

Solving the “College Cost” Blues

"An investment in knowledge pays the best interest."

– Benjamin Franklin, statesman, author, inventor (1706 – 1790)

As high school seniors impatiently await the accept/reject envelopes from their colleges of choice, their parents are nervously clutching their checkbooks, wondering what the financial tab for four years of higher education will be. As much as I counsel parents about balancing their own finances with the college needs – and often wants – of their teenagers, most of them tell me that they’ll do whatever it takes to pay for their children’s college educations. They aren’t unique in this regard. According to a study conducted by the financial institution T. Rowe Price, more than half of all parents are willing to use retirement savings, work a second job, or delay retirement in order to fund college costs.

However, with some pre-application research and an adjustment in thinking about what define the “best” college for their children, many of these financial sacrifices aren’t required. While the typical college counseling process starts with identifying a student’s interests, academic strengths, and then determining at which colleges they could qualify for admission, I prefer to add one more item to the selection criteria: affordability. I’m talking about considering those colleges that have lower all-in costs, the highest outright grants, and low post-graduation student debt. The list of colleges that meet these criteria is necessarily different for all students, as it factors in a student’s academic credentials to see where they are most likely to get the best overall low- or no-loan financial packages.

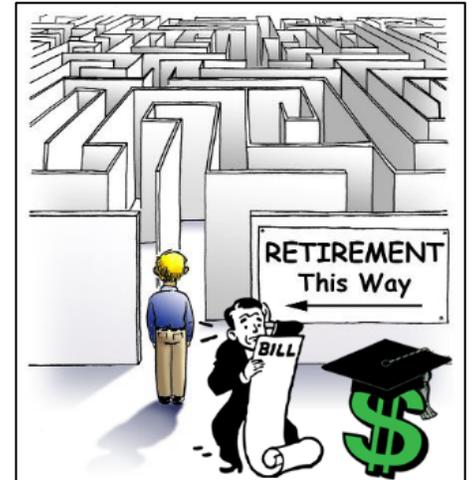
Before getting into the details of how to find these more generous institutions of higher learning, I first need to point out an important fact that manages to escape the attention of those involved in the college application process. Namely, that it isn’t the college attended that ultimately determines one’s success in later life...

... It’s the student

Economists Alan Krueger and Stacy Dale performed a study on the career effect of students who matriculated at an Ivy League college compared to those who were accepted by one or more Ivies but chose to attend a non-Ivy League college. The most recent version of their research looked at recent graduates as well as those in their 40s and 50s, using salaries as the basis of comparison. They concluded that a graduate’s success had essentially zero correlation with the college that they attended, and that the common denominator among these graduates was that they were all deemed qualified enough to be accepted by one or more Ivy League schools.

We’ve all heard the stories about the networking value of fellow alumni at prestigious colleges, and how having the right connections helped students advance their careers. However, given that this is likely relevant to only a small percentage of potential career paths, and to those students who take advantage of this opportunity, is that worth enough for the parents and/or student to burden themselves with an additional \$100,000 of college costs? It’s like buying an expensive lottery ticket with a low probability of payout, and one that won’t be redeemed, if at all, until many years in the future.

Navigating the Retirement Maze



If you can easily afford to purchase high price/low payout college lottery tickets, that's a different situation. The same applies if you believe that having that having a prestige college decal on the rear window of your car is worth \$80,000 or more. I'm directing my comments at those parents and students who are going to incur some significant financial pain down the road – delay purchasing a house, postpone their retirement, feel financially strapped – by going with the more expensive educations that their money can buy. The bottom line here is that smart, motivated kids will do well at any college that they attend, regardless of the college's name brand appeal.

Finding the generous colleges

There are three key factors that determine how much your child is likely to receive in college grant money: “Demonstrated Financial Need” (DFN), a college's generosity in awarding merit grants, and where your child ranks among a particular school's applicants. DFN is simply the difference between a college's cost of attendance and your Expected Family Contribution (EFC), the latter calculated from your FAFSA form. There isn't a lot that you can do to change your EFC, and I'll discuss the FAFSA and EFC in next month's column. What you can influence, though, is where your child applies, focusing on those colleges that have lower costs of attendance, are among the most generous with their merit grants, and how highly your child ranks among all their applicants. This will help you the most in reducing your cash outlay for college.

The most thorough Website that I have come across for determining school generosity and student financial support is COLLEGEdata (www.collegedata.com), a service provided by 1st Financial Bank USA. It provides many tools for screening prospective colleges, but the ones that I find to be the most relevant in terms of available grants can be found under the College 411/Money Matters tab. It allows you to search on criteria such as: Average % of financial need met (higher is better), Average student debt at graduation (lower is better), and Percentage of freshmen receiving merit aid (higher is better).

Many other resources for evaluating the true cost of individual colleges are available, along with other criteria for gauging their degree of fit with your child. Rather than attempt to list all of those sites here, I will be adding a page to my Web site shortly that includes these college resource Web sites.

Next Month: Financial aid and tax relief

In next month's column, I will cover the key financial aid forms, the factors that affect needs-based grants, and the best ways to reduce your tax bill from your out-of-pocket college costs. In the meantime, for those parents with students in high school, grab your notebooks and calculators, and get ready to do some homework that could yield significant financial benefits to you. Think of it as a job where you can “earn” over \$500 for each hour of your efforts – untaxed, no less – which should increase your enthusiasm for becoming a student of your children's college finances.

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