MUST READ

The Best Advice for Planning to Pay for College

Consider this required reading: Whether your student is many years or mere months away from college, here's a foolproof plan that tells you everything you need to know.

By Lisa Goff From Reader's Digest

Plus: New Ways to Save for College

No wonder you can't sleep. Your child is headed to college, and you have no idea how you're going to foot the bill. Sure, you were putting aside money regularly. But then came the recession and what *New York Times* columnist Ron Lieber calls the "perfect storm of ugliness." Tuition costs have risen at a time when you've lost income and equity in your home. And any savings or investments—including that 529 plan—have taken a hit. There's less financial aid available, and bankers have tightened up on the credit. All of which leaves your child facing the prospect of a mountain of student-loan debt upon graduation—if he can even get a loan. For many young people, that will mean delaying things previous generations took for granted: the first apartment, a car, marriage, even children.

Believe it or not, you've got options. Costs are indeed astronomical at many of the 371 schools that make the best-of lists. Of 3,500 colleges surveyed, though, 55 percent of students pay $9,000 or less a year in tuition and fees.

The trick is to figure out what will work best for your family. Here's the secret: While it may take a village to raise a child, it definitely takes a family to send one to college. If two or three generations work together, college bills can be paid without raiding parents' (or grandparents') retirement funds and without saddling students with crippling levels of debt. Simple sacrifices, advance planning, and reasonable expectations are the key.

Adding It Up
A typical path to paying the bottom line:
36% Parent income and savings
25% Scholarships and grants
14% Student loans
10% Student jobs and savings
9% Parent loans
6% Family and friends

Birth Through Seventh Grade

Parents

- Invest $50 a month in a college fund. Which kind of fund you choose matters less than saving regularly, perhaps through an automatic payroll deduction. In 18 years, a fund that earns 6 percent a year will be worth about $20,000. And that much per child, along with $20,000 in student loans and some belt-tightening while your children are in college (about $5,000 per year, roughly what you already pay to feed, clothe, and shelter one teenager), should be enough to pay the average four-year $60,000 tab, says certified financial planner Kevin McKinley.
- Rumors circulate about families who scored big financial aid awards by saving nothing at all. But that's just another alligator in the subway. Your income, not your savings, will matter most to financial aid advisers as they decide how much aid to give you.
- Some credit cards reward college savings. Upromise, the largest administrator of 529 plans, deposits 1 to 10 percent of purchases made with its World MasterCard directly into your Upromise account (upromise.com). You then transfer the funds into any of its 529 plans (529.com). Friends and family can also sign up to have their purchases credited to your child's account.
- U.S. Treasury bonds (Series EE or Series I) are still a safe bet, immune to the stock market plunges that decimated many families' college savings earlier this year. The EE bond is guaranteed to double its value in 20 years, or the government will make up the difference. (You lock in a fixed interest rate, which varies depending on when you purchase the bond. Recently, that rate was 0.7 percent.) Some states also sell tuition bonds. Illinois, for example, offers 4.75 percent on 20-year bonds. You pay about $2,000 for a bond for a newborn, but it will be worth almost $5,000 by the time she's a junior in college (you don't have to live or plan to go to school there). Buy bonds at your local bank or brokerage firm, at treasurydirect.gov, or call 800-722-2678. Earnings are tax-free. But using bonds to save for college can be complicated. School yourself at findaid.org/savings/bonds.phtml.
- Deposit birthday checks and other cash gifts straight into your child's college fund. Thank-you notes that emphasize that fact will encourage more of the same. Bolder still, set up a college savings gift registry at Freshman Fund (freshman fund.com) or Ugift (529.com).
- The sooner you start saving for your child's education, the less you (or your child) will have to borrow later. But starving your retirement fund to feed a child's college account is never a good idea. You can always borrow to pay for college, but you cannot borrow to pay for retirement.

Willing Grandparents

- Grandparents can make a huge dent in a college bill if they, like the parents, start saving early. A $500 annual investment in a mutual fund averaging 6 percent will balloon to about $13,500 by the time the high school class of 2027 (born in 2010) marches off to college.

Eighth Through Tenth Grades

Parents

- With five or fewer years left on the clock, now is the time to think about prepaid 529 tuition plans, which promise to lock in today's tuition prices for tomorrow's college student. If you want the peace of mind of knowing exactly what your child's tuition will cost, or if you don't have any college savings—and 38 percent of families don't—a prepaid plan might be a good choice. You will incur penalties for early withdrawals in some states—as high as $300. Scrutinize your state's fees at collegesavings.org. For students interested in attending a private university, the Independent 529 Plan (independent529plan.org) is good at about 300 private, mostly small liberal arts colleges.
- If you have more than one child, experts say, individual 529 savings accounts are a better choice than one account for all, as long as maintenance fees don't multiply. Many plans will waive fees if you sign up for direct deposit. With individual accounts, money saved for younger siblings typically won't count against the firstborn when his college calculates need-based financial aid. If one child hits the scholarship jackpot and ends up not needing her 529 savings, you can usually change the name of the beneficiary or transfer funds tax-free to another child's plan.
- If you opted for mutual funds, remember to fine-tune them annually for less risk as your child gets older—fewer stocks, more bonds—so that you are less likely to lose money. Age-based 529 plans do this automatically, but some are better at it than others: Ohio College Advantage and Virginia Education Savings Trust, to name a few. Check your fund's performance on the list of best and worst 529s published each spring by Morningstar, the independent mutual fund research firm (click on the Funds tab at morningstar.com).

Willing Grandparents

- Your storied past may be the key to scholarship money for your grandchildren. Create a "grandparent résumé" that includes the places you've worked, the names of clubs you've belonged to, and your ethnic and racial heritage going back several generations. Share it with your grandchildren—a rewarding exercise in itself. Offer to help them search for matches at scholarships.com and fastweb.com.
- Your military service is a source of pride; it can also be a font of scholarships. The American Legion (legion.org), the Veterans of Foreign Wars (vfw.org), and Vietnam Veterans of America (vva.org) all sponsor scholarships for grandchildren of veterans.

Students

- Children as young as 13 can start applying for college scholarships. Sponsors range from the Library of Congress to the American Licorice Company and reward skills as diverse as building model rockets and making peanut butter sandwiches. Wacky, but the money is real enough. FinAid has a comprehensive list and links to scholarship websites (finaid.org/scholarships).
- Students should sign up for AP (Advanced Placement) and classes that offer college credit. Making the grade in four such classes can wipe out a semester's worth of college requirements, a savings of roughly $7,000 in tuition and living expenses at a state school. Plus, high AP scores increase your chances of getting merit or non-need-based aid from colleges.
- Get a job. Students can earn up to $3,000 without losing any financial aid. Lawn mowing and pet sitting add up over the years.

11th Through 12th Grades

Parents

- Be blunt with your child about spending limits. Insist that he apply to at least two safety schools that you can afford with minimal borrowing.
- No savings? The Federal Parent PLUS Loan program lends parents the balance of costs minus any financial aid. You'll pay 3 to 4 percent of the loan amount in fees and around 8.5 percent interest (it's slightly lower if you borrow directly from the government at direct.ed.gov, but ask if the college participates in the direct loan program).
- Federal Pell Grants, which do not have to be repaid (ed.gov), offer a maximum of $5,350 per child, based on need. Most families that qualify earn less than $50,000. If your income is significantly higher but you have more than one child in college, you may still make the cut.
- Save money on college visits by taking virtual tours on college websites or at unigo.com.
- Sign up for a tuition payment plan that lets you pay monthly rather than in two lump sums a year.

Willing Grandparents

- A few colleges, like Texas State University and the University of Maine, extend legacy scholarships to grandchildren of alumni. Hood College in Maryland offers first-year students a $5,000 scholarship if a grandparent (or parent) went there. The state of Colorado runs an annual essay contest for grandparents, awarding ten grants of $2,500 each (collegeinvest.org).

Students

- It's time for them to get some skin in the game. Student loans often have lower interest rates than anything parents qualify for.
- Start with the feds. Perkins Loans (you repay these, with interest) go to the neediest students, but Stafford Loans are for everybody, and they're generous: Dependent children can borrow up to $31,000; independents (usually anyone who is 24 or older, married, a veteran or who has dependents), up to $57,500. The new Income Based Repayment (IBR) program pegs monthly payments to a student's income and family size, not the loan amount. Decipher the options at studentaid.ed.gov.
- Rule of thumb: They shouldn't borrow in total more than what they can expect to earn their first year out. "They will almost certainly default on higher levels of debt," says FinAid founder Mark Kantrowitz. If they hope to make $40,000 that first year out of college, for example, they shouldn't borrow more than $10,000 a year.
- Peer-to-peer lending websites have mushroomed, but beware of adjustable rates that can balloon to 30 percent or more. Greennote.com offers a 6.8 percent fixed-rate loan with ten years to repay it after graduation. Tuitionu.com lists other private lenders.

- They shouldn't blow off taking the PSAT exam in the 11th grade, thinking it's just a practice SAT. It's the only way to qualify for a National Merit Scholarship. Finalists can receive $2,500.
- Make a final scholarship sweep at finaid.org/scholarships. Find scholarships for racial minorities at collegescholarships.org; there's even a category for "White Male."
- Military schools provide a free world-class education (gov.com/agency/dod/ college.html). The ROTC (Reserve Officers' Training Corps) program provides scholarships and living expenses (goarmy.com/rotc). Both require a military service commitment.
- Seven "work colleges," including Berea College in Kentucky and Warren Wilson College in North Carolina, either waive tuition or offer it at a reduced cost in return for labor (workcolleges.org).
- Colleges don't own crystal balls. If your financial situation changes because of a job loss or high unreimbursed medical expenses, call the financial aid adviser. He or she may increase your financial aid—including federal aid.
- A handful of colleges—like George Washington University in Washington, D.C., and the University of Kansas—offer prix fixe tuition. All Illinois public institutions have programs that freeze freshman-year tuition for four years.
- Is it really worth it to attend a school that doesn't have a great job-placement office? Look for colleges that back up their success rate with statistics.

The Numbers
The cost, and benefit, of a college degree:
$23,186 Average student debt at graduation
66 Percentage of students who graduated with debt in 2008
20% Increase in number of parents filling out the FAFSA in 2008
$1.2 million Average gap in lifetime earning potential between high school and college graduates (with a bachelor's degree)

Comments :