# Ways to Ease the Cost of College

*A look at grants, scholarships, 529 plans, and other methods.*

Provided by The William Newby Agency

**How much could a college education cost in the 2030s?** You may want to take a deep breath and sit down before reading the next paragraph.

A MassMutual analysis projects that four years of tuition, room, and board at a private college will cost nearly $369,000 in 2031. An article at CNBC offers a slightly cheaper estimate, putting the total expense at $303,000 for a freshman setting foot on campus in 2036. (Today, the cost of four years at a private university is less than half that.) How about the price tag for four years of tuition, room, and board at a public university in that year? The same CNBC article says that it may reach $184,000.[1,2]

**Even today, finding enough money to pay for college can be an enormous challenge.** There are obvious ways to counter the cost: a student can work full time and apply much of the income toward school, or assume student loans. Fortunately, there are other ways – ways that you may want to explore if you do not want your child to take a hard-scrabble path through school or get soaked with debt.

**Ideally, you use money you never have to repay.** Grants and scholarships are more plentiful than many students (and parents) realize, and some go begging for applicants. Grants are based on need; scholarships, on merit. Grants can be issued incrementally or in lump sums to a student; most are awarded on a first-come, first-serve basis, which is why it is so crucial to fill out the Free Application for Federal Student Aid (FAFSA) early. A school accepting your student will evaluate your student's FAFSA, then send an award letter detailing his or her eligibility for federal and state grants. As for scholarships, there are literally millions of them. Sallie Mae provides a convenient online search tool to explore more than 5 million such awards, and you can use it to drill down to opportunities that are strong possibilities for your student.[3]

**Through a 529 plan, you can invest to meet future college costs.** 529 plans come in two varieties, and both varieties have common tax advantages. 529 plan earnings are exempt from federal income tax, and 529 plan assets may be withdrawn, tax free, so long as the money pays for qualified education expenses. While there are no federal tax breaks linked to 529 plan contributions, more than 30 states offer state income tax deductions or credits for them.[4]

Some 529 plans are prepaid tuition plans, giving you the potential to prepay up to 100% of your student's future tuition at a public university within your state (most of these plans do not pay for housing costs). You may be able to convert a prepaid tuition plan so that the assets can be used to pay tuition at an out-of-state university or private college. (There is also the Private College 529 Plan, which 250+ private colleges and universities collectively support.)[4]

The great majority of 529 plans are college savings plans, analogous to Roth IRAs. In a college savings plan, you can direct your contributions into equity investments, which offer you the possibility of tax-advantaged growth and compounding. (If the investments perform badly, your college fund may shrink.)[4]

You may choose to fund a 529 plan account incrementally or with a lump sum. States put different limits on the amount of money that a 529 account can hold, but six-figure balances are often permissible. You can invest in any state's 529 plan and pay for higher education expenses with 529 plan assets at any qualified U.S. college or university.[4,5]

**Whole life insurance could help.** If you have a permanent life insurance policy with some cash value, you could take a loan from (or even cash out) the policy and apply the amount toward college costs. The value of a life insurance policy does not factor into a student's financial aid calculation (which many parents do not realize). If you take a loan from a life insurance policy, you will reduce the death benefit; repay the loan in full, and you will restore its full value.[6]

**Some families use Roth IRA assets to pay for college.** A Roth IRA gives you a degree of flexibility that a 529 plan does not. Suppose your child does not go to college. (While this may seem highly improbable, some young adults do start successful careers without a college education.) In that event, you still have a Roth IRA: a tax-favored retirement savings account with the potential for tax-free withdrawals.[7]

A Roth IRA is not a perfect college savings vehicle, however. First, the annual contribution limit is low compared to a 529 plan. Second, while you may withdraw an amount equal to your contributions without penalty at any time of life, a Roth IRA's earnings represent taxable income when withdrawn. Third, while Roth IRA assets are not countable assets on the FAFSA, tax-free Roth IRA contributions, once withdrawn, still amount to untaxed income for your student (i.e., the Roth IRA beneficiary), and they lower a student's eligibility for need-based aid.[7]

**Going to college should not mean going into debt.** Would you like to plan, save, and invest to reduce or avoid that consequence? Then talk with a financial professional who is well versed in college planning. The variety of options available may pleasantly surprise you.



*Citations*

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