

CHAPTER 2: Paying for Post-secondary Education

Did You Know?

In 2017-18, the cost of undergraduate tuition, room, and board was estimated to be \$18,000 per year at public institutions (in-state), \$38,400 at private not-for-profit institutions, and \$26,800 at private for-profit institutions.⁴

In most cases, students pay a portion of this fee by accumulating debt during their college years. For students who graduated in 2016, the average accumulated debt totaled \$37,172 in student loans.⁵

As we have seen, many careers require additional education or training after high school. Whether your choice of career requires four years of college studies or four months of hands-on trade school, it must be paid for. Understanding how to estimate the cost of education, save money to pay for it, and find sources of financial aid, student loans, scholarships, and work-study programs can make post-secondary education more attainable. This chapter will offer information on each option available to you so you can begin planning now to cover the educational expenses you expect to incur on your career path.

There are many different options for covering the cost of post-secondary education. Most people will ultimately pursue a mix of these, including:

- Savings
- Scholarships and External Funding Programs
- Grants and Work-Study
- Loans

Remember to also look at ways to *increase* income and *reduce* expenses. Ideas include working while attending college, living at home instead of on campus, and buying used textbooks. Lowering your total costs while increasing the funds you have available to pay those costs will help make college or vocational training a more affordable proposition.



Saving Up

The cost of education after high school can seem daunting, but there are many ways students and their families can meet the challenge. The key is to start preparing as early as possible. Putting money away now to cover these future expenses is a smart move, and there are programs available that can help you leverage your education savings.

- **Education IRA and 529 Accounts:** These types of savings plans build wealth over time, much like retirement savings accounts, and rely on compounded interest to grow your investment. There are also significant tax benefits; while deposits into these savings plans are not deductible, there are no federal taxes on the accumulated interest. These savings plans can be started as soon as a child is born, and must be used on qualifying expenses like tuition at college or vocational school, books, computers, room, and board.
- **Tuition pre-payment programs:** By purchasing tuition credits, families can pay for college tuition while a child is still young. The advantage to this type of purchase is that one can avoid the annual increase in tuition costs between now and when one's child goes to college.



⁴ nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2018060

⁵ www.forbes.com/sites/zackfriedman/2017/02/21/student-loan-debt-statistics-2017/#6848c1f75dab

External Funding Sources

- **Scholarships:** Public and private groups offer a wide range of financial gifts which may be awarded for any number of criteria, including academic performance and **ACT** or **SAT** test scores, involvement in certain activities, choice of major/vocation, financial need, and more. Your local community or a parent's employer may even offer them. Many scholarships require that recipients maintain a certain level of academic performance. Since scholarships are generally awards that do not have to be repaid, applying for this "free money" is time well spent. There are a number of websites dedicated to helping students locate and secure scholarships as well as assisting with completing scholarship applications, including inaid.org/scholarships/ and studentaid.ed.gov/types/grants-scholarships/ and indingscholarships.com.
- **Military Service:** Students who are interested in the military have several options to consider.
 - The **Reserve Officer's Training Corps (ROTC)** program provides a career path into the military while paying a student's college tuition. The training requires that students serve as reservists for up to 8 years and can include deployment to active duty. Learn more at todaysmilitary.com.



- **Department of Veterans Affairs:** Enlisting in the armed forces offers the opportunity to obtain job training in many different areas while serving the country. After you have completed your enlistment successfully, you can access additional educational programs and opportunities through the Department of Veterans Affairs. Learn more at gibill.va.gov/.

Financial Aid Packages

Even with savings and scholarships, most students will still need additional resources to complete their post-secondary education. To begin exploring your options, you will need to complete the **Free Application for Federal Student Aid (FAFSA)**. This aid is awarded based on your financial need, which is determined by a government assessment of both your financial information and that of your parents.

The level of need is reported in a letter called a Student Aid Report, which sets the amount your family is expected to contribute. This is known as your **Estimated Family Contribution (EFC)**. The EFC is also reported to the colleges you apply to, who use it to determine what aid you qualify to receive.

A FAFSA application is the *only* way to apply for federal student aid. Submitting the FAFSA application and following the required guidelines is critical to receiving financial aid, and all required data and due dates must be followed in order to receive aid.

After completing all of the required financial aid applications, you will receive an award letter from the colleges where you are accepted. In it, you will learn what kinds of financial support each school can offer you. If you are considering more than one institution, it is important to compare the offers before deciding which school to attend. Aid is awarded in three main categories: grants, loans, and work-study. Understanding the financial responsibilities of each of these is important when selecting which awards are most appropriate for your specific needs.

- **Grants:** Some students will receive a grant as part of the aid package. Since this money does not have to be repaid, it is an excellent way to pay for college expenses. A **Pell Grant** can be awarded for up to \$6,095 (2018-2019 limit), but awards vary depending on need, the cost of the school, and whether or not a student attends full or part-time. A student can receive a Pell Grant for up to 12 semesters (6 years) worth of undergraduate study. This money is

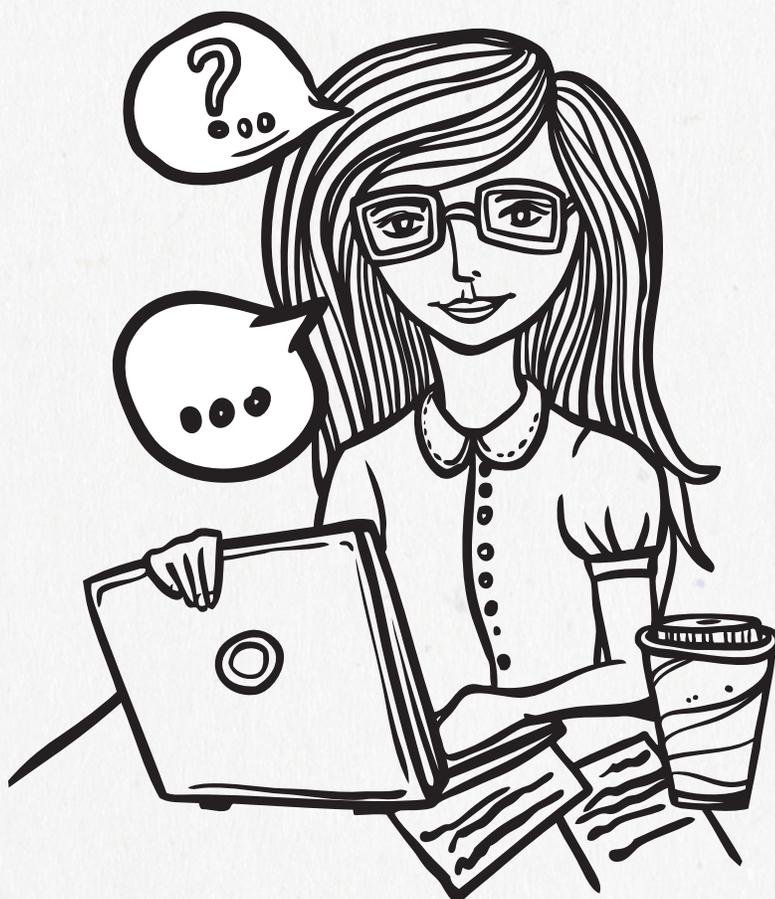
typically applied first to the cost of tuition and fees and then to room and board for students who live on campus. In the event that a student does not live on campus, any remaining funds can be issued to the student for living expenses.

In addition, each year, schools receive a set amount of funds to distribute as **Supplemental Educational Opportunity Grants (SEOG)**. These grants of \$100 to \$4,000 per year are awarded on a first-come, first-served basis to the students with demonstrated need. Thus, completing the FAFSA and submitting it early can be especially beneficial for students with a high need for financial assistance.

- **Work-Study:** Work-study is another part of many students' financial aid packages. Part-time jobs are arranged through the financial aid department at the school, at a public agency, or at a not-for-profit organization. Students are paid the federal minimum wage for the hours. This money is paid directly to the student, and can be used to pay for college tuition or living expenses.
- **Loans:** Even with grants and work-study, there is often additional funding needed to cover college expenses. Within an award letter, a number of different **student loan** options may be provided. Most student loans offer low **interest rates**, a **grace period**, and **deferred payment** options for repaying the amount borrowed. This allows students to borrow money for education without worrying about paying it back while they are still in school. The most popular student loans are provided by the U.S. Department of Education through its William D. Ford Federal Direct Loan Program. Students with financial need can apply for **Direct Subsidized Loans**. (Many people still refer to these as **Stafford Loans**.) The U.S. Department of Education pays the interest on this type of loan so long as you are in school at least half-time, and for the first six months after you leave school. All students can apply for **Direct Unsubsidized Loans**, which require you to begin paying interest as soon as the loan is granted. The interest rate on both types of student loans is 5.05% (2018 rate). The amount you can borrow is determined by your school's financial aid office and can vary from \$5,500 to \$12,500 per year for undergraduates, depending on criteria such as what year you are in at school.

If financial need still remains after grants, work-study, and loans have been awarded, a **Parent Loan for Undergraduate Students (PLUS)** can be considered. At a rate of 7.6% interest (2018-2019), this is a more expensive college loan. It is taken by the student's parents, making them liable for repayment. The maximum amount of this loan is equal to the total estimated cost of attendance minus all other financial aid that has been offered. Repayment of the loan is expected to begin when the funds are provided, but loan recipients can make deferred payments if requested and approved.

- **State Debt-Free College Initiatives:** Several states now offer debt-free education options. Most of these scholarships and grants are known as "last-dollar" or **promise programs** because they provide grant money to cover the remainder of tuition not covered by any Pell Grants and aid a student receives. West Virginia and Arkansas, for example, offer grants that will cover some of the costs of a 2-year community college to state residents willing to stay and work in the state for two years after graduation. Students must complete a FAFSA to apply, and each state has its own requirements, which can be based on such criteria as income, choice of major, etc.



Activity 1

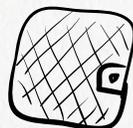
PART 1: CALCULATING EDUCATION COSTS



Determining the **total cost** of your education and financing can be a challenge. Begin by calculating the basic costs of attending college for one year using the data and charts below.

Scenario 1. You are planning to continue your education at State College after graduating high school. Costs are as follows:

- Tuition is generally calculated as a rate per credit hour. As a full-time student, you will be expected to take 15 hours of weekly classes per semester (which works out to 5 courses per semester), at \$275 per credit hour. Part-time students can take up to 3 classes or 10 hours of weekly classes per semester (3 courses).
- The school year is two semesters, or approximately 9 months long; off-campus rent and utilities are \$400 per month.
- Food and other living expenses are \$200 per month.
- You need books, which average \$125 per course.
- Student fees of \$375 are assessed each semester.



Tuition	Cost per credit hour	x Number of credit hours/semester	x Number of semesters/year	= Yearly tuition cost
	\$			\$
Books	Cost per course	x Number of courses/semester	x Number of semesters/year	= Yearly book costs
	\$			\$
Student Fees	Cost per semester		x Number of semesters /year	= Yearly fees
	\$			\$
Housing	Cost per month		x Number of months/year	= Yearly housing cost
	\$			\$
Living Expenses	Cost per month		x Number of months/year	= Yearly living expenses
	\$			\$
ANNUAL COST				\$

Now use your calculations to answer these questions.

1. How does your annual cost for attendance compare to the national averages in the “Did You Know?” factoid at the beginning of this chapter?

2. How could you lower the cost of attending school without changing the number of classes you take or the quality of the education?

3. What would be your total cost of attending for four years?
\$ _____
4. Assume that you could live with your family, saving the cost of rent and utilities, and reducing the cost of food and other living expenses to \$150 per month. What would be your total savings for the school year? \$ _____

Activity 1 PART 2: MAKING ADJUSTMENTS

Circumstances change, and different people have different objectives. Here are two more scenarios to consider.

Scenario 2

Imagine you are considering going to State College part-time. You will take 3 classes each semester for 10 credit hours per semester. All your other costs will be the same as if you were going to school full-time. Meanwhile, you will earn \$12/hour working part-time for 60 hours per month. Use the chart from Part 1 to calculate your education costs with this new data. Then answer the questions below.



1. What will be the annual cost of attendance? \$ _____
2. How much of this annual cost will be covered by your earnings during the school year? \$ _____
3. Subtracting your earnings, what is the total amount you would need to borrow for your college education? \$ _____
4. Assuming full-time students graduate in 4 years, how long will it take you to finish going part-time? _____
5. What will be your total cost of attendance over that period of time before you subtract any earnings? \$ _____
6. How does this compare to the cost of attending full-time for four years? _____
7. Do you think this is a reasonable strategy? Why or why not? _____

Scenario 3

Now use the chart from Part 1 to evaluate a completely different educational scenario.



1. Instead of State College, you decide to attend a 2-year vocational school. Assume that the costs are the same as for State College. What would be your total education cost over two years? \$ _____
2. After graduating from vocational school, you land a job earning \$34,500 per year. Two years later, a friend who went to State College for four years gets a job earning \$42,000 per year. Use the chart below to compare your and your friend's educational ROI after 10 years, assuming that you both keep the same salary for that period.

	Annual Salary	Years of Work	Earnings	Cost of Education	ROI
YOU (VOCATIONAL SCHOOL)	\$	x 10	= \$	- \$	= \$
YOUR FRIEND (4-YEAR COLLEGE)	\$	x 10	= \$	- \$	= \$

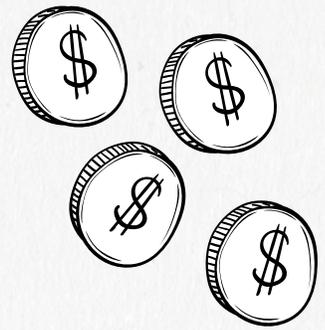


Activity 1

PART 3: CHOOSING A LOAN

Evaluating student loans can be complicated. Use this chart to compare the cost of borrowing the same amount of money from three different loan providers.

- Loan A is a subsidized loan in which there is no interest added until you graduate.
- Loan B is unsubsidized so interest begins accruing automatically.
- Loan C is also unsubsidized and the bank charges a 4% origination fee.



Item	Loan A	Loan B	Loan C
Loan balance	\$5,500.00	\$5,500.00	\$5,500.00
Adjusted loan balance	\$5,500.00	\$5,500.00	\$5,729.17
Loan interest rate	5.00%	6.80%	7.90%
Loan fees	0.00%	0.00%	4.00%
Loan term	10 years	10 years	10 years
Minimum payment	\$40.00	\$50.00	\$50.00
Monthly loan payment	\$58.34	\$63.29	\$69.21
Number of payments	120	120	120
Cumulative payments	\$ _____	\$ _____	\$ _____
Total interest paid	\$ _____	\$ _____	\$ _____

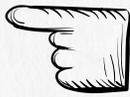
How does the interest rate affect the minimum monthly payment?

How does it affect the total amount paid for the loan?



Key Note: Each payment you make is divided up between the principal (original amount of money loaned) and interest. At the beginning of the repayment process, the portion of each payment that goes toward interest is at its highest, while the amount of principal paid is at its lowest. As you continue making payments, a smaller percentage of each payment is applied to interest while a larger portion goes toward principal.

Activity 2



PART 1: FINANCIAL AID ANALYSIS

Evaluating financial aid packages can be a stressful part of the college application process, especially when different colleges make what look like very different offers. Use this College Comparison Chart to see how your financial management skills can help you make the best choice.

First, look at your college options. The table shows the tuition and fees and the financial aid offered by three colleges where you have been accepted – congratulations! Now use the data for each college to fill in the comparison chart. You'll need a calculator to convert the data into costs and funding for one year.

Next add these important financial details to the chart:

- Housing costs for all three colleges is the same, \$400 per month.
- Food and living expenses are also the same for all three, \$200 per month.
- Book costs are the same: \$250 per course.
- You have \$12,000 in college savings thanks to a 529 account your parents set up when you were a baby. You are planning to graduate in four years, so budget \$3,000 in savings per year.
- Your family's EFC has been set at \$2,700 per year, and your parents have agreed to contribute this money.

After you have filled in the chart, calculate your debt for each college, then answer the questions below.

1. Which college best fits your budget? Why?

2. In your opinion, which college offers the best value? Why?

3. All three colleges will cost more than your available funding for the first year. Are you willing to take a loan to cover the extra cost? Why or why not?

COLLEGE OPTIONS

College	Tuition	Fees	Financial Aid Package
A Small college in your hometown	\$325 per credit hour	\$400 per semester	\$500 Scholarship \$3,200 Pell Grant \$4,800 Work Study
B Large state college 200 miles away	\$275 per credit hour	\$375 per semester	\$2,800 Pell Grant \$4,200 Work Study
C Top-ranked private college across the country	\$450 per credit hour	\$500 per semester	\$1,000 Scholarship \$4,500 Pell Grant \$6,000 Work Study

COLLEGE COMPARISON CHART

COLLEGE COSTS (FOR ONE YEAR)

College	Tuition (15 credit hrs/ semester)	Books (5 courses/ semester)	Fees	Housing (9 months)	Food & Living Expenses (9 months)	Total Cost
A	\$	\$	\$	\$	\$	\$
B	\$	\$	\$	\$	\$	\$
C	\$	\$	\$	\$	\$	\$

COLLEGE FUNDING (FOR ONE YEAR)

College	Your Savings	Scholarship	Pell Grant	Work/Study	EFC	Total Funding
A	\$	\$	\$	\$	\$	\$
B	\$	\$	\$	\$	\$	\$
C	\$	\$	\$	\$	\$	\$

College	TOTAL COST – TOTAL FUNDING = COLLEGE DEBT (FOR ONE YEAR)	
A	\$	\$
B	\$	\$
C	\$	\$

4. What else could you do to reduce your unfunded college costs for the first year?

5. Based on your comparison and your personal goals, which college would you choose? Why?

Activity 2

PART 2: THINKING LONG-TERM



So far, we've focused on paying for your first year of college. But you're planning to graduate with a Bachelor's degree after four years. What will your finances look like as the years roll by?

Use the cost section of the comparison chart in Part 1 to calculate how much you'll have to pay for four years at the college you selected. Then answer the questions below to start thinking long-term.

1. How much will the college you selected cost over four years?

College ____: \$ _____ total cost

2. Assuming that your financial aid package remains the same each year and that your family continues to make its annual EFC contribution, how much debt will you have accumulated after four years?

College ____: \$ _____ total debt

3. How does your anticipated total debt compare to the national average cited in the factoid at the beginning of this chapter? What might account for the difference?

4. Does this amount of potential debt make you want to reconsider your college choice? Why or why not?

5. Now think about this option. Instead of going to college, you could attend a one-year vocational school, followed by working 2 years as an apprentice. Your \$12,000 savings will cover all but \$1,000 of your vocational school costs, including tuition, fees, books, and all expenses. Plus, after a year at school, you will earn \$1,280 per month for two years as an apprentice.

Given what you know about lifetime earnings, and what you've learned about your three college options, would you take this opportunity or go to college? Why?

