

PLANNING ESSENTIALS

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Newsletter

PLANNING FOR COLLEGE



In planning for your financial future, few decisions are as important as funding your child's college education. In this article, which is an update of an article that I originally wrote back in February 2006, I have tried to provide some additional insights into the challenges facing families and students in attempting to achieve this often overlooked financial goal. As we embark on the second decade of the 21st century, college funding takes on an added urgency as the world reels from financial crisis to financial crisis.

The first question usually asked by many high school students is,

Is college really worth it?

The English essayist, *G.K. Chesterton* once wrote, "*Education is simply the soul of society as it passes from one generation to the next.*"

Unfortunately for many of us however, college education for our children is a much more definitive and difficult undertaking than *Chesterton's* philosophical ideal.

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As we all know, college is expensive. Unfortunately, however, many of us treat saving for college as a discretionary item in our budget. Often, it is only when Junior receives the letter of acceptance from the school of his or her choice that reality kicks in. By that time, most of the best funding alternatives are no longer available. There are also some other considerations that make this financial decision one of the most important in your financial plan.

- *Expect college costs to rise*

In the past five years, college prices have continued to rise. Here are some startling statistics from “*Trends in College Pricing 2011*” published by the College Board’s Advocacy and Policy Center:

- Increases in college prices for tuition and fees, room and board, books and supplies and transportation continue to rise more rapidly than the expenditures that educational institutions are incurring to deliver educational services. These increases have in many instances also outpaced the increase in the Consumer Price Index. In California for example, which accounts for about 10 percent of total national college enrollees, tuition for 4-year institutions rose by 21 percent and for 2-year colleges by 37 percent for the 2010-2011 year! Other Western States were not far behind. Arizona and Washington posted increases to published charges for public 4-year colleges of 17 percent and 16 percent respectively. On the other hand 4-year public colleges in Connecticut and South Carolina published increases of 2.5 percent.
 - Price hikes in education have taken place against a background of a weak economy and record high unemployment. Incomes have also declined over the past ten years and assets set aside for college funding have declined in value.
 - The allotment to education grants and tuition credits from the various federal stimulus packages over the past three years have not offset the increases in prices.
 - The impact of the increase in college costs has been exacerbated by the fact that the college population has been growing with total post-secondary enrollment increasing by 22 percent in the last five years.
- *Is the increasing cost of college still worth it?*

Increasingly, employers require job applicants to have a college degree. The U.S. Census Bureau data shows that college graduates earn an average of 73 percent more than high school graduates, and over a working lifetime, the accumulated financial advantage is very substantial.

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(The College Board estimates that the earnings differential can be as much as \$1 million!) The Trends in College Pricing data indicate that the median income of families with at least a bachelor's degree was \$99,700 in 2010 compared to \$48,332 for those with only a High School diploma.

However, even with the higher earnings after graduation many students and families struggle to pay their student loans both during the college years and afterwards. And starting college is no guarantee that the student will obtain the degree. The data indicates that 83 percent of students who start college at a prestigious college complete their degrees within 6 years, but only 27 percent of those attending open enrollment universities and 53 percent of those attending schools that accept at least 75 percent of applicants graduate within a 6 year period.

Secondly, *what is the cost of college these days?*

Beginning on October 29th 2011 all colleges and universities participating in federal student aid programs are required to post on their websites net price calculators that allow students to calculate the net price of the school's charges. Previously colleges needed to reveal only their published charges. The net price is the price an average full time student actually pays for education at the college after allowing for grant aid as well as federal tax credits and deductions.

According to the College Board survey, the current average annual costs for a 4-year college were \$38,589 at a private college and \$17,131 at a public college in the student's State. Costs at the most prestigious and expensive private colleges however, exceed \$45,000!

The College Board has excellent tools and aids on its website, www.collegeboard.org to facilitate planning for the costs of college including the net price calculator. A financial aid calculator is also available that facilitates the estimation of financial aid based upon the college and financial circumstances of the student.

Thirdly, *what other considerations are involved in planning for college?*

Many surveys have revealed that parents typically pay about half of college costs out of their own pockets. If this cost item is unanticipated it can be very burdensome. It is therefore recommended that parents start early by putting together a *College Savings Plan*. Such a plan would estimate the costs of college, and make assumptions regarding investment returns in order to arrive at a targeted monthly savings amount to fund this objective. The College Board website www.collegeboard.org referred to above has a College Savings Plan module that is very helpful in putting together such an effective plan.

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Fourthly, What about Financial Aid?

Almost 60 percent of undergraduate students receive some type of financial aid. Such aid reduces the amount that parents have to fund for college. Financial aid however, is by no means automatic. It is awarded only on the basis of demonstrated financial need, which is computed by a formula that incorporates the cost of attendance at a particular college, minus an expected family contribution, minus aid available from other sources. Finally, aid is offered on a year-to-year basis, which further complicates the planning and budgeting process. A financial aid module that can assist parents is also available on the College Board website at www.collegeboard.org

In view of the importance of financial aid in financing college education, (the average financial aid was \$12,455 per student in 2010-2011), parents need to become familiar with the sources and forms of financial aid. It is helpful to start by considering the two main categories of aid:

- *Gift aid* – scholarships, grants and tuition discounts that do not have to be repaid.
- *Self help aid* – these include College Work Study programs and loans.

Also, the federal financial aid application process is a cumbersome and lengthy one. A wrong or incomplete answer to one of the 103 questions listed on the *FAFSA* application form could significantly reduce the financial aid that is awarded to the student. Please refer to the College Board website for assistance and tips in completing the *FAFSA* application. There are also many strategies that can be employed by students and parents to maximize the awarded aid. Parents are well advised to consult a financial planner or financial aid counselors at colleges where their children might attend, regarding available financial aid awards and how to integrate this into the overall college savings plan. It is also worth noting that over 600 colleges, universities, graduate and professional schools, and scholarship programs use the information collected on a form called *PROFILE* to award non-federal student aid funds.

Fifthly, there are various tax advantaged ways of paying for college which should be incorporated into the college savings plan.

In putting together the college savings plan, parents need to be aware of the various tax savings programs that are available under current tax law. Your projected cost of college is not complete without an adjustment for these tax savings. In addition to income tax reduction from education tax credits, such as the *American Opportunity, Hope and Lifetime Learning Credits*, there are also tax favored vehicles such as *529 plans, Cloverdale Savings Accounts, Series EE Savings Bonds, and Individual Retirement Accounts* for saving for college. Investments in these accounts are allowed to accumulate tax free, provided that the funds are withdrawn to pay for tuition fees and costs. Please consult your accountant or financial planner for advice on which programs would be best for you.

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Finally, what about pre-college education?

As public school education in the United States struggles with chronic under funding and poor scholastic performance, parents are increasingly turning to the private sector to educate their young children. There are a few tax saving programs that are directed towards elementary and high school education. One of these is the *Cloverdale or Education IRA* account. The maximum amount that can be contributed annually to this account is \$2,000, and the accumulated amounts can be withdrawn to pay for tuition, books and supplies for pre-college education.

Recent College Facts:

<i>Average College Costs 2010-2011</i>	<i>Did You Know?</i>
<i>Four-year private \$38,589 (up 4.4 percent from last year)</i>	<i>About 50 percent of students attending public and private four-year colleges pay less than \$9,936 per year in tuition & fees</i>
<i>Four-year public \$17,131 (up 6.0 percent from last year)</i>	<i>Only about 2 percent of all students attend colleges where tuition & fees total \$33,000 or higher per year</i>
<i>Two-year public \$2,963 (up 8.7 percent from last year)</i>	<i>44 percent of all students attend two-year colleges. This is the fastest growing sector of the post secondary student population.</i>
<i>Students will pay, on average, from \$314 to \$327 more than last year for this year's room & board, depending on college type.</i>	<i>In 2010-11, about \$178 billion in financial aid was awarded to undergraduate students.</i>

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Appendix

Average Published Charges for Undergraduates by Carnegie Classification, 2011-12 (Enrollment-Weighted)

Sector	Tuition and Fees				Room and Board				Total Charges			
	2011-12	2010-11	\$ Change	% Change	2011-12	2010-11	\$ Change	% Change	2011-12	2010-11	\$ Change	% Change
Public In-State												
Doctoral	\$9,185	\$8,492	\$693	8.2%	\$9,353	\$8,989	\$364	4.0%	\$18,538	\$17,481	\$1,057	6.0%
Master's	\$7,186	\$6,600	\$586	8.9%	\$8,153	\$7,856	\$297	3.8%	\$15,339	\$14,456	\$883	6.1%
Bachelor's	\$6,604	\$6,207	\$397	6.4%	\$8,251	\$7,927	\$324	4.1%	\$14,855	\$14,134	\$721	5.1%
Private												
Doctoral	\$35,195	\$33,699	\$1,496	4.4%	\$11,806	\$11,381	\$425	3.7%	\$47,001	\$45,080	\$1,921	4.3%
Master's	\$25,863	\$24,695	\$1,168	4.7%	\$9,629	\$9,259	\$370	4.0%	\$35,492	\$33,954	\$1,538	4.5%
Bachelor's	\$25,838	\$24,776	\$1,062	4.3%	\$9,233	\$8,869	\$364	4.1%	\$35,071	\$33,645	\$1,426	4.2%

Average Published Charges for Undergraduates by Type and Control of Institution, 2011-12 (Enrollment-Weighted)

Sector	Tuition and Fees				Room and Board				Total Charges			
	2011-12	2010-11	\$ Change	% Change	2011-12	2010-11	\$ Change	% Change	2011-12	2010-11	\$ Change	% Change
Public 2-Year In-State	\$2,963	\$2,727	\$236	8.7%	—	—	—	—	—	—	—	—
Public 4-Year In-State	\$8,244	\$7,613	\$631	8.3%	\$8,887	\$8,549	\$338	4.0%	\$17,131	\$16,162	\$969	6.0%
Public 4-Year Out-of-State	\$20,770	\$19,648	\$1,122	5.7%	\$8,887	\$8,549	\$338	4.0%	\$29,657	\$28,197	\$1,460	5.2%
Private Nonprofit 4-Year	\$28,500	\$27,265	\$1,235	4.5%	\$10,089	\$9,706	\$383	3.9%	\$38,589	\$36,971	\$1,618	4.4%
For-Profit	\$14,487	\$14,040	\$447	3.2%	—	—	—	—	—	—	—	—