College Keystones

A College Planning Relief Publication

Smart Money: College Selection

Most people are keenly aware that when shopping for a new car the "sticker price" on the vehicle is typically only a starting point for the actual price that will be paid for the vehicle. The well prepared consumer of a new car will actually come to the dealership prepared with the necessary information to make an intelligent offer for the car of their choice. Shopping for colleges has many similarities to this process. Knowing your families Expected Family Contribution (EFC), the amount each family is expected to pay before any aid is offered, is the foundation for your comparisons. College selection must then be added to this equation as each college will act independently with the amount and type of aid that they offer.

Selecting a college can easily be described using the "The 3 H's" – Head, Heart, and Hand. A successful college selection is rarely accomplished without taking into consideration all 3 of these components.

When students pick a school using their "Head", they are focusing on a school for reasons they "think" are valid. These reasons can include picking a school that addresses career needs (specifically, picking a school that offers the major they want) and one which provides the proper level of competitive environment academically. A key to remember is the student should first pick a career, then a major, then the school.

The "Heart" is finding a school that your student "falls in love with." Maybe it's the campus, or the atmosphere, or maybe your student wants to go because of the athletic programs...specifically where there is big time basketball and football (also known as the tailgating scene). It could also be because that's where everyone in the family has attended for generations...or maybe it is where their boyfriend or girlfriend is attending and they want to follow. There is no question that "Heart" plays a role in the decision-making process.

Finally, the "Hand," or financial aspect of attending a particular college, needs to be scrutinized. What will each college cost? What the school will deliver and how long it will take are factors that can also have an impact. The "Hand" can have a serious impact on the other "H's" of college selection and ultimately your retirement, which is why it will be the focus of our discussion this month.

Public vs. Private

One of the biggest mistakes many parents make is to discourage their student from looking at a private school because of the Cost of Attendance (COA), or sticker price. For many parents, it costs too much for their student to consider attending a private school. However, the notion that a state public college is more affordable may not always be accurate.

Investigating the financial aspect of public vs. private college selection is crucial in comparison shopping...the college way. If you compare just public vs. public school options and do not consider private schools, you could be eliminating some of the best financial choices.

When looking at colleges to determine costs, you must first look at the published Cost of Attendance (COA) of that particular school and subtract what the U.S. government determines from the FAFSA to be your Expected Family Contribution (EFC). The amount remaining is called the "Gap." How schools address the "Gap" or your "Need" truly matters.

By doing your due diligence and homework, most families can find the average "Need Met" for the schools their student is considering. Without researching this important aspect of the process, a family is sure to overpay for the cost of college. While this information can usually be found on the internet with some effort and searching, your CPR - College Planning Relief® - Specialist can easily provide this information. Some schools will meet 80-100% of overall need, while others are as low as 40%. On average, private colleges meet between 70-100% of need, while public schools meet between 40-70%.

This is important because, contrary to popular belief, statistics show that over 40% of a typical student's financial aid package is in the form of loans, also called self-help. One thing we know about loans is that they have to be repaid. As a result, we want to help families determine their eventual "out of pocket" expense...and loans will be part of that number. With a higher percentage of overall need met and more money in gift aid vs. self-help, you can begin to see how a private school could, in fact, be a more cost effective alternative for a family.

Gift aid or "free money" does not have to be repaid. Private schools, many of whom have wealthy endowments, have a tendency to provide more "gift aid" than their public counterparts.

A higher percentage of "Need Met" is important; however, it is not enough. More research must be done to determine how much of the "Need Met" is in "Gift Aid" vs. "Self-Help." For instance, it is not enough to say one school meets 70% of my college need. If all of that 70% is in the form of loans, then your out-of-pocket expense is actually 100%!

One must also be cognizant of the time it takes to graduate with a four year degree from the college or university they are considering. Statistics show it is more likely for a student to graduate with a 4-year degree in less time from a private school than a public school. As a result, even if the private school costs a few thousand more per year, graduating in one less year can still make the private school less expensive to attend than the public school.

As with any type of major purchase, the time spent researching can mean significant savings when it comes to the final decision. Taking the time to be an informed consumer when selecting a college will be more than worth the time invested – cognitively, emotionally, and financially. Again…your Head, Heart, and Hand at work.

We are in the business of helping families through the major life transition of sending their children to college. For many, it will be the most expensive time of their lives and, if not handled properly, could cost them their retirement. If you or someone you know needs the help and guidance of a trained financial professional, don't hesitate to contact your local College Planning Relief Advisor. Remember, you shouldn't have to choose between your child's college and your retirement.

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Scott T. Moffitt is one of the nation's leading experts in paying for college without jeopardizing retirement. He is the author of the book, "College and Retirement, You Can Do Both!" He is the founder of College Planning Relief®, a national training and certification program for financial advisors in short-term college planning. For more information about Scott or to find one of his certified licensees in your area, please visit www.collegeplanningrelief.com.