

# Beyond Financial Aid

Funding Strategies for College Costs

James B. Johnston, Ed.D.







**Beyond Financial Aid:**  
Funding Strategies for College Cost

by Dr. James B. Johnston



Helping children get on with their lives is almost as important as feeding, clothing, and sheltering them. And “getting on with their lives” is very dependent upon education, whether that be college, trade or technical school, or on-the-job training.

In my case, my father was an immigrant, the youngest of eight children who arrived in America from Scotland in the early 20th century. The six boys went to work in the steel mills around Pittsburgh, and that was that. My mother was the daughter of a thunder-from-the-pulpit United Presbyterian minister. He scrimped and saved and sent her to Slippery Rock University when it was still a Normal (2 year) School.

There was never a question whether my sister and I would go to college. We did, and we both ultimately earned doctorate degrees.

In high school, I dreamed of owning a car – in particular, a Corvette. I decided to become a lawyer because I thought all lawyers were wealthy. To push myself, I made a sign and hung it in my room: “Lawyers Can Afford Corvettes.”

I never became a lawyer – the world’s a better place for that – but I’ve owned Corvettes, BMWs, a Porsche and other interesting cars. And what I’ve achieved in life has largely been because of my family – and my education.

Whatever your version of “Lawyers Can Afford Corvettes” is, hang it on your heart. Let your dream motivate you as mine did me, because education creates success!

A handwritten signature in black ink, appearing to read "James B. Johnston". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Dr. James B. Johnston  
Founder and Chairman  
SAGE Scholars, Inc.





## Table of Contents

About SAGE Scholars	8
Facts	10
The Basics	12
• American Higher Education	14
• What is a Private College or University?	18
• What is the “Best” Major?	22
How to Pay for College	24
• True Cost of Education	26
• Will You Qualify for Financial Aid?	28
• Three Ways to Pay	30
Financial Aid vs College Funding	32
Saving vs Borrowing	34
Getting Started	38
• Plan A	40
• Plan B	42
Intergenerational Funding	46
Non-Traditional Alternatives	52
Last Resort: Borrowing	56
Additional Information	61





*“And let us not be weary in well-doing: for in due season we shall reap, if we faint not.”*

- Galatians 6:9

Completing an Undergraduate Degree is the Financial Equivalent of Winning a \$1.3 Million Lottery

Financial Aid **Is Not** “Paying for College.”

College Funding **Is** “Paying for College.”

Time is Money





## About SAGE Scholars

Founded nearly three decades ago, SAGE Scholars is the nation's oldest and largest private college preparation and funding organization. Millions of families earn annual scholarships to our various programs, including:

### 1. Tuition Rewards®

Provides guaranteed discounts off full tuition. The discounts, not hard dollars, are offered and guaranteed by more than 400 participating private colleges and universities.

### 2. SAGE Scholars Student Profile

Allows Students to share their interests and accomplishments with SAGE Scholars colleges and universities.

### 3. Ready Set College

our comprehensive college and career planning website:

- a. College search engine
- b. Career Assessments and information
- c. Unique college funding calculator
- d. Trip planner

### 4. Market Cap & Gown newsletter

Every month, we publish the latest in news concerning colleges in our network and advice on negotiating college admissions and careers.

### 5. SAGE Scholars Educational Foundation

Has pledged to award \$1 million over the next 5 years through the Dr. James B. Johnston Scholarship program.





## “College Costs Too Much”

### Facts:

- \$1.3 million: The average amount of extra lifetime earnings college graduates earn versus workers with no college degree
- \$32,187: Average new car loan in 2018 (Lendingtree.com data)
- \$32,731: Average total undergraduate student loan debt at graduation (Federal Reserve)
- American Consumer Total Spending, 2017
  - Higher Education: \$1.56 trillion
  - Restaurants and Bars: \$5.61 trillion
  - Casinos: \$977 billion
  - Admission to Movie Theaters, Live Entertainment and Sports Events: \$702 billion
  - Boats, planes, RV's: \$445 billion

(Source: 24/7 Wall St. “What Americans Spent in 2017”)

- 44%: Percentage of students who give parents a failing grade for college financial planning





## The Basics

*“There’s a way to do it better – find it”*

- Thomas Edison, American Inventor

What a great country we live in! Our colleges and universities – what we call “higher education” – are the envy of the world. In fact, last year about 1.1 million foreign students chose to study in the United States.

College isn’t a sure-fire guarantee of success and happiness. Many Americans didn’t go to college – yet have done very well for themselves. Look at Bill Gates, the founder of Microsoft. He’s among the world’s richest men – and a college dropout! But on average:

- College graduates’ first jobs pay over \$17,000 more than high school graduates’ first jobs
- College graduates average 64% more in yearly earnings than high school graduates.
- College graduates earn about \$1.3 million more in their lifetimes than high school graduates

Here’s how the number of high school graduates attending college has increased:

Year	% Attending College
1960	45.1%
1980	49.3%
2000	63.3%
2015	69.8%





# American Higher Education

## Diversity and Choice

One important aspect of America's wonderful higher education system is our variety of educational choices. We have two year and four-year undergraduate institutions; public and private; single sex and coed; large and small; rural and urban; historically black, religious and non-sectarian; technical, liberal arts and business administration; and just about any other type you could possibly imagine.

After finishing a four-year undergraduate degree (generally a Bachelor of Arts or Bachelor of Science), many students continue to pursue higher degrees: Masters, Doctorates or specialized degrees in Law, Business, Medicine and other professions. The choice of fields of study and the variety of institutions offering advanced degrees is amazing. Other students choose to attend two- year colleges, often at local, public, community colleges, and then either continue their education at four-year colleges or utilize their Associate Degrees to begin or advance their working careers.

## College or University

Some people confuse the terms "College" and "University", thinking that a university must mean a higher quality education than a college. In reality, the terms simply refer to the level of degrees given and have nothing to do with quality. A college only offers an undergraduate two- or four-year degree, but a university offers at least one degree at the masters or doctorate level. For example, the undergraduate portion of Harvard University is called Harvard College, and the Arts and Sciences division at the University of Pennsylvania is referred to as "The College." We generally use the two terms, College and University, interchangeably.

## Selectivity

It seems that every day we read an article in the newspaper, magazines, on the web or hear a report on the radio or TV, about how hard it is to get into college. And some schools are incredibly selective: for example, this year Yale admitted 7% of its applicants; Princeton admitted only 6% of its applicants; UCLA 16%; Rice (Texas), 16%; Notre Dame, 19%, and New York University, 28%. Harvard rejected more applications from students who had perfect SAT (Scholastic Aptitude Test) scores and/or graduated #1 in their high school class than spaces available.

Of the almost 2,300 four-year colleges and universities, only two or three percent are extraordinarily selective. The remainder admit high percentages of qualified applicants, and virtually all their very qualified applicants. An Atlantic Monthly magazine article has estimated that less than one-tenth of all high school graduates “are involved in the struggle for places in the most selective schools.” Furthermore, in the same issue, the magazine stated, “A school’s selectivity does not necessarily reflect the quality of the education it offers.” In fact, a recent study concluded that the future earnings of students with similar abilities and credentials were not particularly influenced by the selectivity of the schools they attended.

## Current Trends

Beginning in the 1990’s and continuing today, the most prominent trends in education are:

1. Online education. Many colleges, public and private, have jumped onto the rapidly growing field of online education, or teaching courses via the internet. Some educators think that online instruction will be the future of education.
2. For-profit education. Traditionally, colleges are organized as non-profit entities. However, a growing number of for-

profit, degree-granting colleges and non-degree granting technical and business schools have begun competing for students – especially older, part-time students who attend school after work.

3. **Student Borrowing.** Although a highly educated population is in everyone's best interest, students and their families are being asked to assume a larger and larger part of the cost of education. Public policy dictates that, to be competitive in the world marketplace, America needs a strong academic environment that (a) educates tomorrow's workforce and (b) provides public funding that will continue to give us a competitive edge. The average undergraduate debt in 2018 was \$32,731, and many graduate students accumulate six figure debt.
4. **Age/Sex.** More students are not full time – and more are older. In fact, over 45% of all undergraduate students (full and part time) are 24 years old or older. According to The National Center for Educational Statistics, women account for over half of all undergraduates. By 2020, 156 women will earn undergraduate degrees for every 100 men.





## What is a Private College or University?

In the United States, we differentiate between public and private colleges and universities.

The technical, legalistic distinction is how each is governed. Public institutions are governed by state appointed or approved Trustees, who are responsible for setting tuition rates, approving the hiring of senior staff, and determining that the institutions are meeting broad-based educational goals of the state. In return for this control, government funding subsidizes the cost of educating public college and university students.

Private colleges, unlike public institutions, receive little or no direct financial support from their state legislatures. This means two things:

1. They must look to other sources of income, including more reliance on tuition and support from alumni, foundations and corporations; and,
2. They are not governed by publicly appointed boards and have more freedom in how they operate.

All public and almost all private institutions also receive indirect support from financial aid (scholarships, loans, jobs) given directly to students from state and federal sources. Currently, individual students may receive, on a needs-based determination, up to \$6095 annually in Pell Grants (scholarships, not loans).

### Number of U.S. Colleges and Universities

Years	Public	Private
2 year	876	98
4 year	750	1,589

## Full-time Undergraduate Students

Years	Public	Private
2 year	5,706,678	48,390
4 year	8,853,477	4,068,087

The nation's first colleges, beginning with Harvard in 1636, and the first universities (University of Pennsylvania, 1740) were private, not public, institutions. As you can see from the previous table, 1,589 four-year colleges are private (68% of four-year institutions) and, at the Bachelors' degree level, they enroll 31% of all fulltime students. Recent presidents, including Donald Trump, Barack Obama, Bill Clinton and both Bushes, graduated from private colleges and universities. Furthermore, 50% of business/corporate CEO's (Chief Executive Officers) and senior executives with undergraduate degrees graduated from private colleges and universities.

## Accreditation

Public and private colleges and universities are approved, or accredited, by the same agencies. These agencies, which in turn are accredited by the federal government, approve of the overall mission, financial health, and success of meeting each college's stated goals and objectives. The colleges are reviewed periodically by professors and senior staff of peer-group institutions.

In addition, major fields of studies, such as business, nursing, teacher education and so forth, may also have accrediting organizations. The point is both public and private schools are subject to the same rigorous peer-review process to ensure that students are offered uniformly high standards of learning.

## Graduation Rates

College is a great experience, but after four years, most parents hope their children will complete their undergraduate degrees and get on with their lives – either taking a job or beginning graduate school.

A striking difference between private and public education is graduation rates. According to a study “Degree Attainment at American Colleges and Universities” conducted by Alexander Astin and Leticia Oseguera of the UCLA Higher Education Research Institute, students attending private colleges and universities are more than twice as likely to graduate in four years than their public school counterparts. In fact, the authors found that, in their study, 28% of students at public universities graduated in four years, compared to 67% at private universities. Comparing private colleges is equally stark: private college students in 197 nonsectarian, Catholic and other Christian colleges were 2.2 times more likely to graduate in four years than the 7,457 public college students in the study.

### Graduation Rates In 4 Years Survey

	Graduation Rate
Public Universities	28.1%
Private Universities	67.1%
Public Colleges	24.3%
Nonsectarian (private) Colleges	56.3%
Catholic (private) Colleges	46.4%
Other Christian (private) Colleges	51.0%

## True Cost

The actual “True Cost of College”, when the (a) difference between private and public college four-year graduation rates; (b) average student debt; and (c) scholarships available – is frequently almost the same at privates and publics. In fact, the average private college student graduates with only \$5100 more debt, a difference of about \$57 monthly in a ten-year repayment schedule.

Education is good! Private higher education is good. So is public education. They have similarities – and differences. In planning for college, or choosing a college, recognize the differences that give both public and private education their very special place in American society.

## What is the “Best” Major?

### Different Strokes for Different Folks

- 1960's saying

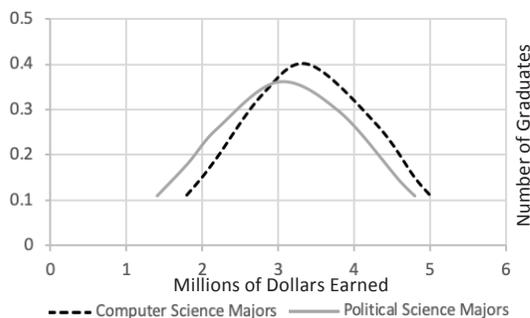
This question is the equivalent of asking, “Do we like pork chops?”, or, “What’s the best color?”, or, “which tree is best?”

With all the talk about STEM (Science, Technology, Engineering, Math), parents read “experts” spouting off that students should major in a STEM field. That’s ridiculous; students should consider majoring in STEM if (a) they’re good at and, (b) interested in science and math. On the other hand, if math and science are not a student’s skills/interest set, majoring in, say, engineering or pre-med will almost guarantee a miserable, failing, undergraduate experience.

### Earnings

But don’t STEM majors earn more money than, for example, Political Science majors? The answer is: some do, some don’t. Here’s a fascinating statistic: **the top 40% of Political Science majors earn more over their working careers than the bottom 40% of Computer Science majors.** So ... is it better, financially, to do well majoring in Political Science or not-so-well in a field you’re not interested in or academically suited for; Computer Science, in this example?

Lifetime Earnings of Selected College Majors



## Skills, Interests, Careers

It is also true that students need to understand that very often really, really enjoying an activity is not the same as making a living from this activity. Example: a lot of doctors, academically talented in science, still regularly find time for their favorite activity – golf! Playing guitar in a garage band probably doesn't lead to a career, but, interestingly, it might indicate an ability in math.

## Changing Majors and Careers

Finally, recognize that many students change majors during their undergraduate studies. And, many college graduates change careers throughout their working years.

## The Takeaway

Students should major in what they're good at, and enjoy, and not get pressured into a major they neither like nor are academically suited for simply because it's perceived to be an avenue to higher earnings.



## How to Pay for College

So ... here's what we've learned so far.

- a. Education is good: Private, public, four-year, two-year, trade and technical school, on-the-job training.
- b. A four-year degree, on average, will provide \$1.3 million more in total earnings than having only a high school diploma.
- c. Average total undergraduate student debt is about the same as a new car loan.
- d. Private college or university students
  - Are twice as likely to graduate in four years as their public college counterparts
  - Graduate, on average, at least a year sooner – and take jobs or attend graduate school – than public school graduates
  - Have student loan payments of less than \$60 per month more than their public graduates

This is all good, you may say, but how do we pay for that valuable education?

The answer lies in understanding the 10 following points:

1. True cost of education
2. Will you qualify for financial aid?
3. Three ways to pay for college
4. Financial Aid vs College Funding

5. Saving or Borrowing (Rule of 72)
6. Doing something every month - LIFE 211
7. Cash Flow: Current Income
8. Intergenerational Funding
9. Non-traditional Alternatives
10. Last Resort: Borrowing



## True Cost of Education

A reasonable person would assume that the cost of an undergraduate education would be easy to calculate: take the published price of annual tuition, room and board, fees, books and miscellaneous travel, entertainment and so forth and multiply that amount times four years.

Unfortunately, calculating the “True Cost” is more complicated, primarily for three reasons:

### 1. Financial Aid

There are three components to Financial Aid – scholarships, loans and work – and different colleges will “package” the same total amount of Financial Aid using different proportions of each component. For example, two colleges might each agree that a family (student) should receive, annually, \$40,000 in aid, but “College A” offers a \$30,000 scholarship, \$3,000 in work-wages, and a \$7,000 loan. “College B” might offer a \$20,000 scholarship, \$5,000 in work, and \$15,000 in student and parent loans. Same Financial Aid award – but very different “packaging!”

### 2. Years to Graduate

As explained earlier, colleges vary greatly in their average number of years to graduate. The biggest difference is usually between public and private colleges and universities. Recognizing that “averages” are just that – averages – and individual students’ graduation rates will vary, a study of graduation rates by UCLA researchers found that, in the institutions they examined, 67% of students attending private universities graduated in four years; only 28% of students did so at the public institutions. In fact, in the Philadelphia suburbs, two well-known universities, one public, one private, each had about a 75% graduation rate – the private in **four** years, the public in **six** years.

### 3. Opportunity Cost

Related to Years to Graduate is Opportunity Cost. This is a term used by economists to describe income a person (student) does **not** receive because he or she does **not** do something. If a private college student graduates in four years and is employed the next (fifth) year, and a public college student is still in college, the public college student has lost a year's worth of income.

Here's a simple "True Cost" worksheet. Run the numbers for your own set of circumstances.

#### Private vs Public True Cost Comparison Worksheet

Example: Tuition \$40,000 for private college, \$8,000 for public college, annual private college scholarship \$15,000

	Private College	Public College
Tuition	\$40,000	\$8,000
Room, Board, Etc.	\$15,000	\$15,000
Total	\$55,000	\$23,000
Less: Scholarship	\$15,000	0
Net Cost for 1 year	\$40,000	\$23,000
Total at Graduation	\$160,000 (4 yrs)	\$115,000 (5 yrs)
Plus: Opportunity Cost (One-year wages lost)	0	\$40,000
True Cost	\$160,000	\$155,000



## Will You Qualify for Financial Aid?

First, remember that Financial Aid is an award the college offers to a family (student), consisting of: scholarship, loan, work.

Second, Financial Aid can be either (a) Need or (b) Non-Need based.

Whether a Financial Aid award is “Need” is based upon a dollar amount, the **Expected Family Contribution (EFC)**, which is required by virtually all colleges and calculated by completing the Free Application for Federal Student Aid (FAFSA) form. The list Cost of Attendance (COA: tuition, room and board, books, etc.) minus the family EFC will provide a guideline, but only a guideline, for colleges to award Financial Aid (scholarships, loans, work) as they see fit.

It is important to note that the EFC is **not affected by the tuition and costs of different colleges**. Thus, if a family with, say \$100,000 in annual Adjusted Gross Income has an EFC of \$15,000, at an inexpensive public college with an annual Cost of Attendance (COA) of \$15,000, the family would receive no aid; whereas at a selective private college with an annual COA of \$65,000, the college would theoretically provide \$50,000 in annual Financial Aid.

Here are some important points to recognize about EFC calculations:

- EFC is only used for need-based aid. Most private schools, except the Ivies and a few dozen other extremely selective ones, offer non-need based awards. NCAA divisions I and II, except for the Ivies, give athletic scholarships without regard to the EFC calculations.
- Students assets are weighed much more heavily than parental assets.

- Income is counted more than assets.
- Colleges, particularly private institutions, may include items in their calculation that are excluded from the Federal Methodology. Examples of assets **excluded** by the Federal Methodology:
  - Home Equity
  - Life insurance cash buildups
  - Retirement annuities
- Multiple children in college will dramatically reduce the EFC per student.
- Colleges reserve the right to count both divorced parents, or even a step-parent, in the EFC.

### Sample EFC Table

Parental Income (AGI)	Investments	Children in College	EFC/Student (Annual)
\$80,000	\$20,000	1	\$13,682
\$80,000	\$70,000	1	\$16,502
\$100,000	\$0	1	\$19,124
\$150,000	\$60,000	2	\$21,325



## Three Ways to Pay

*“Pay me now – or pay me later”*

- Old TV ad for premium auto oil

The first thing to realize is that there are only three ways to pay for college: with financial resources from the past, the present, or the future. Those resources, in order are: Assets, Income, and Debt.

College Funding Resources		
Past	Present	Future
Assets (Wealth)	Income	Loans
<ul style="list-style-type: none"><li>- Savings/Investments</li><li>- Home Equity</li><li>-Tangible Goods, Property</li></ul>	Scholarships	

### Past:

Assets, also called wealth, are past income converted to something of ongoing value. They are used to pay for college in two ways: either by selling or by leveraging them. As a simple example, an accumulated state-sponsored 529 plan (PA's TAP) can be redeemed to pay for part of all of college expenses; or the family could leverage the value of its home by taking a home-equity loan.

### Present:

Income. Many families pay for at least a portion of college expenses from current wages or other continuing sources of income

Scholarships are also a present resource, with one exception: if the scholarship is guaranteed long before college, such as the SAGE Scholars Tuition Rewards program or a grandparent guarantee, then it can be considered an asset.

## Future:

Loans. According to the Federal Reserve of New York, the average student who obtains a bachelor's degree graduates with \$32,731 in student loan debt.

In reality, most families fund higher education by using a combination of at least two, and frequently all three sources: savings/assets; current income and scholarships; and loans.



## Financial Aid vs College Funding

**College Funding is not Financial Aid! Financial aid reduces the Cost of Attendance (COA). College Funding addresses the family's Expected Family Contribution (EFC).**

College funding consists of three strategies:

- Tax
- Cash flow
- Asset management (investments)

These strategies are used to help pay the portion of total college costs for which **families** are responsible – and generally speaking, require a CPA's understanding of tax codes, and the asset and cash flow management of financial planners.

Financial Aid consists of:

- Scholarships
- Loans
- Work-study

To the extent that borrowing is required, it is important to get advice from a person or organization who understands the complexities, advantages and disadvantages of (a) government vs. private loans, and (b) where ownership of the loans (students, parents, grandparents, etc.) should reside.

High school counselors and college Financial Aid officers typically provide financial aid advice – loans, scholarships and work-study – but the problem is that those are all components of what the **college**, not the **family** is supposed to provide.

Here's an example: suppose the current Cost of Attendance (COA) at a college is \$55,000, and the family Expected Family

Contribution (EFC) is \$15,000 (assuming about \$100,000 annual Adjusted Gross Income and few eligible assets), then the college would hopefully provide \$40,000 annually in Financial Aid (scholarship, loan, work). But for the family, an overriding question is: where to find the annual \$15,000 they are expected to provide?

Think of this analogy. A young couple doing fairly well financially but with almost no savings is told that a mortgage broker can find them an 80% mortgage on the \$300,000 house that they want to purchase, but they have to come up with the other 20% -- \$60,000. They don't have \$60,000; they can't buy the house. Would anyone claim that the mortgage broker had actually shown them how to buy the house??

College Funding	Financial Aid
Tax	Scholarships
Cash flow	Loans
Investments	Work Study
College Funding Advisor (source of assistance)	High School Counselor/ College Financial Aid Counselor (source of assistance)



## Saving Or Borrowing (Rule Of 72)

*“Compounding interest is the greatest mathematical discovery of all time”*

- Albert Einstein

This quote is found all over the internet, and in truth, it may or may not be correctly attributed to Einstein. What is incontrovertible, however, is that many people are not aware of the effect of investment returns compounding on themselves, of interest compounding on interest, to accumulate larger total sums of money than would seem to be obvious. For example, if an investment has a 10% annual return (or interest rate) compounded, it would be logical to assume that the investment would double in 10 years – that is, 10% per year equals 100%. Right? Wrong! A 10% compounded rate of return, or investment rate, will actually double in about 7 years. Dividing annual interest into 72 gives an approximate doubling time, so an 8% return doubles in 9 years, not 12.5 years, and a 5% return doubles in about 14 years, not 20 years. This has the effect of dramatically increasing the amount of funding a family can accumulate the farther they are from college. Conversely, dividing the number of years an investment takes to double, say 12 years, into 72 yields a 6% annual rate of return.

In this example, assume a 25 year old couple has an infant child:

Monthly Investment	Annual Rate of Return	5 Years	10 Years	18 Years
\$150	8%	\$11,022	\$27,447	\$72,013
\$250	8%	\$18,369	\$45,737	\$120,022
\$150	10%	\$11,616	\$30,727	\$90,084
\$250	10%	\$19,359	\$51,211	\$150,141

Due to compounding, a 10% investment in the above scenario will almost triple if \$150 monthly contributions are made for 18 years instead of 10 years (\$90,084 vs \$30,727).

In other words, the table shows that if a family invests \$250 per month for 18 years, the investment at a 10% annual return would be \$119,414 larger than a \$150 per month investment for 10 years, yet the family only invested \$36,000 more. An additional investment of \$36,000 can produce \$119,414 extra funding for college.

The problem is, saving is hard, and borrowing is easy. For most folks, there are many reasons, some absolutely necessary, some not so much, to spend – all of which assume less saving. College loans, however, are easily available to students or parents from Federal or private sources, backed by assets (homes, life insurance, etc.) or not.

But ... in the long run, because of the Rule of 72, it costs a lot more to borrow a specific amount than it does to save for the same amount.

Here's another example:

- Amount needed for college: \$100,000
- Age of child: 8 (10 years until college)
- Savings rate: 10%
- Borrowing rate: 6.5%

There are two ways to get \$100,000:

- A. Save \$488.17 per month for 10 years. That's \$58,581 actually put away, and it accumulates at 10% to \$100,000.
- B. Borrow \$100,000. The repayment schedule (10 years at 6.5%) will be \$1135.48/month.

In 10 years, you will repay \$136,258 to borrow \$100,000. Or ... you could invest \$58,581 in savings for 10 years to accumulate \$100,000.

The difference?  $\$136,258 - \$58,581 = \$77,677$

So, yes, saving is hard. But is some sacrifice worth \$77,677; the out of pocket difference between accumulating \$100,000 in savings versus borrowing \$100,000?





## Getting Started

*“There’s a way to do it better – find it.”*  
- Thomas Edison





## Plan A

*“Time, time, time, is on my side, yes it is.”*

- Rolling Stones lyrics (1964)

### Do Something Every Month

Child age infant - 10

At “Paying for College” seminars, I ask parents to raise their hands if they would sacrifice their lives for their children. Always, always, every hand goes up. Then I ask those same parents if they would sacrifice 5% of their monthly income for their kids. The wincing expressions, annoyance, embarrassment is obvious – that’s a concrete, as opposed to hypothetical, “ask.”

For savings, and the Rule of 72, to be effective you need time. If Mick and the Rolling Stones song, “Time is on Your Side”, means eight or ten or fifteen years until college, and you’re willing to make some financial sacrifices, you can create and successfully execute an effective College Savings Plan.

Here’s a plan that, if your child (or children) is ten years old or younger, can really help:

### LIFE 211 (Lifetime Investing For Education)

LIFE 211 has three components:

1. **Parents:** Put away 5% of your wages and other income, and you should be able to accumulate about **2** years of tuition
2. **SAGE Scholars Colleges:** Participating, at no cost, in the SAGE Scholars Tuition Rewards program will guarantee, at hundreds of private colleges throughout the country, a discount off full tuition of **1** year’s tuition.

3. **Students:** By working summers in high school, part-time (ten hours/week) in college, and taking loans that can be paid off in ten years at 5% of annual salary after graduation, the final 1 year of college tuition is covered.

In other words:

- Parental saving: 2 year's tuition
- Child saving, working, borrowing: 1 year's tuition
- SAGE Scholars Tuition Rewards: 1 year's tuition

Obviously, LIFE 211 has multiple variables, or “moving parts” – current and future salaries, return on investment, annual increases in tuition, etc. – and is an estimate, not a guarantee to solve your college funding problems; but it really is a terrific way to approach college funding.

## Cash Flow

It's easy to say, in LIFE 211, save 5% of your total monthly income, but exactly where would that money come from? Obviously, this isn't a “one size fits all” situation – every family has different circumstances – but here are three suggestions:

1. If your monthly income exceeds expenses, direct some of the surplus into a designated College Funding account.
2. Scrimp. Truly, most families do spend some money on non-necessities that could be eliminated without undue pain: an “iced caramel macchiato”, a few less dinners out, or, on a larger scale, the lovely but not existentially necessary kitchen renovation (\$340 billion were spent on kitchen renovations in 2017) ... you get the point.
3. Restructure cash flow.

## Plan B – You Didn’t Pursue Plan A

*“And it’s too late baby, now, it’s too late  
Though we really did try to make it”*

- It’s Too Late (1971) by Carole King

If parents wake up one day, their child, a high school senior, has been admitted to her dream college, and it’s going to cost, after scholarships, a net COA (Cost of Attendance) of about \$35,000 annually, is all lost? Not necessarily. Consider the following scenario of an absolutely realistic way for a family which has no accumulated college funding to utilize home equity, rearrange cash flow, and rely upon monthly income to pay for college.

The Problem: A family – Pennsylvania residents – with no college savings wants to pay for a four-year undergraduate education for their high school senior

### Assumptions:

Parents:	Age	46
	Combined income	\$125,000
	Other assets	\$20,000
Student:	Age	17
	Income	\$0
	Other assets	\$0
Primary Residence:	Date of Purchase	06/01/2002
	Purchase Price	\$230,000
	Current Value	\$360,000
	Original Mortgage	\$175,000
	Mortgage Value	\$104,574
	Interest Rate	5.5%
	Monthly P&I Payment	\$993
Credit Card debt	\$20,000	
Minimum payment @ 16%	\$335	
x 10yrs		

## Solution:

- Refinance mortgage to pay off high-interest rate credit cards and raise cash for tuition (Cash Flow)
- Pay off credit card (Cash Flow)
- Invest net proceeds into PA 529 college savings program generating a 3.07% PA tax credit (Investment).
- Take advantage of the available annual education tax credits (Tax Strategy).
- Take first-year courses at local community college and commute to school (Cash Flow).
- Responsible student borrowing if needed

### Refinance Mortgage (Cash Flow)

Principal of new mortgage:	\$216,000
Refinance interest rate and term:	4.3%, 30 years
Monthly P & I payment:	\$1,069
Prior mortgage:	\$993
Credit Card:	\$335
Old Total Cash Flow:	\$1,328
New Total Cash Flow:	\$1,069
Monthly savings:	\$259

(Optional): Use \$259/month savings as extra mortgage principal payment – reduce term from 30 years to 20 years, 5 months.

New mortgage principal:	\$216,000
Original mortgage payoff:	- \$104,574
Credit card payoff:	- <u>\$20,000</u>
Net Proceeds:	\$91,426

## Invest Proceeds from Refinance (Investment)

- Net proceeds of \$91,426 from mortgage refinance are invested in the Pennsylvania 529 plan.
- Because the student will soon start college, proceeds are invested conservatively
- Plan earns 3%/year
- Total earnings during student's years in college: \$5,294

## Tax Strategy

- Investing the refinance proceeds of \$91,426 in a 529 plan yields a one-time PA state tax savings of \$2,316
- Family will qualify for Hope Education Tax Credit of \$2,500/year for four years

	Cash Available	Tuition Payment	Net Cash	PA 529 Earnings	PA Tax Credit	Federal Tax Credit	Total Available
Year One	\$91,426	\$4,000	\$87,426	\$2,623	\$2,316	\$2,500	\$94,865
Year Two	\$94,865	\$35,000	\$59,865	\$1,796		\$2,500	\$64,161
Year Three	\$64,161	\$35,000	\$29,161	\$875		\$2,500	\$32,536
Year Four	\$32,536	\$35,000	\$2,464			\$2,500	\$36

## Outcome:

Since the average net cost for private college for families with similar income: \$34,000, which includes room, board and fees (from College Board), **the family in this example has created enough cash flow to cover the average yearly net cost for private college.**

Notice carefully: by prepaying the new mortgage by the \$259.71 in monthly savings, the new mortgage will be paid off in 20.5 years, almost 10 years sooner than the original mortgage term.





## Intergenerational Funding

*“I get by with a little help from my friends”*

- With a Little Help from my Friends (1967 Beatles song)

Mike Midlam, a financial guru, used to claim that grandparents want three things: financial security, Heaven when they die, and a legacy for their grandchildren. He believed, as do we at SAGE Scholars, that a year’s scholarship and some hard dollar funding is a great legacy, a fitting way to be remembered.

In a survey we conducted, we asked two groups, parents and grandparents, the following:

### Parents

Would you prefer to have your parents (the student’s grandparents) provide more college funding assistance for their grandchildren, in return providing a smaller inheritance to you?

### Grandparents

Would you consider “stepping up to the plate” now; i.e.; providing more college funding for your grandchildren, and, as a result, providing a smaller inheritance for your children?

The answer to both questions was overwhelmingly positive: yes, parents would welcome grandparent help now, recognizing they would ultimately receive a smaller inheritance.

Intergenerational – grandparent – funding requires careful consideration of four factors: sources of funding, ownership, vehicles and tax considerations.

## 1. Sources of funding

- Cash value life insurance
- Advance on inheritance
- Contributions from current income
- Home equity
  - a. Home equity line of credit (HELOC)
  - b. Reverse mortgage (HECM)

## 2. Ownership

- Grandparents
- Parents
- Child(ren)

## 3. Vehicles

- 529
- Trust

## 4. Tax considerations

- Income tax
- Gift
- Estate

To ensure the best outcome, it is important that both parents and grandparents consult with tax and financial experts, as there are no “cookie cutter”, “one size fits all” solutions to the above considerations. Two quick examples:

## 1. Cash Value Life Insurance

In addition to the death benefit, life insurance can be used to help fund college.

Unless you are in the top five percent of income earners there is an excellent chance you will qualify for financial aid. When it comes time to fill out the FAFSA or CSS profile (a supplement to the FAFSA used by some highly selective private colleges), money in 529 plans or other savings or investment accounts will count against the grants and scholarships your children might otherwise be eligible for. Approximately \$5,000 of every \$100,000 in savings in the parent's name and \$20,000 of every \$100,000 in the student's name is expected to be used to pay for college.

The good news is that 401(K), other qualified retirement accounts and life insurance are not part of this calculation. You do not have to report them on the FAFSA, and while the CSS asks about them, they are not considered an assessable asset. This makes them an excellent vehicle for college funding since they don't detract from potential grants, scholarships, and other financial aid.

Additionally, Cash Value Life Insurance policies accumulate cash value on a tax-deferred basis. These funds can then be accessed up to the amount of paid in premiums tax-free or, as a tax-free loan when it comes time to pay your child's college tuition costs. There are no loan applications and no approval process with a policy loan.

Putting money into a whole life insurance policy can provide guaranteed protection for their family's future, utilize the policy's cash value to achieve their college funding goals, and you're not required to include the value for FAFSA and CSS calculation purposes.

## 2. Education Tax Credits:

There are two tax credits available to help finance the cost of higher education: The American Opportunity Credit (AOC) and the Lifetime Learning Credit (LLC). Tax credits reduce your tax bill dollar-for-dollar, sometimes below zero.

Of the two, the AOC is the more valuable. The maximum annual AOC is \$2,500.00. Forty percent of the AOC is refundable, meaning even if you don't owe any taxes you can get up to \$1,000.00 back if you qualify for the full AOC.

Who is eligible? Students with eligible expenses can claim the credit if they are not dependents on someone else's tax return. If your student is a dependent on your tax return, you can take the credit against your tax liability. To be eligible students must be enrolled at least half-time and be pursuing a degree. Any felony drug conviction will disqualify students from receiving this credit.

The credit is intended to offset qualified educational expenses. This includes tuition, fees, and books. Payments for room and board do not qualify. Beware that you cannot claim a tax credit for expenses paid from scholarships, grants or from a tax-advantaged account, like a 529 plan.

The annual tax credit is equal to 100% of the first \$2,000.00 of qualified expenses plus 25% of the next \$2,000.00 of qualified expenses.

You can claim the credit for every child in college. There are income limits and eligibility qualifiers for students to take the credit. Consult your tax advisor at tax time.

Saving \$2,500.00 on the cost of college may not sound like a lot of money but it's free money, courtesy of the government, and it adds up every year you qualify for the credit.

The Lifetime Learning Credit (LLC), while less valuable, is far less restrictive. The credit is available without going to school full-time or even if not seeking a degree. As the name implies, there is no limit on the number of years you can use this credit.

The credit is equal to 20% of the first \$10,000.00 of qualifying expenses. As with the AOC room and board are not qualifying expenses. Also, unlike the AOC, the LLC is not refundable. If you do not have a tax liability you may not take the credit. Unlike the AOC, a felony drug conviction does not make the student ineligible.





## Non-traditional Alternatives

Many students complete high school without knowing how they want to proceed. Some aren't sure what career they'd like to pursue; some aren't sure if they are ready to attend college or whether they want to at all. Perhaps most frequently, recent high school graduates would like to attend college but can't afford their share of the cost.

There are numerous alternatives to the traditional route of going right to college and paying their share of the cost (or having their parents pay it). They can be divided into two broad categories: Alternatives that involve non-traditional ways to pay for college and alternatives that do not involve traditional colleges.

### Non-traditional ways to pay for college:

- Join ROTC while in high school: Army, Navy, Marines and Air Force have 2-4-year scholarship programs with varying levels of service commitment after graduation.
- Enlist in the military: Gradually increasing levels of tuition reimbursement depending on length of service starting at 90 days of active duty service. For private colleges, maximum reimbursement is \$24,476/year for 2019.
- Income share agreements: Instead of taking out loans for college costs, students sign a contract with either the college or an employer promising to pay a predetermined percentage of future income. The exact percentage depends on income and number of years of college financed. If income falls below a threshold, nothing is owed.
- Have your employer help pay for college: If you are already employed, your employer may pay a portion of your college tuition. Some larger companies have contracts

with specific colleges for extremely discounted tuition rates. Many companies restrict reimbursement to college majors that are pertinent to the employee's job.

- Public service loan forgiveness programs: College graduates who work for a government agency or certain types of non-profit organizations can have their federal loan balances forgiven after making 120 on-time loan payments. Private student loans are not eligible for this program.
- Work College: There are nine federally recognized work colleges that charge very low or sometimes no tuition in return for a work commitment (usually 10-15 hrs./week) from the student. All of these colleges belong to the Work College Consortium.
- Community College: A low-cost alternative for the first two years of college; especially suitable for those who aren't sure of their career aspirations or aren't sure they are academically ready. At an average cost of \$4,800/year (tuition and fees) for a full 30- credit schedule, and no room and board expenses, students can cut the amount they have to borrow in half.

### Alternative paths to a career that don't involve college at all:

- Trade School: Provides job-specific training to students intending to practice a skilled trade; length of schooling usually 1-2 years.
- Union membership: Union members and their family members are often eligible for free or reduced tuition at a variety of colleges.
- Apprenticeships: Work directly with skilled tradespeople for a period of time before practicing a trade without

supervision; trade school might be required depending on specific trade

- Earning a certificate(s): usually done online; often done to improve credentials. This is especially popular in the education field.
- Academic boot camps: These are short but intense academic courses, often resulting in a certificate or a “nanodegree.” The best known are the coding boot camps, where students obtain a credential in computer coding or a specific computer language, but other popular nanodegrees include digital marketing, business and data science. Some colleges, online education providers and independent coding schools provide these programs.

These alternatives are not for everybody, but it is important to recognize that “education” is a broad term, and college is only one of several opportunities.





## Last Resort: Borrowing

*“The time has come today ...  
Can’t put it off another day”*

- Lyrics, Time has Come Today, Chamber Brother, 1967

Remembering the ultimate payoff – over \$1 million more in lifetime earnings, a high correlation between degree completion and longevity and better health, and a greater involvement in community and society – if all else fails in your attempts to fully fund your child’s education, it’s time to examine the final option: borrowing.

Most families do borrow to pay a portion of their child’s college costs. And, despite countless sensationalized articles to the contrary, the average four-year undergraduate loan, \$32,731, is almost identical to the average new car loan, \$32,187. Furthermore, the average private college graduate’s loan is less than \$60 per month (ten-year repayment schedule) more than the average public college graduate’s loan.

As a simple financial model, most folks would borrow \$32,000 to accrue an additional \$1.3 million!

There are three considerations in borrowing for college expenses.

### 1. Whose debt?

Is it better to borrow in the student’s name or the parent’s name? A family borrowing money for college should always maximize federal loans first. These loans are in the student’s name (with parents as cosigners in most cases). Federal loans have relatively low interest rates, do not require repayment until 6 months after graduation, and borrowers can defer repayment depending on individual circumstances. Most importantly, federal loans offer income-based repayment

programs. These cap repayment at 10% of the graduate's income, with forgiveness after 20 years if there is still a balance (federal tax will have to be paid on the forgiven balance). While interest accrues immediately after the loan is taken out, students do not have to pay the interest while in college.

However, undergraduates can only borrow a total of \$31,000 through the federal loan program. For many students, this is not enough to cover the cost of college, so Parent Plus and private loans are available. Parent Plus loans are taken out by parents; private loans can be taken out by students or parents. See below for more information.

If the parents have sufficient untapped home equity, a home equity loan or home equity line of credit (HELOC) could be used to pay college expenses. The interest rate can be lower than for Direct Subsidized loans and can be repaid over a much longer period of time.

Many financial advisors suggest that if a student's parents have to use retirement savings to pay for their student's college loans, it is usually better for the student take on the loan debt, even for private loans. The student will have a lifetime of job earnings to pay back the debt; the parents have a much shorter window of time.

## 2. Federal versus Private:

Loans for undergraduate education can come from the federal government or private sources. Federal loans have lower interest rates and more generous repayment terms. There are two types of federal loans made directly to students: Direct Subsidized loans and Direct Unsubsidized loans. Direct Subsidized loans are need-based, so a FAFSA (Free Application for Federal Student Aid) needs to be completed first. Direct Unsubsidized are not need-based. While both loan programs carry the same interest rates, the federal government pays the accrued interest on Direct Subsidized loans while the

student is attending college. The maximum amount that can be borrowed through the Direct loan program (Subsidized and Unsubsidized combined) is \$5500 for first-year students, \$6500 for second-year students, and \$7500/yr for third-year students and beyond. The maximum amount that can be borrowed through this program for undergraduate education is \$31,000, unless a student's parents do not qualify for Parent Plus loans, in which case the limit is \$57,000.

The federal government has a loan program called Direct Plus (also known as Parent Plus), that loans money directly to parents. Financial need does not need to be demonstrated, and parents can borrow up to the cost of education (minus other aid). The interest rates are usually higher than federal loans given directly to students. A credit check of the parents is required, so parents with poor credit may not qualify.

Private loans should only be used when families have already borrowed the maximum allowed by federal loan programs. They are provided by banks and other financial institutions that determine the interest rate and repayment terms.

### 3. Interest rates/repayment terms:

Direct Subsidized and Unsubsidized loans have the lowest interest rates of all student loans; currently at 4.53%. Parent Plus loans currently have a 7.08% interest rate, while private loans range generally exceed 7%. Federal loans have more flexible repayment terms – they come with a 6-month grace period and offer income-based repayment. Parent Plus loans also have a grace period after graduation as do some private loans.

### 4. A new alternative – the ISA:

A growing alternative to educational loans is the income share agreement (ISA). An ISA is an agreement between a student and an investor. The “investor” is often a venture

capital company. The investor agrees to pay a portion of the student's tuition and fees. In return the student commits a set percentage of future income to pay back the investor. Typically, the payback period is 10 years, but can be altered depending on the amount borrowed. If the student's income is below a threshold (usually around \$20,000) then no payment is made. The agreements also have a payment "cap", which caps the total amount a student has to pay, even if he or she is making a large amount of money. A standard payment cap is 2 to 2.5 times the amount borrowed.

An ISA is basically venture capital for college students – but it's still a debt that must be paid back. If the student ends up with a good job, the investor will easily double his investment. A student's family wealth and income are not considered when negotiating an ISA. The decision to invest in a student is based on the expected outcome – that the student gets a good job. Compared to traditional student loans, the investor in an ISA is taking on much more risk.

Only a handful of colleges have offered ISA's to students. Currently about 3000-5000 ISA's are in use, at a total investment of \$40 million. Purdue University has been the biggest proponent of ISA's. Clarkson University, Messiah College and Lackawanna College are some other schools that have active ISA programs. Some for-profit colleges, especially coding schools such as Lambda, have been built around the ISA concept.





## Additional Information

<http://www.nationalservice.gov>

Website for AmeriCorps – 75,000 students working in a variety of service opportunities for 3-12 months. Up to \$6,095 in education awards.

<https://www.salliemae.com/college-planning/>

A leading site for information about scholarships and financial aid. Also information about college financial planning.

<https://www.cfnc.org/pay/pay.jsp>

Career and college search tools, college financial and loan calculators from the College Foundation of North Carolina.

<https://www.fastweb.com/>

Comprehensive site with extensive scholarship information, as well as internship/job board, financial aid information and college search engine.

<https://brokescholar.com/>

College scholarship site that allows users to search millions of free scholarships, grants and fellowships.

<https://www.petersons.com/>

College and scholarship search site, along with extensive test preparation information.

<http://finaid.org/>

Information about paying for college, search for scholarships, numerous college-related financial calculators.

<https://scholarships.fatomei.com/>

Scholarships by interests and majors that anyone can use, as well as scholarships geared to minority students.

<https://nhsc.hrsa.gov/>

The website for the National Health Service Corps, which provides scholarships and loan repayment for advanced practice medical providers such as nurse practitioners, physician assistants and physicians.

<https://www.bls.gov/ooh/>

Occupational Outlook Handbook (from the Bureau of Labor Statistics). Allows users to evaluate occupations by pay, education level, growth rate and other criteria. Lots of statistics regarding the world of work.

<https://www.simpletuition.com/>

Information about private student loan options, as well as a scholarship search site.

<https://www.washington.edu/doit/resources/scholarships> and <https://www.washington.edu/doit/resources/popular-resource-collections/financial-aid-and-scholarships>

Scholarship information of students with disabilities, along with college funding information and strategies for students with disabilities.

<https://www2.ed.gov/students/landing.jhtml>

The U.S. Department of Education provides a wide range of information on scholarship and paying for college for students and parents.

<https://myscholly.com/>

A popular college scholarship search site.



## Here's What They're Saying...

*"SAGE Scholars Tuition Rewards opened new doors for me that I thought were closed. They helped bring the total cost of a private college education down to the price of a state college education. The SAGE Scholars Tuition Rewards program truly worked."*

*- Renee S from Schaghticoke, NY*

*"SAGE Scholars Tuition Rewards give my daughter the opportunity to attend a school that otherwise may have been financially unreachable. She now has more choices."*

*- Donald L from Reading, PA*

*"This has been an amazing experience. We had no idea so much help is available!"*

*- Ron from Sterling, VA*

*"SAGE Scholars is a fantastic program for helping make private college education affordable for students from all backgrounds!"*

*- Christopher from North Royalton, OH*

*"A free program that helps you earn points that goes towards today's high college tuition costs, why would you not sign-up? Great program! Easy to enroll and self-manage!"*

*- Jeffrey from Erie, PA*

*"I love this program and have been collecting Tuition Rewards for years. We finally have our first student preparing for college and she submitted her Tuition Rewards Points with her applications. SAGE Scholars has been quick to respond to my questions and our granddaughter will use Tuition Rewards as she has been accepted at both her "first" choices. Thanks so much for this valuable tool!"*

*- Caryl from Glenside, PA*

*"This can help tremendously with college tuition. We joined a long time ago and just let it build. Thank you!"*

*- Charles B from Cranberry Township, PA*

*"I think the program is a great way to provide funding for college and I am always telling folks about it."*

*- Christina M from Morrisville, PA*

## James B. Johnston, Ed.D.

Dr. Johnston is the founder and architect of SAGE Scholars, Inc. A visionary leader in the field of higher education, he works closely with the leaders of private collegiate institutions to make their values oriented educational programs more available and more affordable to families and their children. He developed Tuition Rewards, a college savings plan, in partnership with the member institutions and benefit providers.

Dr. Johnston began his career in education as a professor in the Business Department at Spring Garden College, becoming the first Dean of their Business Management Division. Subsequently, he became Director of Admissions and Financial Aid at the Wharton Graduate School of the University of Pennsylvania where he served for four years. In 1976, he founded Educational Advisory Services, International, an educational consulting firm, the predecessor to SAGE. During this time, he served as Secretary of the Fund for Pennsylvania's State Commission of Higher Education.

Dr. Johnston received his B.A. in Political Science from Bucknell University, his M.B.A. and Doctorate from the University of Pennsylvania. He serves on several boards of philanthropic and educational institutions. He chaired the first two national conferences on 529 plans.

