cost about two dollars by the time you repay the debt.

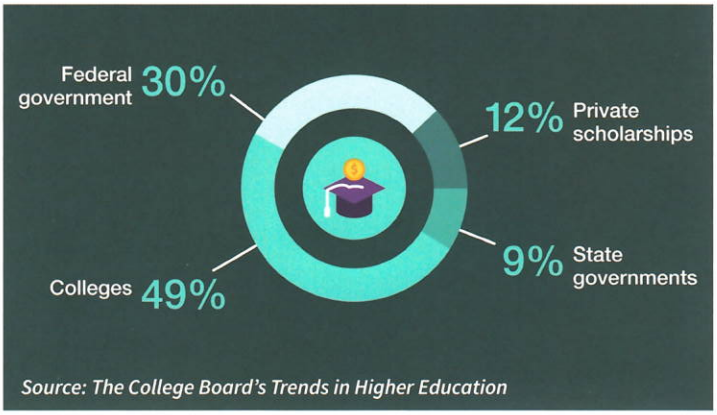
Of course, saving for retirement is also hugely important and that should be the No. 1 priority for most parents. Keep in mind that parents who save for both college and retirement will have more money available for retirement than parents who save for retirement and take out loans to pay for college.

The money inside 529 accounts is sheltered from taxes and the withdrawals are tax free if they are used for eligible college expenses.

Tip: College 529 savings accounts are a convenient way to save. With a 529 plan, you can put your savings on autopilot and set aside even very modest amounts of money each month.

Sources of College Money

As you search for ways to cut your college costs, you need to understand what the main sources of higher-ed money are. Here is the line up and a closer look at each source:



Federal Government Assistance

Pell Grant. The biggest source of college money comes from the federal government and the Pell Grant is by far the largest award program. The current Pell Grant is worth a maximum of $6,345. Nearly all grant recipients have household incomes under $60,000.

Federal Supplemental Education Opportunity Grant. Students must qualify for a Pell Grant to be eligible for the FSEOG grant that can range from $100 to $4,000. Unlike the Pell Grant, this grant money can run out quickly on some campuses, so it's important to file for financial aid as soon as possible for this aid.

State Government Assistance

Almost every state education agency has at least one grant or scholarship program available to residents and many have a long list of state aid possibilities. In some states, college money is restricted to students who have financial need. In other states, the money is dispensed largely based on merit. While there are some exceptions, eligibility for these state programs is usually restricted to state residents.

You can find links to the aid programs that are available in each of the 50 states by visiting the website of the National Association of Student Financial Aid Administrators (nasfaa.org/state_financial_aid_programs).

College Grants and Scholarships

Private and public colleges and universities provide students with need-based financial aid, as well as merit scholarships. For many affluent families, money from the colleges themselves will represent the largest source of money.

Over the years, both private and state schools have been increasingly using merit scholarships to attract students. Since the majority of students in this country do not pay full price, it's clearly not just the "A" students who are receiving this money.

The discounts can be sizable. At private institutions, the average tuition discount is 59.5%. This figure, which comes from an annual survey of institutions by the National Association of College and University Business Officers, represents a historic high.

Here is an example to illustrate how receiving the average tuition discount can shrink your out-of-pocket college costs:

$37,650 (average private school's tuition) X 59.5% (average discount) = $22,401.75 (price break)

$37,650 - $22,402 = $15,248

Why are colleges discounting at an historic level? Here is a major reason:

Despite the extremely low acceptance rates at the most elite universities, college is a buyer's market at the vast majority of colleges and universities. Most schools actually have to work hard to fill their freshmen slots and to do that they must offer attractive scholarships. Many private colleges, in particular, had to boost their awards higher because of COVID-19 to attract enough students to their freshmen class.

Whether or not the nation is gripped by a pandemic, it is possible to appeal a financial aid or merit award. Schools hope that a student accepts the initial award, but colleges will entertain requests for higher financial aid awards and many will consider appeals for greater merit awards.

Athletic Scholarships

Athletic scholarships represent another source of money from the colleges themselves. Unfortunately, athletic scholarships aren't nearly as plentiful or as lucrative as many families assume. About 2% of graduating high school athletes win sports scholarships every year at NCAA institutions.

Head-Count Sports

There are six NCAA sports where athletes have the best chance of receiving a full-ride scholarship. These so-called head-count sports are found within Division I schools. Students competing in these head-count sports either capture a full ride or nothing at all.

Here are the six sports and the total number of scholarships per team:

Men's Sports

- ✓ Football (85 scholarships)
- ✓ Basketball (13 scholarships)

Women's Sports

- ✓ Basketball (15 scholarships)
- ✓ Tennis (8 scholarships)
- ✓ Gymnastics (12 scholarships)
- ✓ Volleyball (12 scholarships)

The NCAA considers all other collegiate athletic programs equivalency sports. Unlike head-count sports, coaches in the equivalency sports can divide up their scholarships to attract as many promising athletes as they can. Slicing and dicing scholarships often leads to meager awards. Small sports scholarships may only cover the cost of books!

Students can only earn athletic scholarships at Division I and II institutions, but Division III schools can be an attractive alternative for athletes. These mostly private schools don't give athletic scholarships, but they do award financial aid and merit scholarships.

Athletic Scholarship Resources

NCAA (ncaa.org/student-athletes). This site provides a great deal of information for teenagers about playing collegiate sports.

ScholarshipStats.com. This free resource is packed with athletic scholarship stats for individual schools, as well as for each collegiate sport.

Private Scholarships

Private scholarships come from places such as charities, foundations, companies and civic groups.

Many families believe private scholarships are the biggest source of college money, but they represent the smallest source. The average scholarship is roughly $4,200 and most only last for one year.

Competition for national scholarships can be fierce. Students' odds of winning private scholarships will increase if they focus on local scholarships.

Local prizes aren't as easy to find, so not as many students will be applying. In fact, national scholarship sites like Fastweb, Scholarships.com and the College Board's search engine usually don't have local contests in their databases.

Tip: Look for local scholarships through a student's high school counselor's office, libraries, parent workplaces and Internet searches.

Your First Step: Answering the Financial Aid Question

As you begin your search for college money, you need to answer this important question:

Will your child qualify for financial aid? This is a question that many parents wonder about.

There isn't a simple answer to this question because there is no automatic income cut-off that exists that disqualifies students for need-based aid. Don't, however, let this reality discourage you.

You can obtain a good idea of whether your child will qualify for financial aid by using a valuable tool that will calculate something called your Expected Family Contribution.

Your EFC is a dollar figure that represents what a financial aid formula has concluded that you should be able to pay for one

year of your child's education. It is based on such factors as your income, your assets, your marital status and the number of people in the household. An average American family making an adjusted gross income of $55,000 would have an EFC in the $2,000 to $4,000 range. There is no EFC ceiling for high-income parents.

Determining if your child would be eligible for need-based aid requires subtracting your EFC from a school's cost of attendance.

Example No. 1

Cost of In-State Public University	$22,000
EFC	$35,000
Demonstrated financial need	$0

In this example, the family's EFC exceeds the price of the state school, so the student wouldn't qualify for need-based aid.

When a family's EFC is too high to qualify for financial aid, they should look for schools that provide merit scholarships. Most schools do.

Example No. 2

Cost of Private College	$60,000
EFC	$35,000
Demonstrated financial need	$25,000

In this second scenario, the student would be eligible for up to $25,000 in need-based aid from the private college because the price of this institution is far more expensive and exceeds the family's EFC. Whether a child would receive this much help would partly depend on how generous a college's financial aid practices are.

How to Obtain Your EFC

To generate the numbers, use the College Board's Expected Family Contribution Calculator. Go to CollegeBoard.org, and type "EFC Calculator" in the search box in the upper right-hand corner.

Tip: Ideally, you will obtain your EFC as early as your child's freshman year in high school or even middle school. You'll want to update the results as college looms closer.

How to Discover Your Real College Costs

Traditionally, parents couldn't know what any college was going to cost until their children received their award letters. Even worse, some high school seniors don't receive their award offers until the spring, which gives families little time to select a school by the deposit deadline, which is sometimes May 1.

Applying to schools, however, doesn't have to be a financial crapshoot if you use a tool called a net price calculator before your child applies to any colleges.

The aim of a net price calculator is to provide a personalized estimate of what a particular school will really cost your family before your child falls in love with it.

When using a calculator, some families will discover that the cost of a university with a sticker price of $50,000 will be $25,000 or $10,000 or even lower. For other families, the cost really will be $50,000.

The net price represents what a student will have to pay after any scholarships and grants from the federal and state government, as well as the school, are subtracted.

Net price example:

Price of college:	$50,000
State grant:	$5,000
Institutional grant:	$19,000
Net price:	**$26,000**

Federal law requires colleges to post a net price calculator on their websites for freshman applicants and some also provide a calculator for transfer students.

Tip: An easy way to find a school's calculator is to Google the name of the school and "net price calculator."

Good vs. Bad Calculators

A helpful net price calculator will require figures from your tax return and your account statements for non-retirement assets. The calculator will also ask questions about such things as the size of the household, marital status of the parents and the number of students in college.

If the school provides merit scholarships, a good calculator will also require the student's grade point average, test scores and sometimes class rank. It could take you 15 minutes or more to finish a thorough net price calculator.

Unfortunately, more than 50% of public universities and less than 25% of private colleges use inferior calculators. These calculators ask very few questions and don't even inquire about parent or teen assets. Some parents will be able to complete this calculator in well under a minute. You can't expect the results to be reliable.

Tip: Use net price calculators long before your child applies to schools. If a college looks like it will cost too much, keep searching for other colleges.

Qualifying for Financial Aid

Free Application for Federal Student Aid

If you seek need-based aid for your child, you'll need to file at least one financial aid application and that would be the Free Application for Federal Student Aid (FAFSA). The FAFSA is the federal financial aid form that roughly 20 million Americans complete every year. Here is a breakdown of what higher-ed players require families to complete the FAFSA:

1. The federal government relies on the FAFSA to determine who qualifies for federal grants. Completing it is also a requirement to obtain federal student and parent college loans.

2. States require families to complete the FAFSA to be eligible for state financial aid grants.
3. The vast majority of schools use the FAFSA to determine who will qualify for their own in-house, need-based financial aid.

FAFSA Contacts

You can find the online application on the FAFSA website.

- ✓ FAFSA website: FAFSA.ed.gov
- ✓ FAFSA hotline: (800) 4FED-AID
- ✓ Email: FederalStudentAidCustomerService@ed.gov

CSS Profile

The CSS Profile is the College Board's financial aid application that roughly 200 colleges and universities use. Nearly all the schools that use the CSS Profile are private, but a handful are state institutions, including the Universities of Michigan, North Carolina and Virginia.

CSS Profile schools use this secondary application to determine who qualifies for their own institutional aid. The CSS Profile digs deeper into the finances of a family than the FAFSA does.

All CSS Profile schools rely on the FAFSA to determine which of their applicants will qualify for federal and/or state financial aid.

CSS Profile Contacts

- ✓ CSS Profile website: cssprofile.collegeboard.org
- ✓ CSS Profile hotline: (844) 202-0524

Tip: It's critically important that you know what the financial aid deadlines are for the schools your child applies to. If you hope to qualify for state aid, you also need to be aware of that deadline too.

How the FAFSA Assesses Assets

The FAFSA treats parent assets less harshly than student money when calculating a family's eligibility for financial aid. This policy reflects the reality that parents need to be accumulating money for their own retirement and other financial needs.

Under the FAFSA formula:

- ✓ Parent assets are assessed at up to 5.64%
- ✓ Student assets are assessed at 20%

Here's an example of the impact parent assets can have on chances for financial aid.

In this scenario, the parents have $80,000 in non-retirement assets.

$80,000 X 5.64% = $4,512

In this case, the family's eligibility for financial aid drops by $4,512. Put another way, the household's Expected Family Contribution increases by $4,512.

In reality, the financial aid hit would be a bit smaller because the FAFSA formula automatically shelters some of the parents' assets. How much you can shelter changes every year and is based on the age of the oldest parent.

Below is the Parents' Education Savings and Asset Protection Allowance. You can find this table every year in the federal government's EFC Formula publication. To locate the latest one, Google "EFC Formula."

Parents' Education Savings and Asset Protection Allowance

Age of older parent as of 12/31/2021	Allowance if there are two parents	Allowance if there is only one parent	Age of older parent as of 12/31/2021	Allowance if there are two parents	Allowance if there is only one parent
25 or less	$0	$0	46	$6,300	$2,400
26	400	100	47	6,500	2,500
27	700	300	48	6,600	2,500
28	1,100	400	49	6,800	2,600
29	1,500	600	50	7,000	2,700
30	1,800	700	51	7,100	2,700
31	2,200	800	52	7,300	2,800
32	2,600	1,000	53	7,500	2,900
33	2,900	1,100	54	7,700	2,900
34	3,300	1,300	55	7,900	3,000
35	3,700	1,400	56	8,100	3,100
36	4,000	1,500	57	8,400	3,100
37	4,400	1,700	58	8,600	3,200
38	4,800	1,800	59	8,800	3,300
39	5,100	2,000	60	9,100	3,400
40	5,500	2,100	61	9,300	3,500
41	5,600	2,200	62	9,600	3,600
42	5,700	2,200	63	9,900	3,700
43	5,900	2,300	64	10,200	3,800
44	6,000	2,300	65 or over	10,500	3,900
45	6,200	2,400			

Source: The EFC Formula, 2021–2022

For the 2021–2022 school year, a 50-year-old parent, for instance, could shield $7,000 in 529 accounts or other non-retirement accounts such as checking, savings and brokerage accounts.

Let's revisit the previous example. Instead of $80,000 being assessed for financial aid purposes, $73,000 would be:

$73,000 X 5.64% = $4,117.20

Aid eligibility would decline by $4,117.20.

How Investments Impact Financial Aid

Parents are often worried about how their investments will impact financial aid. Often the fretting is unnecessary because not all assets are considered when calculating financial need. Here is a breakdown of what assets matter and which don't:

FAFSA aid formula ignores:

- ✓ Primary home equity
- ✓ Retirement accounts, such as IRAs, 401(k)s, SEP-IRAs, Keoghs, 403(b)s
- ✓ Annuities
- ✓ Life insurance cash value

Schools that use the CSS Profile typically ignore:

- ✓ Retirement accounts
- ✓ Qualified annuities
- ✓ Life insurance cash value

The FAFSA and CSS Profile both consider these assets:

- ✓ Parent and child non-retirement accounts including checking, savings, brokerage accounts
- ✓ 529 college accounts
- ✓ Custodial accounts

How the CSS Profile Assesses Assets

- ✓ Parent assets are assessed at 5%
- ✓ Student assets are assessed at 25%

The CSS profile automatically shelters some parental assets and it is far more generous to parents. The College Board, which owns the Profile, doesn't divulge the formula.

Grandparents and Financial Aid

Grandparents, aunts, uncles or other relatives or family friends can save for college without jeopardizing a child's chances for financial aid as long as the money stays in their accounts.

What's tricky is when grandparents eventually withdraw money to use for their grandchild's college education. Parents must report this money as the child's untaxed income on the FAFSA and CSS Profile (if applicable). This income can reduce aid eligibility by as much as half of the cash that was withdrawn. Here are three options for grandparents:

1. If financial aid is at stake, grandparents could wait to withdraw college money until the second semester of a child's sophomore year in college after the parents have filed for financial aid. Since the family will be using two-year-old tax returns to complete the aid applications, the grandparents' financial help would not show up when the family filed for financial aid for the senior year in college.
2. Grandparents could simply contribute to a 529 college account that parents have already established. This way, all the assets will be assessed at the lower parent rate.
3. A grandparent with a 529 plan could transfer the ownership to a 529 account controlled by one of the parents. Once the transfer is made, the money would also be treated as a parent asset.

Tip: If your family is too affluent to be eligible for need-based financial aid, it doesn't matter how grandparents save for college or how they help pay the tab. Grandparent contributions only jeopardize need-based aid and not merit scholarships.

Graduating in Four Years

A great way to cut college costs is to earn a bachelor's degree in four years. Unfortunately, most undergrads don't manage to pull this off. Here are the four-year grad rates for students who start college full time:

- ✓ State colleges and universities: 38.8%
- ✓ Private colleges and universities: 55.3%

You can check a school's four-year grad rate at College Results Online (collegeresults.org), which was created by The Education Trust. You'll find the grad rates broken down by such factors as race, ethnicity and gender. This is also a handy site to generate ideas by using the Compare Colleges feature.

Throwing a Wider Net for Schools

When looking for schools, it's best to throw a wider net. Much of the attention is focused on the elite schools, but there are many excellent schools that are worth exploring. Here are some resources to research schools and generate ideas:

College Scorecard (collegescorecard.ed.gov): This federal online tool gives you access to the U.S. Department of Education's massive database when researching individual schools and generating lists based on such factors as academic majors, location, types of schools and alumni salaries.

College Board (collegeboard.org): On this popular website, you can research the generosity of any school by calling up its profile and then clicking on its Paying link and Financial Aid by the Numbers link. Among the figures you will see is the average need-based grant and the average merit scholarship (non-need-based aid) that the school offers.

Educate to Career (educatetocareer.org): This website provides valuable data relating to college admissions, educational attainment and career outcomes. There are plenty of tools under the heading, ETC College to Career Planning System. Also check out tools under the heading, High School Counselors & Consultants including, College & Major Outcomes. You'll see the actual beginning salaries by major of new graduates at more than 900 public and private colleges.

Niche (niche.com): You'll find more than a million student reviews of colleges that are broken up into such categories as academics, campus, athletics, Greek life and food.

Borrowing for College

The average student debt for undergrads graduating in 2019 was $29,900. Sixty-nine percent of these graduates left college with student loans.

Whether that is too much will largely depend on whether the debt comes from federal loans and whether the borrower knows how to wisely handle this debt.

The level of debt will be much more manageable if the student only borrows via federal student loans. For most undergrads that will mean obtaining federal direct subsidized and unsubsidized loans.

Here are reasons why federal loans are best for students:

- ✓ Students, regardless of their income, qualify if they are enrolled at least half time.
- ✓ Students receive the same interest rates regardless of credit scores.
- ✓ The loans offer a safety net—student repayment plans based on a grad's current salary.
- ✓ The loans provide a public service student loan forgiveness program.

Who can borrow for college through federal loans:

- ✓ Undergraduates (Direct subsidized and unsubsidized loans)
- ✓ Graduate and professional students (Direct unsubsidized and Direct PLUS Loans)
- ✓ Parents of undergrads (Direct PLUS Loans)

Here's the difference between subsidized and unsubsidized federal loans: The federal government pays the interest that accrues on subsidized loans while the student is still in school.

Here are the latest interest rates for federal student and parent loans:

Loan	Interest Rate
Direct Subsidized Loans (Undergraduates)	2.75%
Direct Unsubsidized Loans (Undergraduates)	2.75%
Direct Unsubsidized Loans (Graduates or Professional Students)	4.3%
Direct PLUS Loans (Parents and Graduates or Professional Students)	5.3%

Source: U.S. Department of Education

Direct Student Loan for Undergrads

Students of any income can qualify for federal college loans. Here is the maximum amount that most undergrads can borrow:

1st year:	$5,500
2nd year:	$6,500
3rd year:	$7,500
4th year:	$7,500
	$27,000

When students take more than four years to obtain a bachelor's degree, they can borrow a maximum of $31,000 through federal Direct Loans.

Parent Borrowing Limits

There is some fairly minimal underwriting for the federal parent loan.

Parent PLUS loans allow parents to borrow to pay the costs that aren't covered by a child's financial aid package. The maximum amount that a parent can borrow will depend on how much aid a student received in grants and federal student loans, as well as the school's cost of attendance.

Education Tax Credits

Once you have a child in college, be sure to check out if you are eligible for a federal educational tax benefit.

For most parents who qualify, the best tax benefit will be the American Opportunity Tax Credit. Eligible parents can capture a maximum $2,500 tax credit for each child in college.

Taxpayers can claim 100% of the first $2,000 they spend on qualified college expenses for a student and 25% on the next $2,000 spent. Tuition and fees and course materials such as textbooks, supplies and equipment are eligible expenses. Room and board do not count. Parents can use this credit for no more than four years of college for each child.

To qualify for the full credit, a family's modified adjusted gross income must be $80,000 or less for a parent filing as a single taxpayer or $160,000 or less for married parents filing jointly.

No Double Dipping

What's tricky about using the American Opportunity Tax Credit, as well as other higher-ed tax benefits, is that double dipping is prohibited.

Parents can't use the same educational expenses to qualify for more than one education tax benefit and that includes tax-free withdrawals from a 529-college savings account. (Those tax-free withdrawals are considered an educational benefit.) For instance, if you withdrew $4,000 from a 529 plan to help pay for college tuition, you couldn't use that same expenditure to qualify for the American Opportunity Tax Credit.

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