

The Top 10 Avoidable Mistakes Parents Make When Paying for College

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When I first started out in the world of paying for college years ago, I had dozens of misconceptions about paying for college. The one thing they all had in common was that they cost families thousands and thousands of dollars every year.

With so much disinformation regarding college admissions and financial aid and in order for parents to be able to make smart choices paying for college, they need to be able to sort through facts from fiction.

Elimination of COST as a determining factor in deciding which school your child should attend is the overriding motivation for the penning of this report.

Here are The Top 10 Avoidable Mistakes Parents When Paying for College:

1. My income is too high.
2. I won't qualify because I own a home.
3. My taxes have to be done before I file.
4. Aid is only for the poor or the rich or other special groups.
5. It's an easy process.
6. Guidance and financial aid people can help.
7. If I don't think I will get any financial aid, why bother?
8. The school with the prestigious name is the best school for my student.
9. Private Colleges cost more than state colleges.
10. What they give I have to take

1. My Income Is Too High

Many folks seem to have this idea that if they make more than \$100,000 per year, then the financial aid process is not for them. This could not be further from the truth. Financial aid is not awarded based

upon income alone (there are six other key factors). Besides, your understanding of how income is treated is in all likelihood seriously flawed. I'll give you an example.

I met with a doctor on an initial consultation. He told me he was making about \$200,000 per year. Now at first shake, I thought there is absolutely no way this guy is going to qualify for any kind of financial aid. He just makes too much money I thought. However, I always do a financial aid estimate for every person I sit down with. So I calculated his numbers and lo and behold, he was going to qualify for about \$5,000 in *need-based* financial aid to send his first daughter to college, and this amount went up when his second child started college.

Now I'm just going to take a wild guess here and figure that you would have never thought that someone who makes \$200,000 income per year would qualify for need-based financial aid. I certainly did not think that was possible at the time, but now I know differently. Now is this common? No. But the point of the example is to show you that what you think you know about income levels and the financial aid process is not correct.

Whether you make \$20,000 or \$200,000, you need to complete the financial aid forms. Schools use these forms to allocate all kinds of monies, not just monies for low-income families.

2. I Won't Qualify Because I Own A Home

It used to be if you owned a home or had equity in a home that you would not qualify for much of the financial aid dollars out there. This is not true anymore. The FAFSA (Free Application for Federal Student Aid) is the most common financial aid standard, and it does not count equity in your primary residence at all.

Investments do include other properties such as equity in vacation properties, rental properties and investment properties. Whatever equity you have in those types of property will be included in your financial aid calculations.

There are ways to decrease your equity in these types of investments. Consider scheduling a college funding evaluation to

find out which strategies are best suited for your situation.

Home equity will be counted against you for the CSS/Profile calculation. However, not all colleges and universities that use this form will do so. The CSS/Profile is a financial aid form required by about 300 (out of 3,000) of the more selective colleges around the country.

It is not the role of the college to fully fund your child's college education. They expect a certain degree of financial commitment by the parents. Those colleges in the best position to help want to more fully assess your ability to pay before they give their own money. They want to be fair to all the students that qualify for aid.

Some families are genuinely miffed when they have their home equity assessed. They feel that the colleges expect them to sell their homes, or take out huge mortgages to pay for their child's education. Honestly, the colleges don't care how you pay them; it is just the way they compute your contribution.

If your student wants to go to a college where they assess home equity and another doesn't, tell the college that the other college isn't using the equity against you. Sometimes, to entice your student, they'll drop the requirement.

3. My Taxes Have To Be Done Before I File

This falsehood probably costs families more in money every year than any other on this list. Most families look at the financial aid forms and decide there is no way they can complete the forms until they get their tax returns completed.

For some reason the word "estimated" becomes invisible on the financial aid forms. This is a very dangerous oversight to make.

The critical dates for filing the financial aid forms are called the *Financial Aid Priority Deadlines*. These deadlines often come well before families have their tax returns done for the year. There are actually a few schools that have a financial aid priority deadline of January 1st. You want to make sure you are fully aware of these deadlines. They can typically be found in the financial aid

section of a college's website. You want to make sure that your forms are completed and sent in when those decisions are made. Waiting to get your taxes completed before you file your financial aid forms can mean missing out on the lion's share of the money to be awarded.

If a college has a February 1 financial aid deadline, and the colleges handle thousands of financial aid forms each year, wouldn't it be a logical assumption to expect that the colleges know you won't have your taxes done by then? How many of us get our W-2's on time not to mention various other tax forms?

They tell you to use estimated numbers. If you don't, then you could lose thousands of dollars of funding just because you didn't follow directions.

It is just as important to get your financial aid forms done early as it is to getting them done accurately. At the end of the year, gather together the best financial information you have and create an estimate of what you think your taxes are going to look like. Then file your financial aid forms based upon that estimate.

Once you have all the information you need to complete your tax return, do it as soon as possible. You do not need to file your tax return until April 15th, but getting the return done will tell you whether or not you need to go make any corrections to your financial aid filing.

Now this doesn't mean that if you miss the deadline that you won't get any aid. If you miss the deadline, you need to get your forms processed as soon as possible. As time goes by, the piles of money that the colleges have are siphoned off.

4. Aid Is For The Poor Or For Special Groups

Everyone has heard of some kind of program where, to qualify for it, you have to have been a green-eyed, red haired, left-handed, badminton player from Girardeau, Missouri, and have great-grandparents that served under General Lee in the Civil War. Well, if there really are programs like that; they fall into a very small percentage of the money available.

There are some programs out there for specific groups, ethnicities, areas of study, etc. However, the vast majority of financial aid money is available to everyone based upon no “special group” status.

And a recent study proves that lower income families get the shaft when it comes to financial aid. Students whose parents are in the top 25% in income get financial aid while those earning less than \$75,000 get very little by comparison.

5. It's An Easy Process

I once presented a financial aid workshop where in the hallway, was a poster that read, “8 Easy Steps To Financial Aid”.

When the workshop began, I asked the parents assemble before me if anyone had already applied for financial aid. Of the ones that said yes, I asked them if what the poster said was true. They're grumbling said it all.

Many people look at the financial aid process and make one of two unfortunate decisions. The first unfortunate decision is that this process is a piece of cake. The second unfortunate decision is that this is a process that is beyond them. Neither of these decisions is incorrect.

It is absolutely fine to seek outside help. I have built my business upon people looking to me to solve their problems, particularly if they cannot invest the time in solving the problems themselves or just choose to have someone else do it for them.

My guess is, however, that you are someone who is a do-it-yourselfer. Why else would you be reading this report? It is just as dangerous for you to decide this is an easy process as it is for the person who decides they can't do it at all.

Here's a situation... Imagine that you have never had to file your taxes before and know nothing of the tax system. You are now in your peak earning years and there is a knock at your door. You answer the door and there stands a man from everyone's favorite government agency, the IRS. You know what he looks like... dark suit and sunglasses, and an accusing look on his face. He

hands you a 1040 long form with all of its associated schedules and tells you to complete it accurately and return it with a check in four weeks. And you do not want to get it wrong or bad things will happen... bad things.

You've got a problem. You've never seen anything that looks like this before and there is great deal riding on it.

Now any intelligent person would make one of two decisions. On the one hand, they could call their accountant or H & R Block and have someone else do this work for them. On the other hand, they will run down to the bookstore and pick up a very big book that tells them all about filing taxes and how to do it or run out and pick up the latest in tax software.

The department of education reports that 60% of FAFSA forms that are submitted come in with some kind of error that gets them rejected or suspended. I and my colleagues at NICCP (National Institute of Certified College Planners) have found that approximately 75% of the FAFSAs are filed with incorrect information that will cost families money. This means 60 to 90% of the FAFSAs in this country are filed incorrectly each year costing families millions of dollars.

In February of 2008, two Harvard doctoral candidates produced the results of their study of the financial aid system. Among other findings, they found that the FAFSA form takes a minimum of ten hours more to complete than what the colleges and the Department of Education claim it takes. Even the Secretary of Education and the President say you need a PhD to fill out the forms!

This is not an easy process. Study or pay the price.

6. Guidance And Financial Aid Can Help

Guidance counselors are not financial experts and are only familiar with the basics of financial aid; loans and work-study. They don't know about financial aid strategies, debt reduction, cash flow, tax strategies, etc. Do not count on them as this is not their expertise.

The first source of information that families often go to on the financial aid process is the financial aid officer (FAO) at the college they are

interested in. There is a significant problem with this approach. First, a servant can't serve two masters. The FAO will do what they are told they can do to help you, but no more.

There is a process called financial aid leveraging. This process is used by approximately 60% of the private colleges in the US and over 30% of the public colleges in the US.

Financial aid leveraging is a statistical process by which the financial aid office of the school tries to determine the least amount of money they need to give a student and still get that student to attend their school. It is certainly not a process designed to get your student what they deserve or need. Effectively, financial aid leveraging is a computer program that tries to figure out just how cheap they can buy your child. There is no source or guide that can tell you which schools utilize financial aid leveraging. You are pretty much on your own in defending yourself, and your best defense is a thorough understanding of how the financial aid system works.

You need to be certain of one thing in this process. Colleges are big business. They are not warm & fuzzy organizations just looking out for your student. Colleges need money to operate. They have bills to pay. They want to get bigger. And in order to accomplish all of these things, they need your money. Do not rely upon them to cut you the best deal.

7. If I Don't Think I Will Get Any Financial Aid, Then I Don't Have To File

More families with incomes over \$100,000 are qualifying for financial aid than ever.

Even though your estimates may indicate that you do not have much of a chance for need based aid, there are still three very good reasons to fill out the required financial aid forms.

First, your son or daughter will not be able to apply for the federally sponsored loan programs unless they complete the FAFSA form. These include the Stafford loans and the Perkins loans. These loans are the least expensive loans that your student can qualify for. They

have the lowest interest rates and are most likely the only loans that the student can individually apply for without a cosigner. If you want your student to take at least partial responsibility for their education, then the federal loan programs are the place to do it.

Second, many schools use the FAFSA form as their primary financial information form. Consequently, the FAFSA is required to qualify for many merit-based awards as well. Your son or daughter may want to apply for choral, academic, or athletic awards. At many schools, you will have to submit the FAFSA to qualify for them.

Third, your estimates may just be plain incorrect and there are likely funds available that you are not aware of. No matter what you think your situation looks like, you will never know for sure what kind of award you may receive until you go through the process. Don't pass up the financial aid process. You will likely miss out.

8. The School With The Good Name Is The Best School For My Student

Ok, this doesn't have anything to do with financial aid, but it still strikes at the heart of your finances. Many parents feel they have to find the "best" school or the "best" program of study for their student. This is not a smart way to choose a school.

And I'll let you in on a little secret. Despite what the editors of US News would like you to believe, there is no such thing as a perfect college. However, there is a college that is perfect for your student.

A couple of years ago, a TV news magazine was covering the college admissions process. At one point they were interviewing an admissions director from a large eastern college (which one I do not remember). They asked her, "What do you tell the parents that are trying to get their students into the school with the good name?" Her response was very telling, "I don't know of any schools without a good name."

Her point was that accredited colleges that put the time and resources to teach a particular program are doing so because they intend to teach it well. You can rest assured that if a school is offering

a program; then they are going to do it well, and your student is going to get a good education.

Recently *USToday* did an article on CEO's in this country and found that the vast majority of CEO's come from non-Ivy League schools. The author of the article was surprised to find that big-name universities apparently have little impact on those students that rise to the top of their professions.

The moral of the story is don't go chasing after the school with the "premiere" name. There is no such thing as the "best school". There is only the best school for your student, and you can't get that out of a magazine article.

9. Private Colleges Always Cost More Than State Colleges

The difference in the cost of delivering a public university vs private college education is about the same.

For example, if the cost of attendance at a state university like Illinois is \$30,000, the State of Illinois is contributing about 25k. This makes sense because the costs of running a college or university are about the same. Salaries, administration, building maintenance and utilities, etc. are about the same.

State schools are subsidized by the people of that state. Private schools are subsidized by its alumni and donors. True, financial aid is more important at the privates so that they can be more accessible. Those who can afford more are asked to share more of the burden of higher tuition

The net cost of a private college is often comparable to that of state institutions. Their sticker prices may often appear to cost two to three times as much, but only about 25% of students pay full fare. Many private colleges can be a real bargain once they apply all the different sources of funds to a student. Don't be fooled by the sticker price. It's the college's financial track record that you need to pay attention to.

College financial track records are one of the most critical

components to identifying which schools are going to give you the best deal, but you never hear anyone talk about them. This is not right because those track records often have far more to do with what you will pay for a college education than the schools cost of attendance. The financial track record is a set of three percentages which indicate how a school treats the financial aid process.

Now many schools will want to highlight what percentage of their student body receives some kind of financial aid. This doesn't tell you anything. As long as a family fills out the FAFSA form correctly, they are virtually guaranteed to get the Stafford loan. So a school that claims 90% of their students receive some form financial aid means that 10% of the students probably didn't fill out the FAFSA form. This is not helpful information. Also, Stafford Loans are considered financial aid.

Some schools will highlight that students on average receive X number of dollars in financial aid. Well, this doesn't really tell you anything either. Averages are not a good indicator to base projections of what your student can expect in help from the school.

What you want to know is the college's financial aid track record made up of these three elements:

- The percentage of family need met
- The percentage of funds provided in scholarships and grants (free money)
- The percentage of funds provided in work-study and loans (self-help)

These three statistics are the true indicators of how much you will pay at a school.

You want the percentage of family need met to be as high as possible. 100% is the mark of a very generous school, and a school you want to target.

You also want the percentage in free money to be as high as possible. The flip side of free money is self-help, and you want that number to be as low as possible.

I have seen a few very generous schools highlight their financial track records in their publications or on their website. It isn't used very often, however, because frankly, most families have no idea of their importance.

My final word on the subject... make sure you are applying to a selection of state and private colleges with generous financial track records. This is the way you will have the best opportunity for the monies that are available.

10. I Have To Take The Offer As Written From The College

After you have completed all of the financial paperwork for college, you will receive the official financial award offers from the colleges to which your student has applied.

Here's the important thing to keep in mind about that offer... it is not necessarily written in stone. If you have a situation that couldn't be addressed on the FAFSA, you can bring it up with financial aid. Often a college will increase your student's package as the result of a reasonable request. Be prepared to document your reasons for asking for more.

Colleges do not negotiate. They have an appeals process. And there is a very big difference between an appeals process and negotiating. Appeals start with an "A". Negotiate starts with an "N" which stands for NO.

A case I was asked to help on had to do with a woman that had recently become a widow. On the original financial aid forms, there was little income reported because the father of the child was sick for most of the year and did not work much. He died shortly after the FAFSA was filed. The financial aid award was based on the year the dad was ill and so the package was very generous. Then, the student was selected for a financial review called "verification". During verification, it was discovered that the father had some life insurance and no other assets. The life insurance, once a death claim has been submitted, begins generating interest until the claim is paid. The result was that over \$600,000 was included as a parental

asset. This meant the family lost all financial aid.

As unfair as this is, it is the law.

What I did was write a letter arguing that if the \$600,000 was part of the fathers retirement plan, like a 401(k) from work, then none of it would have been counted and the family would not have lost one nickel in aid. After four attempts, the college used its professional judgment to make the death benefit non-reportable and reinstated the student's financial aid.

Don't assume that the first offer you received from the college is take it or leave it. Many schools will work with you and it can mean the difference of thousands of dollars

In Summary

Those are The Top 10 Avoidable Mistakes Parents When Paying for College.

To find out more about how to minimize your family's costs for college, I encourage you to give us a call at 847-920-9680 to set up a free one-hour consultation.

Please forward this report to any friends or family that has college bound students.

Sincerely,
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