Financing Your Child’s College Education: Common Myths and Mistakes

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WHAT IS THIS I DON'T EVEN
### Myth: College isn’t worth it

#### The Value of Higher Education

<table>
<thead>
<tr>
<th>Unemployment rate in 2013 (%)</th>
<th>Median lifetime earnings in 2013 ($ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.2  Doctoral Degree</td>
<td>3.4</td>
</tr>
<tr>
<td>2.3  Professional Degree</td>
<td>3.6</td>
</tr>
<tr>
<td>3.4  Master’s Degree</td>
<td>2.7</td>
</tr>
<tr>
<td>4.0  Bachelor’s Degree</td>
<td>2.3</td>
</tr>
<tr>
<td>5.4  Associate Degree</td>
<td>1.6</td>
</tr>
<tr>
<td>7.0  Some College, no Degree</td>
<td>1.5</td>
</tr>
<tr>
<td>7.5  High School Diploma</td>
<td>1.4</td>
</tr>
<tr>
<td>11.0 No High School Diploma</td>
<td>0.98</td>
</tr>
</tbody>
</table>

All workers: 5.4%  All workers: $2.2 MILLION

Assessing Value of College

- Future earnings potential versus burden of debt
- Reputation of school and programs
- Access to college’s network
- Strength of student support services
- Live longer
<table>
<thead>
<tr>
<th>Rank</th>
<th>School Name</th>
<th>20 Year Net ROI</th>
<th>Total 4 Year Cost</th>
<th>Graduation Rate</th>
<th>Typical Years to Graduate</th>
<th>Average Loan Amount</th>
<th>% Grant Money Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Harvey Mudd College (Private)</td>
<td>$1,104,500</td>
<td>$237,700</td>
<td>91%</td>
<td>4 Years</td>
<td>$21,920</td>
<td>71.0%</td>
</tr>
<tr>
<td>2</td>
<td>California Institute of Technology (Caltech) (Private)</td>
<td>$1,029,700</td>
<td>$221,600</td>
<td>93%</td>
<td>4 Years</td>
<td>$22,160</td>
<td>54.0%</td>
</tr>
<tr>
<td>3</td>
<td>Stanford University (Private)</td>
<td>$966,900</td>
<td>$233,300</td>
<td>96%</td>
<td>4 Years</td>
<td>$29,880</td>
<td>53.0%</td>
</tr>
<tr>
<td>4</td>
<td>Stevens Institute of Technology (Private)</td>
<td>$948,300</td>
<td>$232,000</td>
<td>79%</td>
<td>5 Years</td>
<td>$44,000</td>
<td>97.0%</td>
</tr>
<tr>
<td>5</td>
<td>Babson College (Private)</td>
<td>$946,500</td>
<td>$230,200</td>
<td>91%</td>
<td>4 Years</td>
<td>$31,880</td>
<td>45.0%</td>
</tr>
<tr>
<td>6</td>
<td>Massachusetts Institute of Technology (MIT) (Private)</td>
<td>$943,600</td>
<td>$224,500</td>
<td>93%</td>
<td>4 Years</td>
<td>$33,680</td>
<td>56.0%</td>
</tr>
<tr>
<td>7</td>
<td>Princeton University (Private)</td>
<td>$932,500</td>
<td>$217,300</td>
<td>97%</td>
<td>4 Years</td>
<td>$17,040</td>
<td>60.0%</td>
</tr>
<tr>
<td>8</td>
<td>Brown University (Private)</td>
<td>$867,000</td>
<td>$229,100</td>
<td>95%</td>
<td>4 Years</td>
<td>$24,640</td>
<td>47.0%</td>
</tr>
</tbody>
</table>
Myth: It’s too expensive

ONE HUNDRED

MILLION DOLLARS!
• Sticker Price vs. Net Price
• Net Price Calculator
• College Scorecard
How did we calculate your net price? Your net price is the cost of attendance (estimated below) minus grants and scholarships (money you do not have to pay back) that you may receive.

### Estimated Cost of Attendance

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition &amp; Fees</td>
<td>$50,785</td>
</tr>
<tr>
<td>Room &amp; Board</td>
<td>$12,050</td>
</tr>
<tr>
<td>Books &amp; Supplies</td>
<td>$1,275</td>
</tr>
<tr>
<td>Transportation</td>
<td>$1,050</td>
</tr>
<tr>
<td>Personal Expenses</td>
<td>$1,500</td>
</tr>
<tr>
<td><strong>Estimated Total Cost of Attendance</strong></td>
<td><strong>$66,660</strong></td>
</tr>
</tbody>
</table>

### Estimated Grant/Gift Aid

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Grant</td>
<td>$39,900</td>
</tr>
<tr>
<td><strong>Estimated Total Grant/Gift Aid</strong></td>
<td><strong>$39,900</strong></td>
</tr>
</tbody>
</table>

**ESTIMATED NET PRICE**: $26,760

### Estimated Self Help

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Loan</td>
<td>$7,000</td>
</tr>
<tr>
<td>Student Work</td>
<td>$2,200</td>
</tr>
<tr>
<td><strong>Estimated Total Self Help</strong></td>
<td><strong>$9,200</strong></td>
</tr>
</tbody>
</table>

**ESTIMATED REMAINING COST**: $17,560

### Calculated Family Contribution

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent Contribution</td>
<td>$10,542</td>
</tr>
<tr>
<td>Student Contribution</td>
<td>$2,909</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$13,451</strong></td>
</tr>
</tbody>
</table>

The figures above represent the Expected Family Contribution or EFC. This figure will be calculated when you complete the FAFSA and Profile applications. The total family contribution is the amount of money a family is expected to contribute towards a student's college costs.

For dependent students it is divided into two separate sections: a parent contribution and a student contribution. The parent contribution is arrived at by evaluating the income and assets of the student's parents. GW has a standard first-year student contribution of $2,909. The student contribution may be higher based on the student's income and assets.

Need-based financial assistance is used to fund the demonstrated “need” of the student which is the difference between the Estimated Cost of Attendance and Expected Family Contribution. While the EFC is used to determine eligibility, the Estimated Remaining Cost figure to the left is the best estimate of your out of pocket expenses after all need-based grants and self-help resources are applied.
College Scorecard

Georgetown University
Washington, DC
7,261 undergraduates

- Average Annual Cost: $27,801
- Graduation Rate: 93%
- Salary After Attending: $83,300

American University
Washington, DC
6,829 undergraduates

- Average Annual Cost: $33,437
- Graduation Rate: 78%
- Salary After Attending: $55,900

George Washington University
Washington, DC
10,121 undergraduates

- Average Annual Cost: $30,206
- Graduation Rate: 80%
- Salary After Attending: $64,500

Catholic University of America
Washington, DC
3,641 undergraduates

- Average Annual Cost: $34,086
- Graduation Rate: 68%
- Salary After Attending: $54,500

VIEW MORE DETAILS

National Average
How the Average American Family Pays for College

- Student Income & Savings: 29%
- Student Borrowing: 18%
- Relatives & Friends: 12%
- Parents Borrowing: 9%
- Parent Income & Savings: 4%
- Grants & Scholarships: 28%

Myth: We won’t qualify for aid...
Expected Family Contribution

• A measure of your family’s financial strength and is calculated according to a formula established by law.

• What is considered in the formula:
  • Taxed and untaxed income, assets, and benefits (such as unemployment or Social Security)
  • Family size and the number of family members who will attend college during the year
Expected Family Contribution

Your EFC is **not** the amount of money your family will have to pay for college **nor** is it the amount of federal student aid you will receive.
Direct Loans

- Subsidized
- Unsubsidized
- Parent PLUS
DEADLINES!
Myth: Don’t save too much

Fewer than 4% of families who fill out financial aid applications are penalized for their savings.
The more you invest and the earlier you start, the more your money has the opportunity to grow!

Assumes initial contribution of $2,500.

<table>
<thead>
<tr>
<th>Monthly contribution</th>
<th>Total Accumulation in 6 Years</th>
<th>Total Accumulation in 12 Years</th>
<th>Total Accumulation in 18 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50</td>
<td>$7,922</td>
<td>$15,686</td>
<td>$46,270</td>
</tr>
<tr>
<td>$100</td>
<td>$12,264</td>
<td>$26,246</td>
<td>$47,367</td>
</tr>
<tr>
<td>$200</td>
<td>$20,948</td>
<td>$26,806</td>
<td>$85,200</td>
</tr>
</tbody>
</table>

Source: This chart assumes a hypothetical 6% return on investments. Calculations are based on bankrate.com/calculators/investing/simple-savings-calculator. Hypothetical results are for illustrative purposes only and are not meant to represent the past or future performance of any specific investment vehicle. Investment return and principal value will fluctuate and when redeemed the investments may be worth more or less than their original cost.
529 Plans

A 529 plan is a tax-advantaged savings plan designed to encourage saving for future college costs.

Can be used for tuition, books, and other educational-related expenses at most accredited two- and four-year colleges and universities, U.S. vocational-technical schools, and eligible foreign institutions.

Source: Strategic Insight’s 3Q14 Savings Plan Data Quarterly Highlights
SavingforCollege.com

- Compare savings options
  - Roth IRA
  - Coverdell Education Savings Account
  - Uniform Gifts to Minors Act (UGMA) and the Uniform Transfers to Minors Act (UTMA) custodial accounts
- Learn more about 529 plans
  - Savings vs Prepaid
  - 529 Fee Study
Retirement at risk…

- Markets fluctuate
- Lose out on earnings
- Defaulting on retirement loans or hardship withdrawals are taxable events
- Could effect your EFC
Helpful Tools and Links

- Federal Student Aid (https://studentaid.ed.gov/sa/)
- PayScale College ROI Report (http://www.payscale.com/college-roi)
- College Scorecard (https://collegescorecard.ed.gov/)
- FAFSA (https://fafsa.ed.gov/)
- Saving for College (http://www.savingforcollege.com/)
Takeaways

1. Get started as early as you can to save for college
2. Explore your options and compare net price vs sticker price and overall value
3. Follow deadlines for financial aid
4. Avoid borrowing from your future to pay for your present
5. Consult your financial/tax advisor