

Top Three Reasons Families Pay Too Much for College

With the annual cost of the most expensive colleges topping \$80,000 in 2020, the thought of paying for college can be paralyzing for parents. Plus, there is information overload out there about paying for college. It is also hard for parents to “turn off the noise,” reduce stress and make sound financial decisions on this important topic.

In seven years helping families understand financial aid and where they fit among possible paths for paying for college, I have identified three major pitfalls that parents fall into:

1. PAYING FULL PRICE WHEN YOU DON'T NEED TO

Nearly 50% of my clients have NO need based aid eligibility, with one child in college. And most did not know that almost all colleges discount their cost of attendance. Why spend money you don't need to? You might think, as most of my clients used to, that you make “too much money” to apply for financial aid. But ‘sticker prices’ for college have risen steadily for decades and incomes have not. Paying full price is not affordable for most families. When my clients share that they likely ‘make too much’ to apply, I ask for the number, so I understand where they are coming from. You might be surprised to learn that no income cutoff determines your eligibility for aid. A family with a household income of hundreds of thousands of dollars, for example, could be helped by other factors in the FAFSA formula, including school cost and the number of siblings also attending school, special circumstances such as medical costs, or there could be relevant, merit-based assistance possibilities.



Most colleges discount their ‘sticker price’. It is important for you to understand *how* colleges are discounting so you can realize the savings. It’s not a one formula fits all colleges discounting strategy. Each college will look at your child and decide how much they will or will not discount based on your child’s achievements, your family’s financial picture, and their discounting methodology. There are separate opportunities to receive merit-based and/or need-based discounts that do not need to be repaid. If you don’t understand how this works generally, and for the specific institutions you’re prioritizing, you will be in a **reactive** position when you are choosing college with your child. My clients are making decisions from a **proactive** position because we’ve done the research, they’ve done the planning and went into the process with their eyes wide open – leaving nothing ‘on the table.’

Most families do NOT need to pay full price, regardless of income. All families should be planning, whether you think you 'make too much,' or whether you think you don't make enough! My clients realize significant value and cost savings by doing the research, and planning to ensure all available avenues for discounts and assistance have been well explored.

2. PASSING ON FINANCIAL AID (FAFSA) FORMS

The second major pitfall for parents planning payment for college is making the assumption that FAFSA Forms are for "others." Even if you are a family that considers itself high income, you definitely should be submitting the Federal financial aid form called the Free Application for Federal Student Aid (FAFSA). I make this recommendation for a myriad of reasons. One of the most important reasons is that some colleges require this form to be on file to award the student any type of aid, even the non-need based aid that Bill Gates's kids can receive. You don't want to leave money on the table. The FAFSA application is an ante to be considered for many possible types of aid. Also, in order to be eligible for direct student loans, the student must submit the FAFSA. If loans are going to be a part of your college funding strategy, this type of loan is by far the best loan out there. It's also a great way for your child to start building a credit history which will be important when they graduate from college and want to sign a lease, buy a car, etc. Otherwise they will be coming to you asking for you to co-sign.

3. STARTING COLLEGE FINANCIAL PLANNING TOO LATE

It is so important to begin the thinking and planning process early – **in your student's sophomore year of high school in fact**. Did you know that the first tax year that is included on the financial aid forms starts in January of your child's sophomore year of high school? Most families are not even thinking about college financial planning at this point. Plan ahead!

Waiting until the last minute to think about college financial planning can amplify stress in the process during those later high school years. Importantly, when you evaluate prospective universities, look at all three types of prospective 'fit' for your child and include the financial aspect! The three key aspects of 'college fit' to evaluate are:

- Personal – size of college, distance from home, is there a Greek system? Does the college have sports programs?
- Academic – what majors does this college offer? What professors are doing research that is of interest to my child?
- Financial – can I afford this college?

It is SO important to look at all three types of fit together. A lot of families concentrate on the personal and academic fit and think that the financial fit will be addressed when the college list has been built. This can create a situation where the student has a list of perfect personal and academic fit colleges that the parents realize at some point during their child's senior year is not affordable.

Then, go through the exercise of calculating what is affordable for your family, and objectively eliminate those universities and colleges that are not a good



match, and prioritize viable matches for your child. When your car breaks down, most people don't go the Maserati dealership to test drive one because they know they can't afford it. This is what families are doing when they go on college visits without knowing what they can afford.

Conducting this exercise and financial planning before "going shopping" helps you decide what types of colleges are going to be affordable, so that you don't spend time and money visiting schools that are not a financial fit. And more importantly, you set expectations with your child around how much you are willing to pay and what is affordable for your family, avoiding hurt feelings and disappointment down the road.



Yes, there are pitfalls on the path to preparing for college. But if you know what they are, it is much easier to avoid and minimize them. Start early, do the research on how college funding, pricing and discounts work. Make sure you're incorporating the financial aspect to evaluate 'best fit' institutions for your child. And partner with a knowledgeable guide to ensure you're not paying more than you need to or leaving money on the table. The planning, preparation and early start will help your child get to college with less emotional and financial stress for your family.

For more information on Way to the Quad and how you can take on the college financial planning challenge, visit

waytothequad.com



Peg Keough, founder of Way to the Quad, is a college financial planner who specializes in working with parents who have college-bound high school kids. Through her guidance parents take a proactive role in creating a comprehensive college funding plan to maximize financial aid and discounts on the cost of college. Peg is a recognized thought leader and a frequent speaker at schools and organizations. She holds degrees from Cornell University and Indiana University.