



Advanced “Late Stage” College Planning:

How to Use “Strategy Layering” to Help Parents
Reduce Their Out-of-Pocket Costs

PLUS

The Impact of COVID-19 on Students & Parents

Presented by:

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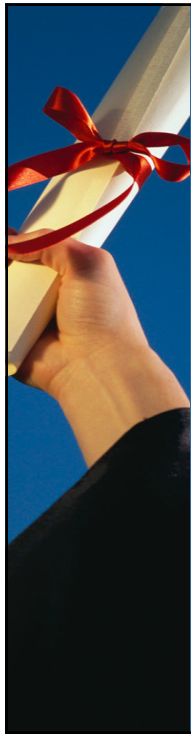


Three Main Planning Objectives

1. Reduce the out-of-pocket college costs for parents as much as possible.
2. Determine the most efficient way to pay based on the resources the family has available to them.
3. Help the student to successfully make the transition from adolescent to young adult.

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“Holistic College Planning”

Academic/Admissions

Career Assessment

Financial Aid

Tax Reduction

Cash Flow

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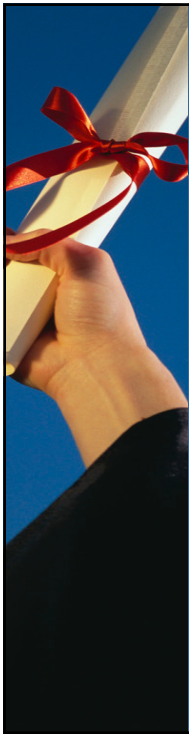


Official Graduation Rates

- Four-year graduation rates for students attending **public** colleges and universities is **33.3%**.
- The six year rate is **57.6%**.
- The four-year graduation rate attending **private** colleges and universities **52.8%**.
- The six year rate is **65.4%**.
- For more: <https://nces.ed.gov/collegenavigator/>

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Net Price Calculators

- Calculate a college's Net Price at:

<https://bigfuture.collegeboard.org/pay-for-college/tools-calculators#>

- Provides estimates of need-based grants and non-need-based scholarships
- Super helpful for managing expectations.

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High School Years: Preparing for the College Admissions Process

- Parents can save a lot by planning ahead as their student enters high school.
- Plan ahead for SAT/ACT prep, tutoring, test fees, application fees, college visits.
- The family can literally save thousands of dollars.

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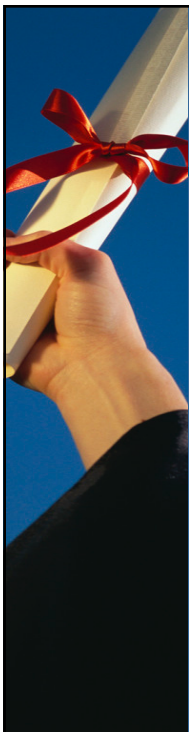


Parent / Student Conversations

- Parents need to have a money conversation with their child during the junior year of high school, at the latest.
- Parents need to determine and communicate what the budget is.
- Both parents and students need to understand what may be available (or not) to them such as grants, scholarships, loans, work-study, etc.
- Determine which type of colleges would be a good fit for the student. A professional college counselor can help. (The most selective colleges may or may not be a good fit for the student.)

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Preparing for the College Admissions Process

Test Prep:

- Parents shouldn't spend a fortune on group test prep classes.
- Students need to prepare by focusing on their weakest areas.
- Start prepping early (freshman year).
- Khan Academy is an excellent free resource.

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Preparing for the College Admissions Process

Application Fees:

- Average **\$50-\$60** application fee per college
- Applying to 6 – 10 colleges is usually plenty
- Factoid - Stanford is the most expensive - \$90 whether paper or online
- Colleges with no application fees:
<https://www.niche.com/colleges/search/colleges-with-no-application-fee/>

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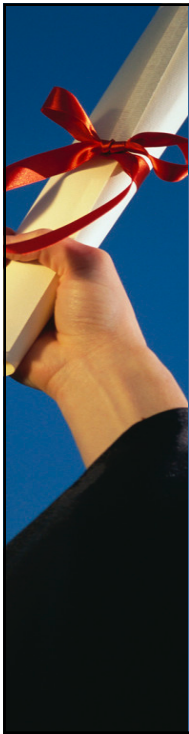
Preparing for the College Admissions Process

College Visits:

- Visit in-state schools first (and maybe neighboring states)
- Wait to see if student is admitted to colleges for the rest of the out-of-state visits unless the family will be vacationing there. ****NOW THERE ARE VIRTUAL TOURS****
- Parents can trade off taking the student, and then all three go for the final college visits to the student's 2 or 3 top choices.

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Three Types of Families

- **Type 1:** The families who will unquestionably qualify for need-based financial aid.
- **Type 2:** The families who ordinarily would not qualify for need-based aid, but with proactive planning, will qualify.
- **Type 3:** The families who, under any circumstances, will not qualify for need-based aid.

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First Two Financial Aid Planning Steps:

1. Determine if the family will qualify for need-based aid or not.
2. Determine the maximum per year they can afford or are willing to pay.



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Need vs. Merit Aid

- Need-based aid is tied to the parent's and child's income and assets according to the following formula.

$$\text{COA} - \text{EFC} = \text{FN}$$

COA = Cost of Attendance
EFC = Expected Family Contribution
FN = Financial Need

2021-2022 EFC Formula Guide: <https://bit.ly/3yh4F5Z>

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COA = Sticker Price

- The published “Cost of Attendance” is a sticker price that often can be discounted through merit and/or need-based scholarships or grants.
- Parents have these expectations which is, IMHO, the reason the sticker price of private colleges have risen so much.
- The colleges discount from the sticker price to get to the price the college wants to net from a particular student.
- The Net price is what matters.

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Financial Aid Forms

- The FAFSA
- The CSS Profile
- The College's Own Institutional Forms
- Additional Forms:
 - Business / Farm Supplement
 - Non-Custodial Parent Form
 - Income is reported from “prior prior year”
(2021-22 college students report family income from 2019)

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FAFSA Changes for 2022

- Business & Farm Owners – The “less than 100 employees” will now have to report their business financials.
- Income Protection Allowance has been increased.
- Child support will now be treated as an asset.
- Workman's comp, veterans, others will not count.
- 100 questions have now been reduced down to 35.

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FAFSA Changes for 2022

- For the 2021-22 FAFSA, family income is reported from the 2019 tax year.
- There are no longer any discounts for siblings.
- The parent who provides most financial support is the one who has to fill out the FAFSA (no longer “custodial parent”) And the non-custodial parent does not have any obligation to pay unless it is part of the parent’s divorce settlement.
- Middle Income families are most impacted.

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Reportable Assets on the FAFSA

1. Cash (no matter where it's held)
2. Bank accounts (checking, savings, CDs)
3. Non-retirement brokerage accounts
4. Money market accounts
5. Investments: stocks, bonds, mutual funds,
6. stock options, restricted stock, ETFs, hedge funds
7. REITs, commodities
8. Precious metal
9. UGMAs and UTMAs
10. 529 plans, prepaid tuition plans, Coverdell ESAs
11. Businesses
12. Investment farms
13. Real estate other than the family home, including rentals
14. Trust funds
15. Emergency funds

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Non-Reportable Assets on the FAFSA

1. Principal place of residence (family home)
2. Family farms
3. Small businesses owned and controlled by the family with less than 100 full-time employees and family member own more than half of the business
4. Qualified retirement accounts (401(k)s, 403(b)s, 457, pensions, annuities, traditional IRAs, Roth IRAs, Roth 401(k), SEP, SIMPLE and Keogh plans.
5. Life insurance policies such as those with cash values
6. Personal possessions such as cars, boats, computers, jewelry, furniture, clothing, jewelry, appliances, equipment

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Simplified FAFSA for 2023-2024*


The government relief package included a smaller bill called the FAFSA Simplification Act. These changes go into effect on July 1, 2023.

1. Principal place of residence (family home)
2. Family farms
3. Small businesses owned and controlled by the family with less than 100 full-time employees and family member own more than half of the business
4. Qualified retirement accounts (401(k)s, 403(b)s, 457, pensions, annuities, traditional IRAs, Roth IRAs, Roth 401(k), SEP, SIMPLE and Keogh plans.
5. Life insurance policies such as those with cash values

* Potentially subject to changes

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Simplified FAFSA for 2023-2024*

- Fewer questions. The bill significantly reduces the overall number of questions on the FAFSA, including eliminating questions about drug convictions and Selective Service status.
- Changes to cost of attendance. The bill makes several changes to the definition of "cost of attendance" in an attempt to standardize the term among colleges and make it more favorable to families.

* Potentially subject to changes

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Simplified FAFSA for 2023-2024*

- Colleges can no longer set the housing allowance to "0" for dependent students who live at home with their parents.
- Colleges must include an allowance for loan fees for federal student and parent loans. And colleges will be required to disclose all the elements of the cost of attendance on their website.
- The bill also extends a provision allowing employers to pay up to \$5,250 of employees' student loans per year on a tax-free basis for another five years. This provision, included in the Consolidated Aid, Relief, and Economic Security (CARES) Act, would have expired at the end of 2020.

* Potentially subject to changes

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Simplified FAFSA for 2023-2024*

- The allowance for room and board will be split into Expanded Simplified Needs Test. The Simplified Needs Test, an alternate formula within the FAFSA that exempts certain families from having to report their assets (only income is counted to determine aid eligibility), has been renamed **Applicants Exempt from Asset Reporting**. In addition, there will be multiple ways to qualify, including a higher income threshold that will be raised from \$50,000 to \$60,000.
- The term **EFC** is being retired. The Student Aid Report generated by the FAFSA will no longer refer to the end calculation as the Expected Family Contribution, or EFC. Instead, it will be called the **Student Aid Index**, or SAI.

* Potentially subject to changes

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College Board's CSS Profile Application

- Required by approximately 200 colleges.
- Business Farm Supplement is required from business owners.
- IDOC provides an information verification process for private colleges.
- Tax returns and W2 forms is the most common information routinely requested.
- The Federal government also has a verification process.

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Submitting Information to College Board

- IDOC can be found at <https://doc.collegeboard.org>.
- Click the “Sign in to IDOC” button.
- Select 2021-22 in the “Academic Year you will attend” drop down box.
- Enter two credentials (College Board ID, student’s date of birth and/or Social Security or Social Insurance number).
- Follow instructions to submit the documents.

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Deducting Qualified Tuition Costs

- Qualified college tuition costs are deductible on 2020 tax returns. Don’t need itemized deductions to claim it.
- The tuition and fees deduction was set to expire in 2019, but a last minute spending bill passed in December renewed the provision through 2020.
- Taxable income can be reduced up to \$4,000 depending on MAGI and filing status.
- Expenses include **required** tuition, fees, books, supplies, equipment and activity fees that must be paid to the college for enrollment.

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Deducting Qualified Tuition Costs

The Deduction Thresholds:

- **\$4,000**
MAGI less than \$65,000 for single filers,
MAGI less than \$130,000 as married filing joint
- **\$2,000**
MAGI between \$65,000 and \$80,000 for single filers,
MAGI between \$130,000 and \$160,000 as married filing joint
- **\$0**
MAGI more than \$80,000 for single filers,
MAGI more than \$160,000 for married filing joint

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Families May Not Have to Pay Full Price

TUITION DISCOUNTS:

*A reduction in the
“sticker price” of the college*

Average discount on “sticker-price” at private colleges is now over 50%.

Source: Chronicle of Higher Education Almanac

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College Matching

- Match the student's profile with the profiles from various colleges.
- Begin with GPAs and test scores.
- Next consider talents and special characteristics of the student.
- Collegesearch.collegeboard.org
- Cappex.com/college-match
- <http://nces.ed.gov/collegenavigator>

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Merit Aid

- Any financial aid not tied to the family's finances.
- Typically good for all four years, but not all. (Parents need to verify.)
- Student needs to maintain a minimum GPA.
- Student can receive multiple merit aid awards.



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One of Our Student Client's 2021-22 Merit Award

Northeastern University

2021-2022 Financial Aid Offer

We are pleased to provide you the following financial aid award, based on the information you included on the Free Application for Federal Student Aid (FAFSA) and CSS Profile, for the 2021-2022 academic year.

Financial Aid Award

Source	Fall 2021	Spring 2022	Total
Northeastern Honors Scholarship	\$11,000	\$11,000	\$22,000
Direct Unsubsidized Loan	\$2,750	\$2,750	\$5,500
Total	\$13,750	\$13,750	\$27,500

Your award is based on the following expectations. If the expectations noted below are incorrect, or there is a change in your plans, you must notify our office immediately; a review and possible recalculation of your financial aid award may occur.

- You will enroll in a minimum of 16 credits per semester (full-time)
- You will reside in university housing
- You will enroll in the academic term outlined in your admissions decision

Understanding Your Award

Northeastern is committed to meeting 100% of your demonstrated institutional financial need. Information regarding your award, funds provided, and financial aid policies can be found [here](#).

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It's "Net Cost" that Matters!							
College Financial Aid Comparison Tool							
Financial Aid	Lewis & Clark	Western Washington	Chapman	University of Oregon	Puget Sound	San Diego State	
Cost of Attendance (COA)	\$61,536	\$36,772	\$69,364	\$49,123	\$61,652	\$26,594	
Grants or Scholarships	\$18,000	\$6,000	\$34,450 *	\$0	\$20,000	\$0	
Loans	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500	
Work Study	\$2,500	\$0	\$3,000	\$0	\$0	\$0	
Net Cost (COA minus All Aid)	\$35,536	\$25,272	\$26,414	\$43,623	\$36,152	\$21,094	
Self Help (Loans & Work Study)	\$8,000	\$5,500	\$8,500	\$5,500	\$5,500	\$5,500	
True Out-of-Pocket Cost (Net Cost plus Loans)	\$43,536	\$30,772	\$34,914	\$49,123	\$41,652	\$26,594	
2019-20 COA:	\$67,840	\$41,632	\$78,272	\$53,610	\$68,146	\$30,522	

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The Advantages of Work-Study

- Students who are receiving need-based aid should choose work-study over a regular job.
- Reason: The impact regular income has on the financial aid application and other benefits.
- Regular wages will be subject to a 50% assessment after the first \$6,660.
- Work-study wages are NOT included in student's earnings assessed by the FAFSA.
- Also, colleges consider classes when scheduling hours whereas a regular employer may not.
- Students who work at college typically have better grades.

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Tax Reduction Strategies

Utilizing a Child's Tax Capacity

Two Stages:

- Birth through high school
- College years

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Birth through High School

- The Tax Cuts and Jobs Act has simplified the Kiddie tax until 2025.
- The rules on the first \$2,200 of **unearned** income remain unchanged: Unearned income above \$1,100 but no higher than \$2,200 is not taxed at the child's rate.
- Amounts over the \$2,200 threshold are taxed at the following rates:
 - Up to \$2,550 – 10%
 - \$2,551 to \$9,150 – 24%
 - \$9,151 to \$12,500 – 35%
 - All over \$12,501 – 37%

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Birth through High School

- Total tax capacity of \$2,200 per year of investment income.
- Earned income (compensation) is **not** subject to Kiddie tax.
- Utilize tax-deferred or tax-exempt investments to keep investment income at \$2,200 or less.

Source: 2021 Internal Revenue Code

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Compensating the Child

- Wages from the family business or rental
- Not subject to social security tax if under 18 and paid from sole proprietorship
- Age 21 for household services
- Earned income not subject to “kiddie tax”
- Eligible to contribute to an IRA

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Examples of “Household Services”

- Paying family bills
- Landscaping / Gardening
- Housekeeping
- “Handyman” projects
- Painting or wallpapering
- Fixing or refinishing something.

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College Years

- Tax Cuts & Jobs Act removed the \$4,000 personal exemption.
- Standard deduction of \$12,400 for single filers
- 12% tax bracket for up to \$40,525 of income
- Tax capacity of \$52,925 for year 2021
- Availability of American Opportunity Tax Credit or Lifetime Learning Credit to offset income tax

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Example: College Years

(Subject to Kiddie Tax above \$2,200 of unearned income)

*Hypothetical example for illustrative purposes only (2021 tax year)

Wages	\$12,000	(10% tax up to \$9,950)
IRA Withdrawal	\$ 2,200	(Kiddie Tax limit for 0% tax)
Capital Gain (long-term)	\$12,000	(0% capital gain tax if income is below \$40,400)
Standard Deduction	<u>(\$12,550)</u>	
Taxable Income	\$ 1,650	(leftover taxable wages)
Federal Tax Rate	<u>X 10%</u>	
Child's Tax Liability	<u>\$165</u>	
American Opportunity Tax Credit	<u>(\$2,500)</u>	(If 51%+ of support is paid by student)
Child's Tax Liability	<u>\$0</u>	AOTC offers 40% of total credit refund up to \$1,000

*Students can file their own tax returns if they earn enough to cover at least half of their support with EARNED income.

They can be claimed as a dependent if they are a student younger than 24 years old.

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If Parents Had Claimed the Income...

*Hypothetical example for illustrative purposes only (2021 tax year).

Parent's Income Shifted	\$26,200
Parent's Tax Rates	X <u>15% / 22%</u>
Parent's Tax Liability (after standard deduction)	\$5,764

By shifting income to the child, parents save:

\$ 4,924 (each year) "Tax Scholarship"
\$19,696 (over 4 years)

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Student Loan Forgiveness

- Checklist for student loan forgiveness:

<https://www.savingforcollege.com/article/checklist-for-public-service-loan-forgiveness>

- Federal site for guidance on the student loan repayment process:

<https://studentaid.gov/resources/loan-repayment-checklist>

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Student Loans

- The best student loan is the federal “Direct Subsidized Loan”.
- If the family qualifies for the need-based aid, no interest accrues while the student is in college.
- The student needs to be enrolled in college at least half-time.
- For the “Unsubsidized” version, interest is charged during all periods for families who do not qualify for need-based aid.
- The family must file a FAFSA. (However, the government doesn’t check financials to issue the loan.)
- Interest rates for Direct Unsubsidized Loans can change every year. Loans made for 2020–21 have a fixed interest rate of **2.75%** for the life of the loan. The parent Direct Plus Loan has an interest rate of **5.30%**.

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How to Attract New Clients

- Choose and learn the planning components you will offer.
- First contact your existing clients to let them know you will be providing advice in the college funding area.
- Encourage your clients to refer any family and friends who have college-bound high school students.
- Present a webinar on the topic of college planning to your clients to begin educating them about how planning ahead could literally save them thousands of dollars.
- Build relationships with counselors at the high schools in your area.

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Case Study

Let's Explore the Power of
Combining Various Strategies

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Case Study – Type 3 Family

- W2 plus rental income
- Mother – Homemaker
- Father – Sales Mgr for IBM: \$450K wages (\$425K AGI)
- Two sons: Steve (Freshman at USC) and Eric (High School Senior)

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Case Study – Type 3 Family

- Retirement accounts - \$600K
- Non-Retirement accounts: \$100K
- College savings - \$60K 529s / \$60K savings
- Personal Residence: \$1M value, mortgage \$700K

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Case Study – Type 3 Family

- Rental Home - \$700K value, \$430K mortgage, \$1,500/mo. positive cash flow
- Both boys attended private high school: \$25K/yr. for each
- Both boys had strong academics
- Also had strong extracurricular activities

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Case Study – Type 3 Family

Eric's Extracurricular Activities & Interests:

- Involved in theater
- Captain of Improv Club
- Ran Cross Country
- Interested in becoming an Actor, Architect, Attorney, Computer Programmer

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Case Study – Type 3 Family

Eric's College List:

- | | |
|------------------------|----------------------|
| ▪ USC | ▪ Texas Christian U |
| ▪ Northeastern | ▪ Baylor U |
| ▪ UCLA | ▪ New York U |
| ▪ UC San Diego | ▪ Tulane U |
| ▪ Southern Methodist U | ▪ UC Riverside |
| ▪ Yale | ▪ Northern Arizona U |

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Merit Awards Eric Received

- Southern Methodist U: \$22,500/yr.
- Baylor U: \$16,000/yr.
- Tulane U: \$22,000/yr.
- Northeastern U: \$17,000/yr.
- No. Arizona U: \$7,960 First yr. (WUE tuition)

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Southern Methodist University

- Cost of Attendance: \$61,155
- Average SMU merit aid award: \$15,674
- Family's Net Price: \$38,655
(\$61,155 – \$22,500 scholarship)

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Total Cost Savings

Combining both sons:

- Merit Aid: \$24,000 (USC) + \$90,000 (SMU) = \$114,000
- Income Shifting: \$8,250
- Half price books: \$4,000
- 12 Units AP Test Credits: \$20,000
- Sons' Part-time Income: \$24,000

Total approx. 5-year Out-of-Pocket Savings: \$170,250

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Preparing for the College Admissions Process

2021 Test Fees:

Register on-time, choose the right tests

- SAT \$52.00 / \$68 with essay
- ACT \$60.00/ \$80.00 with writing portion
+ \$15 each for reporting score to 5th and 6th colleges
- Advanced Placement (AP) Tests \$94

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The Effects of COVID-19: On Standardized Tests

- Concerns around administering SAT and ACT exams during the pandemic have prompted many colleges to go test-optional.
- Pre-pandemic there were 1,070 colleges that were test-optional. Now there are 1,686 for fall of 2021 according to Robert Schaeffer, interim executive director of FairTest.
- But the colleges are still looking at scores when they have them, even though they are not required. Those who have strong scores will stand out.
- Colleges are looking at GPA, grade trends, the rigor of a student's high school curriculum, admissions interviews and letters of recommendation.
- To assure students that test-optional policies really are in place, more than 500 colleges signed a statement in August from the National Association for College Admission Counseling to confirm their commitment to these policies. Those who have signed the statement can be found on the National Association for College Admission Counseling (NACAC) website.

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COVID-19 Student Loan Relief

Stay up-to-date at:

<https://studentaid.gov/announcements-events/coronavirus>

- Relief for loans has been extended through at least Sept. 30, 2021.
- Includes suspension of loan payments, stopped collection on defaulted loans and lowered the interest rate to 0% on the loans below owned by the Education Department.
- Defaulted and non-defaulted Direct Loans owned by ED
- Defaulted and non-defaulted FFEL Program loans owned by ED
- Defaulted FFEL Program loans not owned by ED
- Defaulted and non-defaulted Federal Perkins Loans owned by ED
- Defaulted HEAL loans (graduate student loans)

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COVID-19 Student Loan Relief

- The recent passage of President Biden's "American Rescue Plan Act of 2021" is what kept Federal student loan payments on pause and no interest is being charged through the end of September.
- No garnishment of wages, Social Security or tax refunds for student debt collection for those in default.
- Direct loans are made directly from the Department of Education to students without the involvement of a private lender.
- The Federal Family Education Loan Program (FFEL) which were subsidized and guaranteed by the U.S. government. The program issued loans from 1965 until 2010.

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COVID-19 Tuition Discounts for Undergraduate Spring 2021

- | | |
|---|-------------------------------|
| ▪ American University: 10% | ▪ Rowan University: 10% |
| ▪ Lafayette College: 10% | ▪ Spelman College: 10% |
| ▪ National University: 25% | ▪ Thomas University: 30% |
| ▪ Princeton University: 10% | ▪ University of Illinois: 25% |
| ▪ Georgetown University: 10% | ▪ Williams College: 15% |
| ▪ George Washington University: 10% | |
| ▪ West Chester University of Penn: 11% to 22% | |

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Impact of COVID-19 on Work-Study Jobs

- In March 2020, college students were sent home. Some work-study jobs continued on a remote basis, but most were halted.
- The Dept of Ed issued a provision that said colleges could continue to pay work-study students from their federal allotment even if their campus was closed.
- However, this provision was optional and not all colleges continue to pay for work-study.
- In addition, colleges that stopped paying their regular (non-student) employees could not pay student employees.
- Going forward, families should plan for a worst-case scenario where traditional work-study will not be an option.

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2021 Expanded Lifetime Learning Credit

- The relief bill also increases the income limits necessary to qualify for the Lifetime Learning credit, worth up to \$2,000 per year for courses taken throughout one's lifetime to acquire or improve job skills.
- A full credit is available to single filers with a modified adjusted gross income (MAGI) below \$80,000 and joint filers with a MAGI below \$160,000 (the credit phases out for single filers with incomes between \$80,000 and \$90,000 and joint filers with incomes between \$160,000 and \$180,000).
- These are the same income limits used for the American Opportunity credit. To accommodate an expanded Lifetime Learning credit, Congress repealed the deduction for qualified college tuition and fees for 2021 and beyond.

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Miscellaneous Items

- Student lawsuits are asking for COVID-19 partial tuition refunds from colleges and universities.
- Most colleges are charging less for online learning instead of in-person; however, some are not!

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Conclusion

- Helping your clients implement “strategy layering” can result in significantly reducing the family’s out-of-pocket college expenses.
- Planning ahead with your clients for this expenditure can greatly increase the odds of both the parents and students getting a great college planning outcome.

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**Email me for a copy of my “Private Scholarship Dos & Don’ts”
plus a “Key Dates for College Planning” handout.**

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