



College Keystones

A College Planning Relief Publication

Comparison Shopping... The College Way

The beginning of any shopping experience begins with a little homework. No expert shopper ever goes shopping without first doing a little research on the item to ensure the deal they are getting or proposing is in fact, a good deal. Comparison shopping for colleges is no different. First we must know what the starting point is. For college, that is our Expected Family Contribution or EFC. The seven factors that go into making up our EFC include: Mom and Dad's Income, Mom and Dad's Assets, Student Income, Student Assets, Number of Members in the Household, Number of Students in College and the Age of the Older Parent. One factor we at CPR like to add to this equation is College Selection, for reasons you will see in this Keystone.

The college selection process has a significant impact on balancing the cost of our student's education and our ultimate retirement savings. Selecting a college can easily be described using the "The Three H's" – Head, Heart, and Hand.

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 that 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 "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 a possible way of saving money.

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 what we call 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%!

The following is an example of how a Private School may be more affordable than a Public School.

PUBLIC SCHOOL

COA:	\$25,000
EFC:	\$15,000
Need / GAP:	\$10,000
Need Met / Aid (60%):	\$ 6,000
Unmet Need:	\$ 4,000

Need Met / Aid:

50% of Aid is Gift:	\$ 3,000
50% of Aid is Self-Help:	\$ 3,000

OUT OF POCKET ESTIMATE

EFC:	\$15,000
Self Help (Loans):	+\$ 3,000
Unmet Need:	+\$ 4,000

Out of Pocket Expense: **\$22,000**

PRIVATE SCHOOL

COA:	\$45,000
EFC:	\$15,000
Need / GAP:	\$30,000
Need Met / Aid (95%):	\$28,500
Unmet Need:	\$ 1,500

Need Met / Aid:

85% of Aid is Gift Aid:	\$24,225
15% of Aid is Self Help:	\$ 4,275

OUT OF POCKET ESTIMATE

EFC:	\$15,000
Self Help (Loans):	+ \$ 4,275
Unmet Need:	+ \$ 1,500

Out of Pocket Expense: **\$20,775**

It is not enough to just consider the out of pocket expense we demonstrate above. 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 or state school. One other thing to note is the opportunity cost of that 5th year...one student is paying for an extra year of school (\$25K in this case) to get their "4-year" degree while the other is working, earning an income (\$40,000) in year 5. The spread or difference represents the true opportunity cost of the 5th year, or \$65,000 in this case. All financial factors must be considered when comparison shopping, including graduation rates for 4-year degrees.

As with any type of comparison shopping, the time spent researching can mean significant savings when it comes to the purchase. In discussing comparison shopping... the college way, it can saving thousands of dollars over the college years. Taking the time to "comparison shop" when selecting a college will be more than worth the time invested; cognitively, emotionally, and financially. Again...your Head, Heart, and Hand at work.

Remember 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.

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.