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Money
MAY 2004

“How I paid for college”

It’s never been harder, with a tab of $10,500 a year at a typical public school and $25,000 at a private one. Here’s how six families are meeting the challenge

Angelique Roberts never thought she could afford college. At 19, she changed her mind. She worked hard, at everything from day care to waitressing, and by 2001 she’d saved enough to enter Georgia Perimeter College, a two-year community college in Atlanta. Tuition: $1,400 a year. But the 23-year-old freshman had set her heart on studying international relations, and that meant she’d have to finish up at a four-year school. She chose Agnes Scott, a private college in Atlanta. Tuition, room and board: $28,000. To pay for it, she used her savings and a grant from Agnes Scott, and she borrowed—a federal Stafford loan, an informal loan from her uncle and finally a one-year, $16,000 variable-rate student loan from Bank of America. She’ll be paying back her $50,000 to $60,000 debt for decades to come, but she’s sure she made the right decision. ■ Angelique, one of eight siblings, is footing her own bills. But even families that get an early start on education saving for their children or grandchildren rarely manage to put away the entire cost of college. So try to save enough—say, one or two years’ worth of expenses—to minimize the debt you’ll face later. If you have young children, one of MONEY’s three smart strategies may be right for you (page 78). Whatever your situation, take heart from the stories on these pages—it’s not easy, but you can pay for college.

BY JOAN CAPLIN, PENELOPE WANG AND CYBELE WEISSER

A SUMMER JOB LED TO A FULL SCHOLARSHIP

As a high school student in Wheaton, Ill., Dan Nguyen enjoyed his three summers as a golf caddy, but he never expected his job at a local country club to be his ticket to a college education. In fact, for most of his high school career, Nguyen didn't expect to go to a four-year college. At age 14, as his peers began practicing for the PSATs, Nguyen was just mastering English, a language he barely knew when his family immigrated from his native Vietnam the previous year. With both his parents working in factories to support Dan and his two brothers, he knew there was no money for college; although he was an A student, Dan didn't even fill out applications in the fall of his senior year. "I guess I just figured I would go to the local community college," he says.

But his caddy master was impressed by Dan's ambition—by starting at 6:30 a.m. and caddying two full 18-hole rounds each day, he'd earned more than $5,000 one summer—and told him about the Evans Scholarship. Open only to caddies, it covers tuition and housing at one of 18 universities for up to four years. "I never would have known anything about the scholarship if my caddy master hadn't told me," Dan says. "And I didn't expect to get it." After he got the acceptance letter from the Evans Scholars Foundation, he had to scramble to fill out college applications.

Now 21 and a junior majoring in finance at Northern Illinois University, Dan works in a computer lab at school for books and spending money. "I know kids who work a lot harder than me," he says modestly.

A PAYMENT PLAN SPREADS THE COST

Douglas and Dede Jones met in college, at Olivet Nazarene University, a small, private Christian school in Illinois. "I invited him on a date during the week when the girls were supposed to ask the guys," recalls Dede. So they were delighted when the eldest of their four sons, Nathan, now 22, chose to attend Olivet four years ago. The cost: $16,000 a year (now $20,000). Doug, 47, and Dede, 46, both public school teachers, knew it would take a little finagling to meet the financial commitment. With a combined six-figure salary, they did not qualify for need-based aid. Nathan has taken the maximum federal Stafford loan ($2,625 to $5,500) each year; the Joneses have paid the balance from their income. To help manage the bills, they signed up for Tuition Management Systems, a payment-management company that allows them to make nine or 10 equal payments a year for a fee of $50. "By using TMS, we haven't really had to borrow extra," says Dede. When Corban, now 21, followed his brother to Olivet, the Joneses doubled up their monthly payments and took out a $55,000 home-equity line of credit as a backup. "Of course, I didn't get a new car," Dede says, "but we make it work."

ONE LOAN FOR TUITION—AND ONE FOR A BACKUP

When the Resnicks moved to Florida 10 years ago, they had a choice to make: Contribute to the state's prepaid college plan for their two sons or keep feeding their retirement accounts. The 51-year-old couple chose retirement. Hank, a pharmacist at a hospice, and Mary Lee, a nurse and case manager at a community hospital, also decided to pay off their 15-year mortgage as quickly as possible. That way, by the time Jacob, now 19, and Aaron, 18, were both in college, they could redirect the money that had been going to monthly payments toward their sons' higher education.

But that didn't solve the problem of how to pay the $32,000 for Jacob's freshman year at Rollins College in 2003 or the $80,000 they'll owe when Aaron joins his brother at Rollins this fall. So in December 2002 they went to Geoff Kasher, a financial adviser, who suggested they take out two loans—one for tuition and one for emergencies. He introduced them to a federal PLUS loan for parents—they took one for $27,000—with interest-only payments now; they have up to 30 years to pay it off. The second loan: a $200,000 home-equity line of credit (HELOC), at prime, for emergencies.

The Resnicks, whose combined income puts them in the 28% tax bracket, are pleased that they can save for retirement and still afford their sons' college. But they're not completely happy. "As the cash-poor middle class," says Hank, "we don't get a lot of scholarship money. You work all your life to amass wealth, and you're kind of penalized for that."

AT LAW SCHOOL, THE STAFFORD LOANS ADD UP

They've never been apart. They graduated from the same high school, went to the same college and then chose the same law school. The 25-year-old Martin triplets even received overlapping scholarships. So it's no surprise that when they graduate this month from the University of Mississippi School of Law, they'll be paying back the same loans.

Even for triplets, the synchronicity of their academic and financial lives is extraordinary. They're frank about the competitiveness that characterized their youth, although, says Kenya, "the other side of the coin is that we were also supportive. I think we're all graduating because of each other." The three received full scholarships as undergrads at Jackson State University. Deshun, the "oldest," was awarded his as the high school salutatorian. Kenya's and Warren's expenses—about $30,000 apiece for the four years—were covered by presidential scholarships in recognition of their academic achievements.

Law school was another story. The Martins knew that their exceptional academic records—Kenya and Warren graduated from JSU as valedictorians with 4.0 averages; Deshun trailed them slightly with "3.9 and change," as he puts it—wouldn't get them a free ride there. So they began working summers after high school. "Mom wouldn't let us work before," explains Deshun. "She didn't want us to taste the lust for money until college, otherwise we wouldn't want to go back." Holding on to virtually every penny, they each saved close to $10,000.

The bulk of their $6,000-a-year law school tuition—73%—came from Minority Tuition Grants that are awarded by the law school to African-American students from Mississippi. About half a dozen other awards gave the three a few thousand dollars more apiece, but when the Martins take the bar exam this July, they will have a collective $75,000 worth of federal Stafford loans waiting for them.

"I owed nothing for undergrad," says Deshun. "I came to law school to go broke." Kenya, the only one of the three who is married, is in a hurry to pay off his bill. "Tommie and I want to build a house," he explains. "We want to be in the best situation to get the best mortgage."

But Warren, whose $15,000 bill is the lowest, figures that starting attorneys in Mississippi earn $45,000 to $55,000, "so considering the income-to-debt ratio, I'm elated."

strategies

If your children are under 10, a college savings plan based on your current household income is a good place to start

your income:
Below $70,000
your goal:
Maximize your financial aid

You'll probably qualify for financial aid. "Your best strategy is to keep it simple," says financial adviser Judy Miller of College Solutions in Medford, Ore. "Just save in a taxable account in the parents' name." Low-cost index funds, such as those offered by Vanguard or Fidelity, are sound choices. If your income grows and financial aid is less of a priority, you can move your savings to a 529 or Coverdell for better tax treatment. Above all, avoid custodial accounts such as UGMAs or UTMAs (Uniform Gifts to Minors Act or Uniform Transfers to Minors Act), which put the money in your child's name and hurt your aid chances.

your income:
$70,000 to $150,000
your goal:
Stay flexible

Meantime, save the max in your retirement accounts, which are generally excluded from aid formulas. A second priority is to keep up your mortgage payments. Home equity is not counted in federal aid formulas. If you have just one child headed for a state college, you probably won't qualify for need-based aid; if you have two or more kids in the Ivy League, you may. Flexibility is especially important for families like yours. Raymond Loewe of College Money in Marlton, N.J. recommends splitting your funds among a taxable account, a Coverdell and a state 529 savings plan. By the time your kids finish middle school, you should have a fairly accurate estimate of your aid eligibility. If your prospects are good, focus on your taxable account and spend down your Coverdell (or an UGMA or UTMA if you have one) on secondary school expenses such as SAT

your income:
Over $150,000
your goal:
Focus on your tax-free saving

classes or prep school tuition. (Just be sure to stash away the equivalent amount in a taxable account.) If need-based aid looks unlikely, shift more of your savings into a 529. Financial assistance is probably not in the picture—though you should run the numbers anyway—so do the bulk of your investing in tax-free accounts. Stash your first $2,000 in a Coverdell, where you can choose any low-cost fund, and the rest in a 529 savings plan. To choose one, look first at the fund company's performance and ethical reputation—avoid those involved in the fund scandals—then at expenses. Don't get carried away by state tax breaks. You may have to pay back your tax benefit if you roll over your account to another state. And unless you receive a hefty deduction, you're likely to come out ahead by simply choosing the best, lowest-cost plan, especially if you're investing a large lump sum.

Consider this example from Dean Knepper, a financial adviser and C.P.A. in Leesburg, Va. The expense ratio for a Vanguard balanced fund in Virginia's VEST 529 plan is 0.93% a year—$465 annually for a $50,000 investment. Residents can deduct $2,000 in contributions a year from their state income tax, saving $86.25 in the 25% bracket; that brings the Virginia plan's cost down to $378.75. By contrast, the same fund in Utah's 529 plan costs 0.35% a year—just $175 on that same $50,000. That's a better deal for Virginians, even without a tax break.

Whatever your income or the age of your children—or grandchildren—these college savings basics apply:

Put away enough for your own retirement, then save enough for college to keep your future debt burden manageable. For the pros and cons of common college savings accounts, see page 80.

Gear your strategy to your overall investment goals and risk tolerance.

Remember that need-based aid depends more on how much you earn than how much you own, and that students' assets are assessed more heavily than parents'.

Review your financial aid status periodically by calculating your expected family contribution (EFC) at collegeboard.com or finaid.com.

A PREPAID TUITION PLAN FOR THE THIRD GENERATION

When Dennis Wilkie paid his first college bill more than half a century ago, he was putting himself through Rice University. "When I was 14, my dad got me a union card, and I worked all through high school and college," recalls the 70-year-old retired engineer who worked in technical sales. "Back then, $900 a year would get you a college education in Texas."

By the time Dennis had his own sons, the cost of a college education had increased tenfold, with no signs of slowing down. So he and his wife Deloise, now 69, a former music teacher, put $10,000 into a Uniform Gifts to Minors Act (UGMA) account for Aden, now 35, and $12,000 into an UGMA for William, now 33. Both accounts were invested in mutual funds that held blue-chip equities. "The idea was to get capital gains," says Dennis. "In those days, there was no kiddie tax, so the earnings could grow tax-free." When the boys turned 18, their UGMA accounts were each worth over $50,000, which, along with scholarships they received, fully covered the cost of their undergraduate educations at the University of Arizona and the University of Maryland.

Today the Wilkies are saving for a third generation—granddaughters Shealyn, 4, Kyleigh, 2, and Morgan, 10 months. This time they opted for the Maryland 529 prepaid tuition plan. The Wilkies pay $2,500 a year for the older girls and $3,400 for Morgan; after 10 years, that will cover four years of tuition at any Maryland school. If the girls go elsewhere, the funds can be used at any accredited college. "Education is my hobby," says Dennis. "My philosophy is, help the young people now."

Where to save

TAXABLE ACCOUNT

Pros: Saving in your own name is ideal for financial aid. Very flexible. New capital-gains and dividend tax rates make this a better deal than ever.
Cons: Taxes are taxes.

COVERDELL EDUCATION SAVINGS ACCOUNT

Pros: Flexible investment choices. Also available for elementary or high school costs. Grows tax-free if used for education.
Cons: Low contribution limit of $2,000 annually. Income limits (full contributions for joint filers earning up to $190,000). May hurt aid chances.

STATE 529 SAVINGS PLAN

Pros: You can contribute large amounts—typically $200,000 or more—for nearly any beneficiary. Grows tax-free if used for college; you may get a state deduction as well. Aid-friendly, since it's generally considered a parental asset. *Cons*: Tax-free treatment expires after 2010 unless Congress renews it. Limited investment choices. Complicated and often costly. *MONEY recommends*: Michigan Education Savings Plan (877-861-6377); New York's 529 College Savings Plan (877-697-2837); Utah Educational Savings Plan (800-418-2552).

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