

# Five Steps to Save, Plan, and Pay For College

Undergraduate Students

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# Five steps to save, plan, and pay for college

**We know that planning for college can be overwhelming...**

## **Five steps to save, plan, and pay for College:**

1. Saving for higher education
2. Selecting your school
3. Determining cost
4. Calculating financial need
5. Paying for higher education



# Step 1

Saving for higher education

# Sallie Mae's 1-2-3 approach to saving for college

## 1. Open a savings account

- Set up and designate a savings account as your college fund
- Deposit gifts from friends and family
- Sign up for free services that let you earn cash back to save for college

## 2. Set a goal and regularly contribute money

- You may want to consider opening a savings account that helps you set and track your progress toward a goal, like college
- Automatic deposits make saving easy and help your college fund grow

## 3. Explore tax-advantaged options

- Such as 529 college savings plans and prepaid college tuition plans

# Step 2

Selecting your school

# Selecting your school

Picking the school that your student is most likely to attend for the entirety of their degree will help in the long run. By doing so, you can avoid the hassle and expense of transferring and possibly losing credits in the process.

Consider some of these critical elements when reviewing potential schools:

- ✔ Curriculum/degree/major
- ✔ Size (small rural campus or city life)
- ✔ Admission requirements
- ✔ Facilities
- ✔ Campus life, athletics
- ✔ Retention/graduation rates
- ✔ Cost



# Selecting your school

You should not choose a school JUST because of its reputation and price tag. Make sure the right education is being offered for the right price.

- Cost of Attendance (COA) is a huge factor for many families and can also be the deciding factor once award letters are received.
- Don't assume that a more expensive school will have the highest cost of attendance.
- Financial aid awards must be factored into the college choice decision. Many state schools, which can appear to be less expensive than private schools, have limited funding to offer students.
- More expensive private schools often have private grants that can make cost of attendance equal to or perhaps even less expensive than a state institution.



# Step 3

Determining cost



# Determining cost

What is the average cost of college?

<b>Average Annual Cost of College</b>	<p>Students attending:</p> <ul style="list-style-type: none"><li>• Two-year public colleges = \$11,970</li><li>• Four-year public colleges and universities in-state = \$20,770</li><li>• Four-year public colleges and universities out-of-state = \$36,420</li><li>• Four-year not-for-profit private colleges and universities = \$46,950</li></ul> <p>Source: <i>College Boards Trends in College Pricing 2017</i></p>
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As you understand the various costs of college, it is also important to forecast and compare those costs for each school being considered.

Sallie Mae's College Planning Calculator can help you.  
[SallieMae.com/CollegePlanningCalculator](https://SallieMae.com/CollegePlanningCalculator)

# Determining cost

Generally there are two types of college costs: direct and indirect.

Direct costs are assessed by the school but can vary a bit from student to student. Indirect costs are those that you can influence based on choices you make.

## ✔ Direct Costs

- Tuition
- Fees (health center, student activity, special campus fees, etc.)
- On-campus room and board

## ✔ Indirect Costs

- Books and supplies
- Equipment (art fees, athletics, computers, etc.)
- Transportation (travel to and from school)
- Personal living expenses (pizza, movies, etc.)
- Off-campus room and board



# Determining cost

## What's included in Cost of Attendance (COA)?

COA is the average cost to attend for one academic year (fall through spring). It includes tuition and fees, books and supplies, room and board, transportation, and personal expenses. Colleges adjust the COA yearly to reflect changes to these costs.

# Determining Cost

[www.arc.losrios.edu/Support\\_Services/Financial\\_Aid/Financial\\_Aid\\_General\\_Information.htm](http://www.arc.losrios.edu/Support_Services/Financial_Aid/Financial_Aid_General_Information.htm)

## American River College (living at home)

Tuition and fees	\$1,242
Books and Supplies	\$1,918
Room & Board	\$5,418
Transportation	\$1,250
Personal	\$3,258
<b>Total</b>	<b>\$13,086</b>

# Determining Cost

<https://financialaid.lmu.edu/generalinformation/costofattendance/undergraduatecostofattendance/>

## UCLA

(living in the dorms)

Tuition and fees	\$13,255
Books and Supplies	\$1,509
Room & Board	\$15,816
Transportation	\$432
Personal	\$1,470
Total	\$32,452

# Determining Cost

<https://www.financialaid.ucla.edu/Undergraduate/Cost-of-Attendance>

## Loyola Marymount University (living in the dorms)

Tuition and fees	\$48,242
Books and Supplies	\$1,917
Room & Board	\$14,600
Transportation	\$846
Personal	\$2,394
Total	\$67,999

# Determining Cost

## What is Expected Family Contribution?

The Expected Family Contribution (EFC) is a measure of your family's financial strength and is calculated according to a formula established by law.

The information from your Free Application for Federal Student Aid (FAFSA) is used to calculate your EFC. Schools use the EFC to figure out your federal student aid eligibility and financial aid award.

Note: Your EFC isn't the amount of money your family will have to pay for college and it isn't the amount of federal student aid you'll receive.

# Determining Cost

## How do COA and EFC work together in the financial aid process?

The college subtracts your Expected Family Contribution from the COA to calculate how much federal aid (such as grants, loans and work study) a college estimates your student is eligible to receive. Your EFC does not vary by college, but the amount of aid your family is eligible to receive will vary by college, based on each school's evaluation.



# Determining cost

## COA and Net Price

Your bottom line to attend any college is not the COA - it's the net price and it helps families understand the true cost of a college based on a student's eligibility for federal aid as well as grants and scholarships awarded by the college. This is the total out-of-pocket cost that you will actually pay.

### Total Cost of Attendance (COA)

- Family's EFC
- The student's estimated eligibility for grants/scholarships (Free money)
- = The student's estimated net price of the college

What's next....Visit [collegecost.ed.gov](https://collegecost.ed.gov) to find a specific college's net price calculator and estimate your net price to attend any college!

Information gathered on 8/2018 from <https://bigfuture.collegeboard.org/pay-for-college/paying-your-share/focus-on-net-price-not-sticker-price>  
<https://secure-media.collegeboard.org/CollegePlanning/media/pdf/Difference-Between-EFC-Net-Price-Results.pdf>  
<https://collegecost.ed.gov/netpricecenter.aspx>

# Step 4

Calculating financial need

# Calculating financial need

## The main factor in determining your financial need is the Free Application for Federal Student Aid (FAFSA)

- ✔ The FAFSA is used to determine eligibility for all federal student financial aid programs. It is also the official form for applying for most state and school aid.
- ✔ The FAFSA application is available October 1 of each year. Much of the information required on the FAFSA comes from your tax return. Families completing the FAFSA for AY 19-20 can use their 2017 tax return.
- ✔ The FAFSA is comprehensive and may take an hour to complete. You can complete the form online at [fafsa.gov](https://fafsa.gov) or via the new mobile app, myStudentAid.
- ✔ Some aid is first-come, first-served—so apply as soon as you can. Deadlines vary by state. Make sure you know what yours is.

College Academic Year  
Fall 2019 | Spring 2020

Submit your FAFSA beginning

October 1, 2018  
through June 30, 2019

Use your income tax info from  
2017

# Calculating financial need

## Tips for completing the FAFSA

To reduce the FAFSA completion time, you may want to gather information such as:

- Your driver's license and social security number
- Parent(s) social security numbers and birth dates
- Your family's latest federal income tax returns
- W-2 forms
- Bank statements
- Information on your family's investments

# Calculating financial need

## EFC factors - assets included on the FAFSA:

1. Rental property, land and second or summer homes
2. Trust funds
3. Uniform Gifts for Minors Act (UGMA) custodial accounts
4. Uniform Transfer to Minors Act (UTMA) custodial accounts
5. Money Market Funds, Mutual Funds and CDs
6. Stocks, stock options and bonds
7. Other securities
8. Installment and land sale contracts (including mortgages held)
9. Commodities
10. 529 plans
11. Coverdell Education Savings Accounts

This information was gathered on 8/31/18 from <https://studentaid.ed.gov> and [www.finaid.org/savings/ugma.phtml](http://www.finaid.org/savings/ugma.phtml)

# Calculating financial need

EFC factors - assets NOT included on the FAFSA:

1. Principal place of residence/family farm
2. Small business with 100 or < employees
3. Value of Life Insurance
4. Retirement plans (401K plans)
5. Pension funds
6. Annuities
7. Non-education IRAs
8. Keogh plans
9. Personal possessions (car, furniture, clothes, etc.)
10. Personal debts (credit card)

*This information was gathered on 8/31/18 from <https://fafsa.ed.gov/>*

# Calculating financial need

## What happens after you apply?

- ✔ Within three to five days of submitting the FAFSA on the Web, the student will receive a Student Aid Report (SAR).
- ✔ The SAR will list your EFC. It's important to review the SAR carefully for errors. If you find an error, you can update and resubmit the SAR for processing.
- ✔ Once the SAR is finalized, any institutions listed on your FAFSA will receive copies of the SAR.

## Evaluate award letters

- ✔ After receiving your EFC, colleges at which you have been accepted present you with a financial aid package or award letter. This could be a paper or an electronic letter.
- ✔ It will outline the total cost of attendance and any aid that the school is offering to the family.
- ✔ When award letters arrive, it helps to compare the offerings of each school of interest. Be sure to look at both the total amount of aid received and the types of aid offered. This could be very helpful when trying to choose between two schools.
- ✔ Try a spreadsheet. Give each school a column. Plug in COA, then subtract your financial aid, including any free money you don't have to pay back like scholarships and grants.

# Calculating Financial Need

Assume EFC of \$20,000

American River College  
(living at home)

Tuition and fees	\$1,242
Books and Supplies	\$1,918
Room & Board	\$5,418
Transportation	\$1,250
Personal	\$3,258
Total	\$13,086
EFC	\$20,000
Financial Aid Need	\$0



# Calculating Financial Need

Assume EFC of \$20,000

UCLA  
(living in the dorms)

Tuition and fees	\$13,255
Books and Supplies	\$1,509
Room & Board	\$15,816
Transportation	\$432
Personal	\$1,470
Total	\$32,452
EFC	\$20,000
Financial Aid Need	\$12,452

# Calculating Financial Need

Assume EFC of \$20,000

Loyola Marymount University  
(living in the dorms)

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Room & Board	\$14,600
Transportation	\$846
Personal	\$2,394
Total	\$67,999
EFC	\$20,000
Financial Aid Need	\$47,999

# Example award letter calculations

Sample 2018/2019 Award Notification (Freshman)				
		<u>Fall</u>	<u>Spring</u>	<u>TOTAL</u>
<b>Estimated costs:</b>	<ul style="list-style-type: none"> <li>• Tuition &amp; Fees:</li> <li>• On Campus Housing:</li> <li>• Meal Plan:</li> <li>• Books/Supplies:</li> <li>• Transportation:</li> <li>• Other Expenses:</li> </ul>	\$18,000 \$3,000 \$2,500 \$500 \$250 <u>\$750</u>	\$18,000 \$3,000 \$2,500 \$500 \$250 <u>\$750</u>	
	Total estimated costs:	<b>\$25,000</b>	<b>\$25,000</b>	
<b>Grants and Scholarships:</b>	<ul style="list-style-type: none"> <li>• Dean's Scholarship</li> <li>• Cal Grant A:</li> <li>• PELL Grant:</li> <li>• Federal (SEOG): Grant:</li> </ul>	\$7,500 \$4,500 \$1,500 <u>\$1,500</u>	\$7,500 \$4,500 \$1,500 <u>\$1,500</u>	
	Total Grants and Scholarships:	<b>\$15,000</b>	<b>\$15,000</b>	
<b>Work Study:</b>	• Federal Work Study Eligibility:	<b>\$1,250</b>	<b>\$1,250</b>	
<b>Federal Student Loans:</b>	<ul style="list-style-type: none"> <li>• Federal Direct Subsidized Loan:</li> <li>• Federal Direct Unsubsidized Loan:</li> </ul>	\$1,750 <u>\$1,000</u> <b>\$2,750</b>	\$1,750 <u>\$1,000</u> <b>\$2,750</b>	
	Total Federal Student Loans:			
<b>Estimated Remaining Balance:</b>		<b>\$7,000</b>	<b>\$7,000</b>	
<b>To cover the remaining balance (Gap) you may apply for or receive other sources to finance your education, including:</b> <ul style="list-style-type: none"> <li>• Outside Scholarships</li> <li>• College or Other Savings Plans</li> <li>• Tuition Payment Plans</li> <li>• Non-federal Private Student Loan</li> <li>• Federal Parent PLUS Loan</li> <li>• Non-federal Private Parent Loan</li> </ul>				

# Step 5

Paying for education

# Sallie Mae's 1-2-3 approach to paying for college

**Sallie Mae recommends students and families follow its 1-2-3 approach to paying for college:**

1. Maximize money that does not need to be repaid, such as scholarships and grants
2. Explore federal student loans
3. Consider a responsible private student loan



# Scholarships play an increasingly important role in paying for college

Average annual scholarship amount among undergraduates who used them in AY 16-17 was **\$9,712**

In AY 16-17 **49%** of families used scholarships to fund undergraduate education

Scholarships and grants covered **35%** of college costs

Source: *How America Pays for College 2017*, Sallie Mae and Ipsos.

# Scholarships

Scholarships, are typically merit-based and awarded for a variety of reasons including:

- ✔ Academic achievement
- ✔ Financial need
- ✔ Community involvement
- ✔ Organizational membership
- ✔ Sports
- ✔ Talent or skill
- ✔ Leadership/school activities
- ✔ Ethnicity
- ✔ Religious affiliation
- ✔ Parent affiliation with work, club, or activity



Scholarships, which do not require repayment, are typically awarded on an annual basis. While the federal and state governments award some scholarships, the majority of funds are awarded by the institution in which students enroll and by private organizations.

# Scholarship resources

## There are many resources for scholarships:

- Local or community-based scholarships
- Federal and state agencies
- College-specific scholarships offered by the colleges your students are interested in attending
- Religious organizations
- Employers
- Libraries
- Private organizations or major companies
- Online search engines that aggregate scholarship offerings and allow users to be matched to scholarships based on a personal profile





# Scholarship resources

## ☑ Examples of free search engines

- Sallie Mae® Scholarship Search provides free access to more than 5 million scholarships worth up to \$24 billion

[SallieMae.com/ScholarshipSearch](https://SallieMae.com/ScholarshipSearch)

- ☑ • Fastweb features over 1.5 million scholarships worth up to \$3.4 billion

[Fastweb.com/college-scholarships](https://Fastweb.com/college-scholarships)

- Big Future by the College Board offers scholarships, other financial aid and internships from more than 2,200 programs, totaling nearly \$6 billion

[bigfuture.collegeboard.org/scholarship-search](https://bigfuture.collegeboard.org/scholarship-search)

# Grants

- ✔ Grants, which do not require repayment, are typically awarded annually based on information provided on the FAFSA.
- ✔
  - Grants are offered by numerous sources, such as federal and state governments, colleges, and independent organizations.
- ✔
  - The remaining federal grant programs:
    - Federal Pell Grant\*
      - The Pell Grants are need based.
      - Awards up to \$6,095 for 2018-19 and awarded to all who qualify.
    - Federal Supplemental Educational Opportunity Grant (FSEOG)\*
      - FSEOG are for students with exceptional financial need.
      - Awards from \$100-\$4,000 and on a first come, first served basis.

\*This information was gathered on 7/23/18 from <https://studentaid.ed.gov/sa/about/announcements/pell-2018-19> and <https://studentaid.ed.gov/sa/types/grants-scholarships/fseog>

# Grants

## Cal Grant Programs

A Cal Grant is money for college you don't have to pay back. To qualify, you must apply for the Free Application for Federal Student Aid (FAFSA) or California Dream Act Application (CADAA) by the deadline and meet the eligibility and financial requirements as well as any minimum GPA requirements. Cal Grants can be used at any University of California, California State University or California Community College, as well as qualifying independent and career colleges or technical schools in California.

There are three kinds of Cal Grants — A, B and C — but you don't have to figure out which one to apply for. Your eligibility will be based on your FAFSA or CADAA responses, your verified Cal Grant GPA, the type of California colleges you list on your FAFSA and whether you're a recent high school graduate.

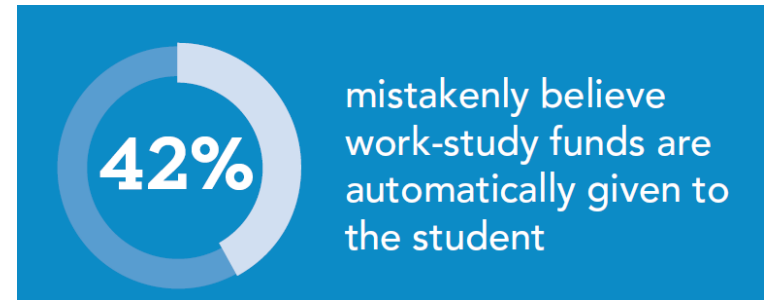
# Federal work-study

Federal work-study provides part-time jobs for students with financial need and is granted to students as part of their financial aid package.

## Federal work-study program

- Jobs arranged through school participating in the Federal work-study program
- On or off campus
- Pays at least minimum wage
- Limited hours
- May be tied to academic interests or major

Often there are a wide variety of work-study jobs on each campus



Source: *How America Values College 2018*, Sallie Mae and Ipsos.

Information gathered on 8/31/18 from <https://studentaid.ed.gov>

# Federal loan programs - undergraduates

## Federal loan programs

Federal Direct Subsidized and Unsubsidized Loans are low-interest loans for students enrolled in college at least half time.



- ***Direct subsidized loans***

- available to eligible undergraduate students with demonstrated financial need



- interest is paid by the federal government while the student is in school at least half-time and during their six-month grace period

- ***Direct unsubsidized loans***

- available to undergraduate and graduate students
- students are not required to show financial need
- payments are not required while the student is in school and during their six-month grace period, but interest does accrue during this time

This information was gathered on 8/28/2018 from <https://studentaid.ed.gov>

# Federal loan program details - undergraduate

Here are some additional details regarding Federal Direct Subsidized and Unsubsidized Loans:

- Borrowing limits are \$5,500 (first year), \$6,500 (second year) and up to \$7,500 (third and final years), with higher amounts for independent students.
- Interest Rates and fees

Loan Type	Borrower Type	Interest Rate	Fees	Fees
Direct Subsidized Loan	Undergraduate	5.05%	1.066%	1.062%
Direct Unsubsidized Loan	Undergraduate	5.05%	1.066%	1.062%

- Military members may be eligible for special interest benefits regarding their federal loans
- Payments begin 6 months after leaving school, graduating, or dropping to less than half time enrollment
- Flexible repayment options with terms of up to 10-25 years.
- Various deferment options are available for unemployment, economic hardship, school enrollment, and military service.
- Various loan forgiveness options.

# Federal PLUS loans

Federal Parent PLUS Loans allow parents of undergraduate students to borrow funds to cover the remainder of what a student owes after any other aid and federal loans are applied.

- ✔ Students must be enrolled at least half-time
- ✔ Generally be paid back over a 10-year period
- ✔ Maximum loan amount is the cost of attendance (determined by the school) minus any other financial aid received
- ✔ Federal Parent PLUS loans are not eligible for income-based repayment
- ✔ Check [studentaid.ed.gov](https://studentaid.ed.gov) for interest rates
- ✔ Federal PLUS loan interest rate is 7.6% (loans first disbursed on or after 7/1/18 and before 7/1/19)



This information was gathered on 8/17/18 from <https://studentaid.ed.gov>

# Private education loans for students

Private student loans can help cover the remaining college costs. When using private loans we encourage borrowers to pay a little now to save a lot later. Making small payments while still in school can result in savings on a student's total loan cost. Securing a creditworthy cosigner may help a student qualify.

The following loan information may vary depending on the lender<sup>2</sup>.

## Private education loans for students

- Offer a variety of in-school repayment options that include
  - Immediate Repayment (Pay Now),
  - Deferred Repayment (Pay Later),
  - Fixed Repayment (Pay Less options) and
  - Interest Repayment (Pay More Now)
- Cosigners may help increase the chance of approval
- Cosigner release may be available
- Students can choose from fixed and variable rates

<sup>2</sup>Please see disclosure section for additional information.



# Private education loans for parents

Private parent education loans can also help cover the remaining college costs. Unlike the federal PLUS loan where the parents or guardian of the dependent undergraduate can borrow, these loans are available to any qualified person that wants to borrow a loan to help a student go to college.

The following loan information may vary depending on the lender<sup>2</sup>.

## Private education loans for parents

- Parents, legal guardians, family members, or other creditworthy individuals may borrow for undergraduate and graduate students who are enrolled, accepted for enrollment, or previously enrolled at an eligible institutions
- Typically available to U.S. citizens or permanent residents
- Repayment terms vary from 5 years up to 25 years
- Offer a variety of repayment options to choose from such as
  - Immediate Repayment (Pay Now)
  - Interest Repayment (Pay Less Now)
- Annual loan limits can be up to the cost of education less other aid or limited to a lower number
- May require school certification

<sup>2</sup>Please see disclosure section for additional information.

# Tax Benefits

Don't forget to consider many of the tax benefits that are offered to families with college students. Federal income tax law provides a number of tax benefits for the current tax year to qualifying taxpayers funding a higher education. To find out if you qualify, call the IRS Help Line at 800-829-1040 or review IRS Publication 970, Tax Benefits for Education at [irs.gov](https://www.irs.gov).

- American Opportunity Credit provides federal taxpayers with a tax credit of up to \$2,500 per student per year for up to four years, for qualified tuition and related expenses.
- Lifetime Learning Credit provides federal taxpayers with a non-refundable tax credit of up to \$2,000 per student per year per eligible school tuition and fees, as well as for books, supplies, and equipment that were required for the course and had to be purchased from the school
- Coverdell Education Savings Account allows up to \$2,000 a year to be put aside for student's education expenses (Elementary, secondary, or college). Contributions aren't deductible, but amounts deposited in the account grow tax free until distributed. If, for a year, distributions from an account aren't more than a designated beneficiary's qualified education expenses at an eligible educational institution, the beneficiary won't owe tax on the distributions.
- Qualified Tuition Programs (QTP) are also called "529 plans". No tax is due on a distribution from a QTP unless the amount distributed is greater than the beneficiary's adjusted qualified education expenses.
- Student Loan Interest Deduction allows taxpayers who qualify to deduct up to \$2,500 of student loan interest paid during the tax year directly from their taxable income.

*Please consult your tax advisor or the IRS regarding student loans and taxes.*



# Questions?

# Disclosures

We encourage students and families to start with savings, grants, scholarships, and federal student loans to pay for college. Students and families should evaluate all anticipated monthly loan payments, and how much the student expects to earn in the future, before considering a private student loan.

## <sup>1</sup>529 Plan Disclosures:

Earnings on non-qualified distributions are subject to federal income tax and may be subject to a 10% federal penalty, as well as state and local income taxes. The availability of tax advantages or other benefits may be contingent on meeting other requirements. Please consult your financial, tax, or other advisors to learn more about how state-based benefits and limitations would apply to your specific circumstance. You may also contact your home state's 529 plan(s), or any other 529 plan, to learn more about those plans' features, benefits and limitations.

Before investing in any 529 plan, please consider whether you or the designated beneficiary's home state offers its taxpayers any benefits that are only available through that state's 529 plan. Investment objectives, risks, charges, expenses, and other important information are included in each 529 plan's offering statement; please read and consider it carefully before investing in a 529 plan.


When you invest in a 529 plan, you are purchasing municipal securities whose value may vary based on market conditions. Investment returns are not guaranteed, and you could lose money by investing in a 529 plan. Account owners assume all investment risks as well as responsibility for any federal and state tax consequences.

529 savings plans are not FDIC insured, carry no bank guarantee and may lose value.

<sup>2</sup>Private Education Loan information based on 7/31/18 review of competitors' loan programs and repayment features.

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