The Five Best Ways to Save for College

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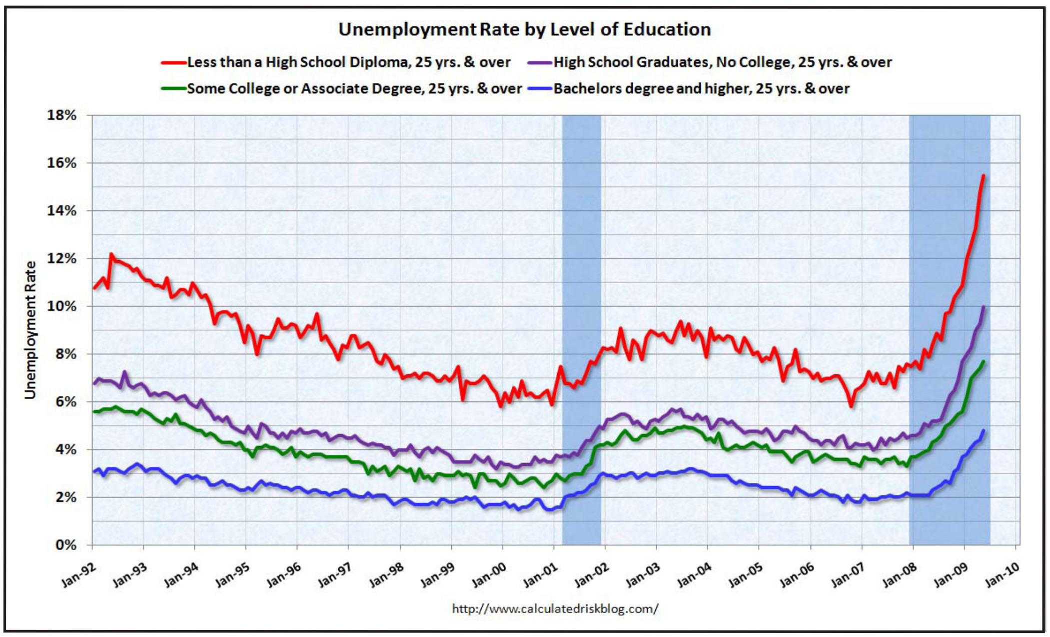
The value of a college education is well known. Nowadays, it seems that a college degree is the minimum requirement to apply for even an entry level job. Many people are finding that they need a Masters / MBA just to differentiate themselves from the crowd and land (or keep) a good job. For example, here is a graph on the unemployment rate by education level:



As you can see, it has always been better to have a college degree, but even though the unemployment rate for college graduates has doubled in the last two years, it is still far better than any of the other choices.

Unfortunately, the cost of that college education has been increasing by leaps and bounds. Over the last 50+ years, college costs have increased an average of 6.9%. That means the cost of a college education has doubled every 10 years. Compare this to the general inflation rate that has only increased 4.15% annually. In other words, college costs are not only increasing, but they are increasing faster than many other goods and services. What you paid for four years of college 20 years ago is what it costs for a single year today!

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So how can you afford to send your child or children to college in the future? Here are some of the traditional methods, and why these have become limited or even obsolete:

- Loans – Currently there are two main types of loans available for college:
    - Federal (Stafford) Loans - Stafford Loans are available to most college students, and can either be subsidized (Uncle Sam pays the interest while the student is in school) or unsubsidized (interest accumulates). Maximum loan amounts are currently $5,500 per year ($3,500 maximum subsidized and $2,000 unsubsidized).
    - Private loans from banks are available to students and parents (called PLUS loans) to pick up amounts over the Stafford limits.

  The main drawback of taking out loans is that you are making an expensive college education even more expensive, as now you are paying interest on the loans. In addition, the interest rate on these loans may be more than you can borrow via a personal loan. In short, use loans sparingly.

- Athletic Scholarships – So your 12 year old is unstoppable on the soccer field; can that translate into big bucks when college rolls around? Don't count on it. According to several studies, only 2% of high school athletes are awarded an athletic scholarship. If you play a popular sport (i.e. basketball) the chances are about 1 in 70 of receiving any kind of scholarship. That means you can't just be the best on your team; you'd better be the best in the conference. Even then, you have to keep your grades up. An athlete who can't make the grade doesn't make the team.

- Academic Scholarships – These are more readily available than athletic scholarships, but still have high standards. Almost all require a 3.5 (out of 4) GPA and excellent scores on standardized tests such as the SAT and/or ACT. Just remember that grades and scores that might garner you a scholarship at one school might be the minimum requirement for an Ivy League school. In other words, the more exclusive (and expensive) the school, the more you need the academic scholarship, but the less likely you are to receive one.

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That begs the question, "So what is the best way to pay for college?" The following are five things that will make saving and paying for college much easier:

1. **Review your current expenditures and see if you can save more.** Many people focus all their attention on how to squeeze the most return out of their savings, either through better investment planning or tax-advantaged accounts. While this is very important (see #2 below), cutting expenses and saving the money would have a much bigger impact.

   For example, let's say your daughter just turned 13 and you have 5 years to accumulate funds for college. If you could save $200 per month and earn 6% interest, you would have $14,340. If you do a great job investing (or take more risk) and earn 8% you would have $15,206, a difference of about $865. However, by increasing your savings by just $15 a month (50 cents a day) you would have $15,416 @ 6% interest. In other words, when you have a short time period, the amount you save is much more important than the interest you earn.

2. **Utilize a college savings 529 plan.** When you are investing funds specifically for college, your first option should be a 529 plan. Most states have one or more plans and they work much like a Roth IRA – deposit after-tax funds, and when you withdraw money for college expenses, you don't pay any tax on the earnings. In addition, your state may provide state income tax deductions or credits to incentivize you to invest in your home state's plan. Contact us for a list of the top state plans and which one you would be best for you.

3. **Track down local grants and scholarships.** Believe it or not, there are plenty of local organizations that provide money for college. Check with the Lions, the Chamber of Commerce, Toastmasters, the Knights of Columbus or even individual stores of a larger chain (i.e. Wal-Mart or Target). These might not be the full-ride scholarships that everyone wants, but they might cover books for a semester or two.

4. **Shoot for the "2 - 3 year plan."** It used to be that people went to college for 4 years and graduated with their degree. Unfortunately, today it routinely takes people 5 years (or more) to graduate, especially at public or for-profit schools. However, if you can cut that down to 3 years or less, you'll save tens of thousands of dollars. It is actually easier to do this than you think:

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a. Go to the local community college and transfer. Community colleges routinely are less expensive than either public or private schools, with the additional benefit of living at home and saving money on room & board. New laws in many states guarantee the transferability of credits. Remember, your diploma will show the place you graduated from, not where you started.

b. AP Courses or College-Level Examination Program (CLEP). AP courses are classes that your student takes while still in high school and they are specifically designed to prepare students for college. At the end of the course, the student takes an exam, and if he scores high enough, the college grants college credits.

   The College-Level Examination Program (CLEP) is similar, but it is only the final exam, without the coursework. These are ideal for students who have previous experience, independent study or on-the-job training. The other nice thing is that they are inexpensive: just $77 per test.

c. Dual Credit Courses. These are college level courses that students take while still in high school, but they count for both high school and college credit. Sometimes the courses are offered in the high school while others are located on the college's campus. Costs are heavily subsidized by the college, as they routinely use them as a recruiting technique.

d. Online Universities. This is the age of the internet and it has touched just about every part of our lives. Education is no different. For-profit schools have been providing online degrees for years, and more and more employers are looking at these degrees with the same amount of respect as some traditional colleges. Even more recently are the additions of public online colleges, which provide a low-cost alternative to both for-profit and traditional colleges.

e. Summer School. If you thought only the kids who had trouble in school took summer courses, think again. Many colleges offer summer coursework, or even intensive "May Programs" that last 4 – 5 weeks. Here again, look to your local community college to take some 101 level courses (i.e. psychology, sociology, etc.) so the student can focus on degree-specific courses during the school year.

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5. **The student should contribute their fair share.** Who says that Mom & Dad have to foot the entire bill? Students can earn several thousand dollars working summers and even during the school year if they balance their time correctly. Here again, it might not pay for everything, but every little bit helps. Who knows? Maybe your student might take those classes a little more seriously if they are having to write a check to pay for it.

Michael Kalscheur, CFP®, is a Senior Financial Consultant at Castle Wealth Advisors, LLC. Castle specializes in helping wealthy families and closely-held business owners with strategies to protect and transition family assets from one generation to the next. Castle's senior partners also work with clients throughout the country in making logical decisions to help them fulfill their personal and business financial goals. For more information visit www.Castle3.com, call 1-888-849-9559 or contact Michael directly at michael@castle3.com.