# Are You Covering Your Child's Tuition?

## Six options for funding your child's education

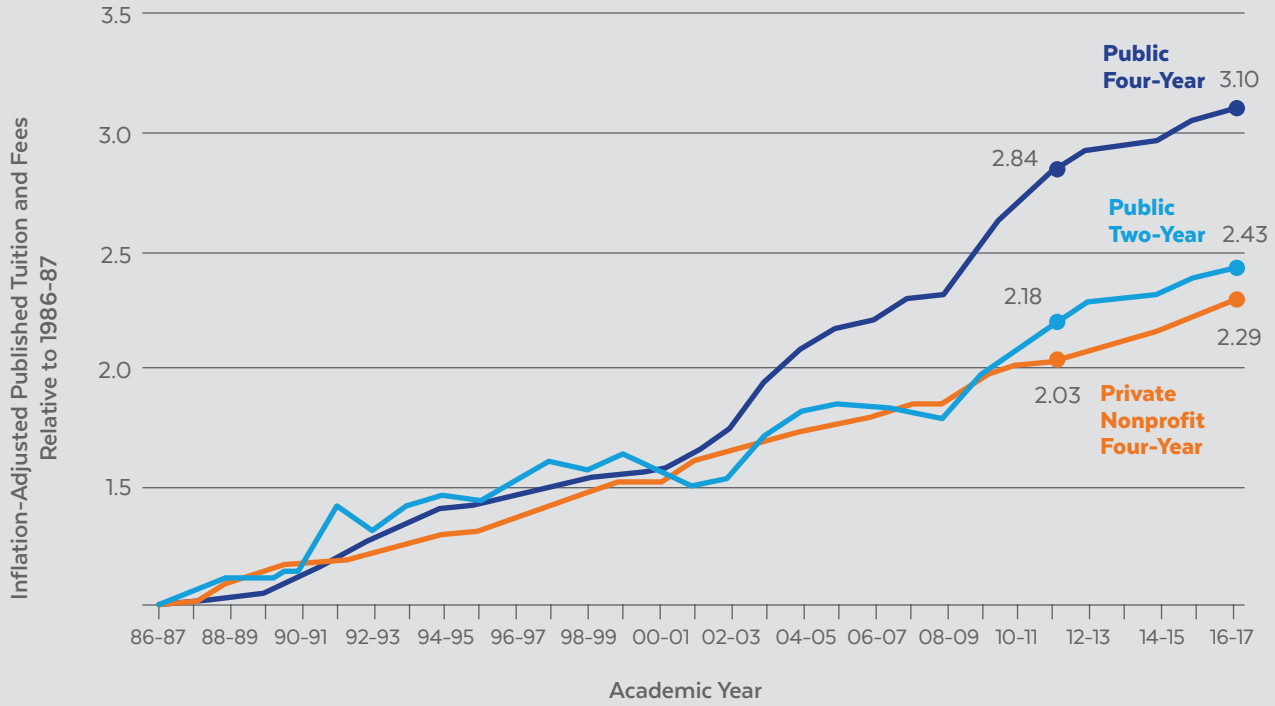
A college degree is more expensive than ever, and more essential than ever. Many parents know their children will attend college, but aren't exactly sure how (or if) they will help pay for it.

The expense of college continues to increase at a rate faster than inflation and is outpacing income growth, according to the College Board's 2016 Trends in College Pricing. The total price for tuition, fees and room and board totals around $80,000 at an in-state public institution and $180,000 at a private institution.[1]

"The average parent is a bit overwhelmed when they see what both public and private colleges cost to attend—and that college costs are rising by more than twice the consumer price index," says John Sullivan, CFP®, ChFC®, CLU® Senior Wealth Planner, SunTrust Bank.[2]

> **"After adjusting for inflation, the average published tuition and fee price in the public four-year sector is 3.1 times its level 30 years ago. In the public two-year and private nonprofit four-year sectors, the prices are about 2.4 and 2.3 times their 1986-87 levels, respectively."**
>
> *—College Board Trends in College Pricing 2016*

**2016-17 Inflation-Adjusted Published Tuition and Fees Relative to 1986-87 (1986-87 = 1.0)**




*Source: Trends in College Pricing Report by The College Board*

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Despite the stunning prices and the anecdotal realities of the "BA barista," data continues to show that adults with college degrees are more likely to find jobs in their preferred field and earn more than those without degrees.[3]

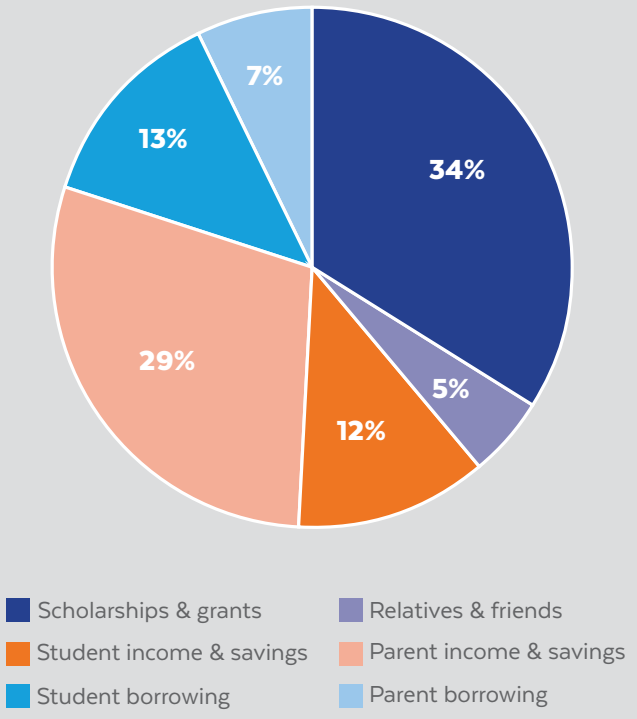
College is still well worth the investment, but figuring out how to shore up the money needed can make it puzzling for parents.

"The vast majority of parents just find this whole process mysterious, and it's unfortunate because it's such an expensive purchase to feel so clueless about," says Lynn O'Shaughnessy, higher education speaker, author and journalist who runs TheCollegeSolution.com.

### The College Finance Puzzle

The truth is, most college educations are funded through multiple sources. On average, parental income and savings cover about 29 percent of the bill—the rest is covered by a combination of resources, including grants and scholarships, student income and loans for students and parents.[4]

**Contributions from relatives and friends funded an additional 5 percent of college expenses**




*Source: How America Pays for College 2016 Report by Sallie Mae*

The first, and biggest, questions families need to deal with are: "Where's the money going to come from? Is it going to come from savings? Mom and Dad? A child taking a part-time job [while in school]? Grants, scholarships or loans? There are a lot of options, and I see the clients firsthand being very overwhelmed with those options," Sullivan says. "We try to evaluate the best options to pursue. The sooner they start with a comprehensive plan, which includes a plan for achieving their college goals, the better."

There's also another layer parents have to consider: Their own financial goals. "You need to consider yourself and your financial needs alongside your children's," says John Hupalo, creator of college finance advice site InviteEducation.com and author of *Plan and Finance Your Family's College Dreams*. "Flight attendants instruct us before every flight to put on our oxygen masks before assisting children. It's the same thing with retirement. You need to make sure you're solid first so you can take care of your children."

As Sullivan says, you can borrow money to fund college but you typically can't borrow money to fund your retirement. The simple act of creating a plan to pay for college has immense positive outcomes: When compared to those who don't, families who create a plan report a greater incidence of enrollment in four-year colleges and greater peace of mind with regard to paying for college, claiming more confidence and less stress.[4]

Sullivan has clients start with a budget. "They write down where their money is going. That way they can make conscious decisions," he says. "If you don't understand where your money is going, there's no way to cut back on how much you're spending and save money for your financial goals."

The budget is crucial to wrapping your arms around the college planning process and allowing you to save as much as possible and as soon as possible.

### Laying Out the Pieces

There are many ways to fund a college education, but parents need to lay everything out on the table and take a look at what's available to make it work.

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**1. Start with savings**

Savings are key for a college financial plan. Even if you're new to savings and your child is in high school, it's not too late to start a savings plan. Take a look at a 529 college savings plan, says R. Alex Null, CFP®, Senior Product Manager at SunTrust Private Wealth Management.[2] A 529 plan is a tax-advantaged savings account where earnings grow tax-free when used to pay for qualified college expenses.

**If you want to dive even deeper with your savings, Null and Sullivan offer these three tips:**

**1** "You want to look at the investments inside the 529," Sullivan says, and suggests that if you start late or you're getting closer to the time your child is about to enter college, opt for a more conservative fund. Talk to your advisor for more detail on how to target your investments based on different time horizons.

**2** Also, consider a 529 pre-paid tuition plan, which is similar to the tax-advantaged college savings plan but has the added benefit of locking in today's tuition rates. Considering how college costs continue to rise, these plans could offer significant savings. Even if you started one your child's sophomore or junior year of high school, that could reduce the costs by 2 to 6 percent, approximately, based on current tuition and fee growth. A limited number of states offer these, however, so talk with your advisor about the opportunity in your area.

**3** Money in a 529 plan is considered part of the parent's assets, not the child's, so on the FAFSA form this money is assessed at the rate of 5.6 percent—not the 20 percent at which students' assets are assessed, benefitting the student.

If your child is more than a year or two away from college, the 529 savings plan can be a disciplined way to start saving and reap the benefits of your investments growing over time. If your child is close to attending college, there are still benefits to setting up this type of account.

"You have the ability to change the beneficiaries," Null says. "So even if you started a little late for the oldest child, a child or children right behind them may have a little bit more time for the account to grow, so you can change the beneficiary to those children over time."

You can even change the beneficiary to yourself, should you choose to go to back to college. Keep in mind, however, if you decide to take money out and use it toward non-qualifying expenses, you will pay a 10 percent penalty on the earnings. So, depending on your tax bracket and the length of time your account is open, the 529 could still be a favorable way to save money on a tax-deferred basis, Null says.

**2. Add in aid**

More than a third of college expenses are covered by scholarships and grants.[4] More than half of all families receive financial aid of some type, and the amounts are rising. In fact, institutional scholarship and grant aid has almost doubled in the past 10 years, Hupalo says.

What's more, O'Shaughnessy only knows of 23 schools that don't give out merit scholarships, so as your kids get closer to packing their bags and college becomes a reality, O'Shaughnessy says parents should follow two simple tips to help determine aid:

- Figure out your expected family contribution. This is a number that measures your family's financial status and determines how much financial aid your child can expect. It's also part of the FAFSA form. Calculators are available online, such as the **College Board's website**.
- Look at the net price, not the sticker price, by using a **net price calculator** to determine the cost of attending school. Net price calculators are found on college websites or at the U.S. Department of Education's Net Price Calculator Center. Don't forget to consider potential aid and tax benefits to estimate the actual cost of attendance.

The last point is vital, O'Shaughnessy says, because the narrative many parents hear about college costs is focused on only a handful of schools.

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"Many people think college is a seller's market because you hear all the hype about the most elite schools, but hardly anybody goes to those schools," she says. "For the vast majority of schools, it's a buyer's market and many schools have to give discounts to students that qualify."

**3. Consider other investments**

You can also use other investment accounts, such as a mutual fund or stock and bond portfolio, by tailoring their distribution timeline toward the time their child will enter college. Null particularly recommends talking to an investment advisor about a Coverdell Education Savings Account, which, similar to a 529, is a tax-advantaged savings account set up to fund educational expenses. However, there are several special qualifications for this account, as well as limits to how much you can invest each year, so consider talking to an advisor for professional tips.

Custodial accounts, such as UTMAs and UGMAs are another popular college funding method. However, it's important for parents to understand that if they set up custodial accounts, their children are able to access those assets upon reaching the age of majority, which is between 18 to 21 (depending on the state). This could create a scenario where there may not be a way to guarantee your child will spend that money on his or her education.

**4. It's not just you—your children can pay too**

Nearly two-thirds of parents expect their child to pitch in to help pay tuition costs by working a part- or full-time job.[5]

"When you talk about funding [college], I typically recommend that students are involved because we want them to have skin in the game. If their parents pay for it all, they might take it for granted. Even a summer job or a part-time job can help cover some of the expenses if the student has ownership on achieving their college goal," Sullivan says.

**5. The lending library**

Similarly, children can take on student loans to cover expenses—but less than 30 percent do.[4]

If a family receives financial aid and still needs a loan, start with federal loans before looking into private loans, where interest rates tend to be higher and terms are typically less flexible. Generally speaking, the Federal Direct Loan Program is the best student loan program, Hupalo says, based on its terms.

Hupalo recommends this rule of thumb: "If the total amount you have to borrow is less than or equal to what the starting salary is going to be, that's an affordable amount of debt."

Financing college can also be a teachable moment, Sullivan says, to inform your children about debt, loan structures, budgeting and being financially responsible.

Some parents are also taking out loans, such as the Parent PLUS loan program, in their own name but using it for the child's education. While this can seem attractive to parents, Hupalo cautions against two points: 1) PLUS loans are very easy to get and have very low credit standards. And occasionally parents, similar to students, can get in over their heads. 2) PLUS loans can't be transferred to students. So as you approach retirement age, remember that your child has a lot more time to pay off a loan than you do.

**6. Every little bit helps**

Finally, look into the American Opportunity Tax Credit or Lifetime Learning Credit. This can reduce the amount of taxes you owe when you make qualified educational purchases.

## Putting the Pieces Together

As students get closer to enrolling, parents should shift their thinking toward a specific school or type of school (in-state, four-year, community college, etc.) rather than paying for college in general terms.

"As parents we want to think about the dream, but what is the dream? Is the dream to go to college, or is the dream to go to the most expensive, brand name college," Hupalo says. "Very few (if any) parents would say to their children, 'Go to the car dealership and pick out the car of your dreams and we'll figure out how to pay for it later,' and you really can't do that with schools either."

By figuring out the net price of specific schools and carving out realistic goals with your children that combine their academic skills with their lifestyle desires and the financial realities, the college picture becomes much sharper and, in turn, more manageable.

"I believe that no family has to go into excessive debt to afford college," Hupalo says. "The practical advice I give is this: A family should be able to find an affordable school based on how much they have saved, how much financial aid they're eligible for and what they and/or the student may

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be able to contribute from current income. If all of that is equal or greater than the cost of the particular school they're looking at, that's an affordable school. If they need a loan after that, then they need to be careful about how much they borrow and who borrows it."

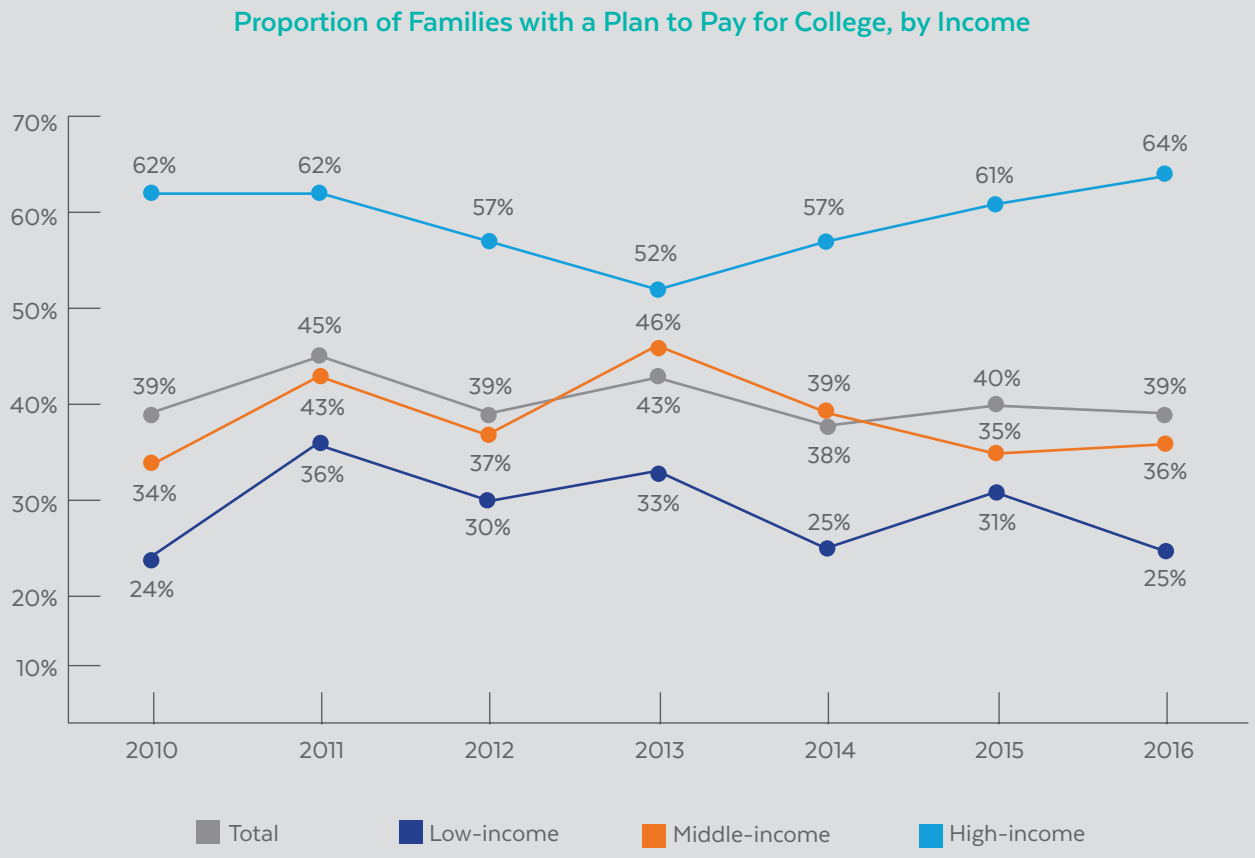
### The Financial (And Emotional) Value of a Plan

An advisor can help you navigate these options and review your finances to map out the best course of action. By sitting down with an advisor, you are not only helping your child pay for his or her education, you're likely reducing the stress of paying for college, too. Forty-five percent of planners reported never or rarely being stressed over education expenses, compared to 32 percent of non-planners. What's more, planning parents were less likely to worry about the possibility of loan rates rising or available scholarship and grant money as well as tuition increases.[4]

"It's important to take a look at the big picture, allocate money for education and plan for the goal," Sullivan says.

**Start planning today**

Get ahead of your child's education by **sitting down with an advisor**.




*Source: How America Pays for College 2016 Report by Sallie Mae*

*For the purposes of this study, low-income is defined as households with an annual income of less than $35,000, middle-income with an annual income of $35,000 to less than $100,000, and high-income with an annual income of $100,000 or more.*

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*Before investing, investors should consider whether their home state or their designated beneficiary's home state offers any state tax or any other benefits that are only available to residents of that state. Any state tax benefits associated with a 529 plan apply only to residents of the state sponsoring the plan. 529 plans value will fluctuate so that an investor's shares, when redeemed may be worth more or less than their original cost.*

***Investors should consider the investment objectives, risks, charges and expenses of the plan carefully before investing. An official statement, which contains this and other important information, can be obtained from your financial professional. Please read carefully prior to investing.***

*Withdrawals may be subject to state income taxes depending on the participant's state of residence. Non-qualified withdrawals are subject to a 10% penalty.*

*Participation in a 529 plan does not guarantee that contributions and the investment return, if any, will be adequate to cover future tuition and other higher education expenses or that a beneficiary will be admitted to or permitted to continue to attend and institution of higher education.*

*Neither SunTrust Banks, Inc., nor any of its affiliates underwrite 529 plans.*

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[1] "College Board's 2016 Trends in College Pricing," 2016, The College Board
[2] John Sullivan and R. Alex Null: Registered Representative of SunTrust Investment Services, Inc. and Investment Adviser Representative, SunTrust Advisory Services, Inc.
[3] National Center for Education Statistics
[4] "How America Pays for College 2016," 2016, Sallie Mae
[5] "To Pay For College, Parents Will Take Staycations, Trim Retirement Savings and Defer Home Improvements, Among Other Financial Sacrifices," Nov. 18, 2015, Kaplan Test Prep and MONEY Magazine

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