

Four Things to Do in the Four Years Before College

For your child, high school means football games, a driver's license, SATs, and the prom. For you, it means college is right around the corner. Before your child starts touring college campuses, here are four things you can do to get ready.

1. Take stock of your savings

A few years before you need to start paying tuition bills is a good time to take stock of your college savings. How much have you saved? Are you making monthly contributions, and is there any room to increase them? Now is the time to make sure your investments aren't weighed too heavily towards equities, because any losses suffered at this point could be difficult to make up. Consider shifting your investments to less risky ones as college approaches. In addition, estimate how much savings you'll have--factoring in your current balance, monthly contributions, and estimated rate of return--when your child graduates from high school. Finally, you might ask grandparents if they plan to help with costs.

2. Get familiar with financial aid

For your child to be eligible for federal student loans, grants, and/or work-study, you must complete the federal government's aid application, the FAFSA. The FAFSA looks at your family's income, assets, and other information (e.g., the number of college-age children in the family, the age of the older parent when the child starts college) to arrive at a figure called the expected family contribution (EFC). This is the amount the government deems you can afford to pay each year. This figure stays the same no matter what college your child applies to. The difference between the cost of attendance at a certain college (a variable) and your EFC (a constant) equals your child's financial need.

To get an estimate of your EFC ahead of time, try filling out the government's FAFSA4caster tool at www.fafsa.ed.gov. Though you'll still have to fill out the real FAFSA later, the FAFSA4caster will give you a ballpark EFC figure and an idea of what family financial data is required in the financial aid process. Plus, the FAFSA4caster will automatically import your data into the FAFSA later on.

The two main federal education loans are the student Stafford Loan and the parent PLUS Loan. There are two types of Stafford Loans: subsidized, for which the government pays (subsidizes) the interest while your child is in school and six months after school (the grace period), and unsubsidized, for which the government does not pay the interest during these periods. The maximum borrowing limits for Stafford Loans are currently: 1st year, \$5,500 (\$3,500 subsidized); 2nd year, \$6,500 (\$4,500 subsidized); 3rd-5th years, \$7,500 (\$5,500). The current interest rate is 6.8% fixed for unsubsidized loans and 3.4% fixed for subsidized loans disbursed between July 1, 2011, and July 1, 2012 (this rate is scheduled to increase to 6.8% after



Spiraling student debt

According to the New York Federal Reserve Bank, total outstanding student loan debt (from both federal and private sources) surpassed total outstanding credit card debt last year, and is on pace to surpass a trillion dollars this year. Unlike credit card debt, student loan debt generally cannot be discharged in bankruptcy.

July 1, 2012).

A PLUS Loan is available to parents with good credit histories; parents can borrow up to the full cost of their child's education. Currently, the PLUS Loan has a fixed interest rate of 7.9%. The unsubsidized Stafford and PLUS Loans are available without regard to financial need.

In addition to loans, your child should spend time in high school researching scholarships. There are several free scholarship websites that let your child tailor his or her search by interests and abilities. Obviously, scholarships are the preferred method of college funding because they don't need to be repaid.

3. Talk to your child about college costs

At some point during junior or senior year, it's important to have a frank conversation with your child about college costs. Tell your child how much you expect to have saved, and how much you will be able to contribute each year during college. If costs exceed what you can pay, explain that the rest will need to be borrowed by either you or your child, or covered by a scholarship, grant, or work-study job.

When talking about loans, show your child exactly how much a certain amount will cost to repay each month over a 10-year period. For example, a \$27,000 loan (the current max in federal Stafford Loans that can be borrowed over four years) at 6.8% interest will cost \$311 each month. The idea is to take an abstract loan amount and break it down into a figure--and monthly obligation--your child can understand. Ultimately, as the parent, it's up to you to make sure your child does not go into too much debt to pay for college.

4. Research colleges wisely

In addition to thinking about the qualities of his or her ideal college (e.g., geographic region, setting, size), your child should develop a list of colleges that are a good match for his or her academic abilities, interests, and talents. To maximize the chances of receiving a favorable aid package, consider your child's academic profile--by looking at GPA, class rank, and SAT/ACT scores--and encourage your child to apply to at least a few colleges where his or her academic credentials are better than those of the average admitted student.

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