



College Keystones



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A College Planning Relief Publication

"SHRINKING THE GAP"

Previously we have discussed a necessary evil of the college process we affectionately call "The GAP". "The GAP" is the difference between what Uncle Sam thinks you can afford (Expected Family Contribution or EFC) and the cost of attendance (COA) at the schools your student might be considering. In most cases the difference is significant and larger than families expect. While understanding the reasons behind the difference is important, the real issue is how to reduce or eliminate "The GAP" without crippling your current lifestyle or sacrificing other financial goals such as retirement. We are hoping to introduce you to some options that can potentially help reduce "The GAP" for your family.

One of the first ways to begin to reduce "The GAP," is to become more financially efficient in terms of the family's budget. It is time to create as much cash flow as possible. Cash flow is king, especially during the college years. Prioritization of financial goals in making the budget efficient is paramount. Sending one or more children to college may arguably be the most expensive time in a family's life. In many cases it can cost families more than what they spent on their first home.

Eliminating wealth leakage in the budget and prioritizing financial goals are crucial in generating cash flow. Debt consolidation and making debt more efficient is a key to eliminating wealth leakage. Mortgage management is key for others. Despite the home being one of the largest investments / obligations a family has, many families do not include their mortgage as part of the planning process with their advisor. While consolidation of debt can be very important, performing a mortgage analysis is also critical to ensure you are in the correct mortgage for your family. For example, if a family originally planned to have their home paid off as quickly as possible by taking out a 15-year home mortgage, they are now confronted with paying for their child's college education at the same time. It's likely not possible for most families to achieve both goals simultaneously. It may be time to look at a different type of mortgage to create cash flow now, then return back to the original plan of accelerating the mortgage payoff after the student has graduated.

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Another method to pursue in reducing “The GAP” is reviewing your student's school selection. Choosing the right school as it relates to “need met” could be paramount to what you are going to pay out of pocket and should be part of the decision making process. For example, if the cost of attendance is \$25,000 and the EFC is \$15,000 then we have a “GAP” or need of \$10,000. You want to choose a school that meets as much of your need as possible, thus reducing the “GAP.” Furthermore, of the need that is being met, you want to get as much as possible in the form of gift aid (free money) vs. self help (loans). Not only should you first educate yourself on the percentage of need met at the schools, but you must also know what percentage of the need met is in the form of gift aid and what percentage is in the form of self help. More gift aid helps reduce your out of pocket expense relative to “The GAP.”

Finally, it is wise to review private scholarship and/or loan options. Students should be diligently looking for private scholarships online. Many scholarship search databases are provided in the CPR College Planning Kit allowing students to seek out private scholarship opportunities. While many have varying deadlines, it is still imperative to continue to look for those opportunities that have not passed and may be applicable for your student. This is the time to leverage as many qualifications as possible – SAT/ACT test scores, overall GPA, the student’s resume, school activities and/or community involvement – to maximize the private scholarship search. The more scholarships the student applies for, the greater the opportunity.

Loan options are another avenue to explore. Not only should parents investigate Federal Loan options such as the Perkins Loan, Stafford Loan, and the PLUS Loan, but private loans should be considered as well. There are vast differences between the two types of loans, so be sure to educate yourself on the pros and cons of each type. In general, the Federal Loans have a fixed rate that is typically higher than private loans. Private loans, by comparison, can have lower rates, but are generally variable rates. It’s strongly advised that due diligence should be done when investigating private loans. Ask a lot of questions and understand all the fine print. If you are comfortable with the risk factor of the variable rate, a private loan could be a great option for the right family in the right situation

We are in the business of helping families through the major life transition of sending their children to college. For many, it will be the most expensive time of their lives and, if not handled properly, could jeopardize their retirement. If you or someone you know needs the help and guidance of a trained financial professional, don’t hesitate to contact your local College Planning Relief® Licensee. Remember, you shouldn’t have to choose between your child’s college and your retirement.