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As savings erode, take control of college costs

Tips for parents sending kids to college during a challenging economy

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CHICAGO - A number almost as scary as 401 — as in 401(k) — for parents with college-bound children these days is 529.

The stock market swoon that has shrunk retirement savings by double digits this fall also has put a big dent in Section 529 savings plans, the state-sponsored programs for college costs that offer significant tax breaks, as well as other accounts earmarked for college savings.

The financial crisis makes it more incumbent on parents to make the college selection process a purchase decision that's akin to buying a car — or more precisely, a new car every year for four years — according to Tim Higgins, a certified college planning specialist and author of "Pay for College Without Sacrificing Your Retirement."

"Too many people are playing the admissions game as opposed to being smart consumers," Higgins said. "People who get wrapped up in the decal that's going to be on the back of their car are probably going to make a bad, emotional buying decision. They should be looking for a good education that fits the student at a reasonable cost that their family can afford."

Here are excerpts of his comments in an interview with The Associated Press:

Q: What are some strategies that parents of college-bound students can pursue to limit their expenses?

A: There are two good options that people were less enthusiastic about five or seven years ago: looking at in-state public schools or at private schools that may be safety schools (fallback choices) for your student.

Whenever you're looking at state schools outside your own state, the costs almost double. A lot of students tend to think it's more glamorous to go out of state, but as a buying decision it's gotten to the point where they may need to consider in-state options.

Wealthy private colleges where your student is going to be one of the better students coming in may be willing to give you merit-based money or be much more lenient in their need-based formulas to lure the students they want.

Q: What's a cost-cutting option that's often overlooked?"

A: One top strategy that people often don't think of as a financial strategy is SAT (or ACT) test prep. This is huge, because it not only helps you get into schools where the door wouldn't have been open but can bring thousands of dollars in merit-based aid. I think it's one of the best investments parents can make in the process.

It might cost you $200 for an online program, $500 or so for classroom prep or up to $2,000 or more for personal tutoring. Two of the online programs are Peterson's and PrepMe. Peterson guarantees that the student's SAT score will go up by 200 points, and PrepMe claims its average student goes up 305 points. Those are dramatic increases.

Q: What's an appropriate amount of debt to take on?

A: One question I often get from parents is what is the right amount for the student to borrow. It depends on the family's finances and what field they're going to go into and how much they're going to be making. I like to cap the student borrowing at the (federal) Stafford loan rates, which works out to $27,000 over four years. That would be somewhat equivalent to a car payment for the student when they get out. Once you start getting up into the $40,000 range, the $60,000 range, that's a ton of pressure on the student to be able to make those payments.

For parents, I'd say do a financial plan. Maybe the answer as to how much they contribute is zero, depending on what they want to do. And that's fine — that just makes them focus on different colleges that they would purchase, such as spending the first two years in community college.

Q: Under what circumstances would you recommend tapping into home equity to pay for college?

A: If there's going to be parent borrowing, I often recommend looking at home equity first. A lot of things have changed — home equity has decreased because values have decreased, and it's tougher to get lines of credit. But still, it should be pursued because generally rates are more attractive.

If you have to borrow, it makes the most sense to do so in the student's name and to use Stafford and (high-need federal) Perkins loans. Those are the best borrowing rates and the most flexible. For parents, it's out of your name. And I've read studies where students do better and take school more seriously if they are taking on some of the financial burden.

Just remember to fill out the FAFSA (Free Application for Federal Student Aid) even if you suspect you won't qualify for need-based aid. You'll need to if you plan on borrowing a portion of college costs through the best loan programs available.

Q: What do you tell people who think that by having less savings they'll qualify for more financial aid?

A: That's one of the biggest myths out there. It gets you off the hook, and people like to use it as an excuse. You've got to be saving. The key is to have savings in the right places. That's why I recommend the Roth IRA, if you qualify, which won't hurt you at all.

Even if you have money in a 529 savings plan or a brokerage account, only a small percentage of parents' savings is assessed in financial aid formulas. And colleges typically allow parents to have between $30,000 and $60,000 as a cash reserve, so savings up to that amount may not even be assessed.

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