How to help clients pay less for college

By Ingrid Case

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Every day clients fill out the Free Application for Federal Student Aid, hoping their college-age children will qualify for need-based financial aid. Most families with annual incomes of $300,000 or more won't get great news.

"Three hundred thousand dollars is the cutoff where you will not see need-based financial aid," says Ian Aguilar, a partner at Mellen Money Management in Nocatee, Florida, whose practice serves mass-affluent and HNW clients.

Some of those families will pay list price without complaint. Others will need to shuffle other financial commitments and take advantage of money-saving opportunities. Both groups, however, will appreciate money-saving strategies from their planners — some because they need those tips and others because they expect such ideas from their planners, whether they plan to implement the suggestions or not.

FILL OUT THE FAFSA ANYWAYS

Filling out the FAFSA is a hassle, so parents who don't expect to receive need-based aid often skip the chore. That can be a mistake.

"Don't assume that your kid won't get aid with a family income of $300,000, especially if she or he hopes to attend an expensive college," says Ron Oldano, a planner in Wesley Chapel, Florida, who serves clients with between $500,000 and $5 million in AUM.

The FAFSA considers family situations, such as having more than one child in school. Annual income of $300,000 might mean an expected family contribution of $80,000. But if the family will have two students in college during the year in question, the FAFSA splits the expected family contribution between the students, says Robert Falcon of Falcon Wealth Managers, who serves five client families with total AUM of $7.6 million in Concordville, Pennsylvania.

"Each student would have an expected family contribution of $40,000, and the family may very well get need-based aid at pricey schools," he says.

Even if a family doesn't get need-based aid, the FAFSA can open doors to other financial resources. For example, any student can apply for California's Promise Program, which covers the first two years of tuition at any in-state junior college, plus $250 for books and supplies. Completing the FAFSA is part of applying. Individual schools sometimes also offer scholarships based on FAFSA results.

"Because we filled out the FAFSA when our son attended Cal State, he was notified of a scholarship," says Karl Leonard Hicks, a planner in Riverside, California. "He applied and got it. It didn't cover his entire time at school, but it did soften the blow."

Geographic diversity can help, too, according to Neil Krishnaswamy, a planner in McKinney, Texas. A student from the West Coast might be an enticing prospect.

REVIEW SPENDING PATTERNS

An income of $300,000 in Cheyenne, Wyoming, buys more than the same income in Honolulu. No matter, says Tara Unverzagt, a planner at South Bay Financial Partners in Torrance, California, whose clients typically have between $2 million and $15 million in assets under management.

"I say that any family that has an income of $300,000 should have no problem paying for college from savings and cash flow," Unverzagt says. "If they do have a problem, I'd have a financial therapy conversation about what they're spending their money on and why."

Is the family trying to keep up with a better-heeled peer group? Fooling themselves about how much they're earning or spending? Supporting adult children?

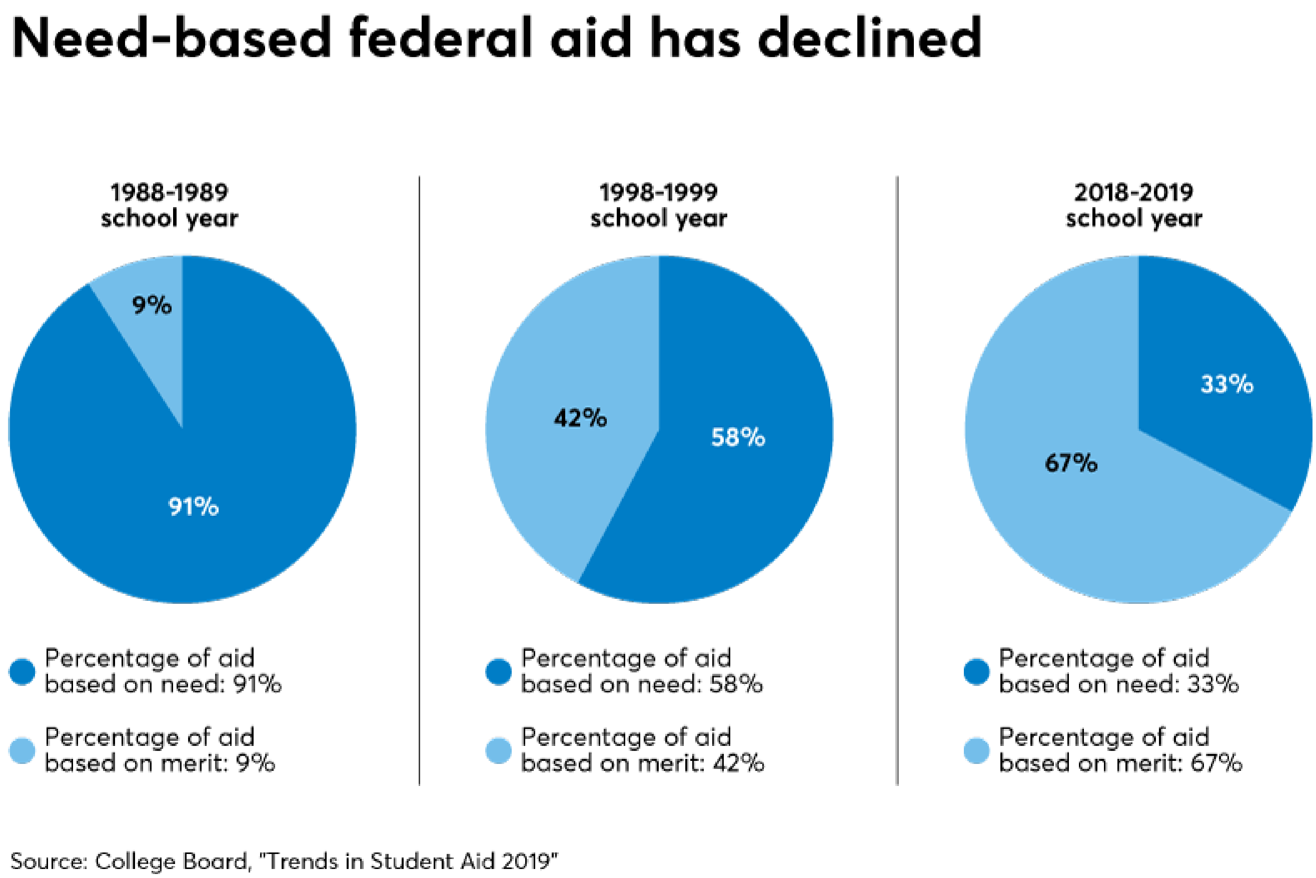
"I can't determine how my clients spend their money, but I can show them how their spending affects their goals," Unverzagt says.

LOOK FOR SCHOOLS THAT OFFER MERIT-BASED AID

About a third of the financial aid American students received in 2018-2019 was need based. The majority was merit based.

Schools give merit-based aid to desirable students, and what makes a student desirable varies. Top test scores, good grades, and interesting extracurricular activities all help, of course, but they aren't the only things that might prompt a scholarship.

“You might be desirable as a sports recruit or have another unique talent. Maybe you’re a likely applicant to a program a college is trying to get off the ground,” says Neil Krishnaswamy, a planner in McKinney, Texas, whose clients have between $500,000 and $1.5 million in AUM. Geographic diversity can help, too. Perhaps a school that primarily pulls from the Midwest wants to expand that footprint. A student from the West Coast might be an enticing prospect.



As a general principle, clients should look at schools where their child isn’t like all the other students. Perfect grades make a person average at Harvard; there are lots of musicians at Oberlin. Academic or musical ability, however, make an applicant special at a wide variety of other schools that also offer good educations.

“If you send your child to a school where that child is most competitive — not necessarily the child’s dream school — you may find that the price comes down,” says Sean Pearson, a planner in Conshohocken, Pennsylvania whose clients are mostly mass affluent. “If everyone who applies to that school looks and sounds like your child, you may not get a lot of money.”

SHIFT INCOME TO FIND TAX BREAKS

Clever tax strategies can help a family create its own scholarship. Krishnaswamy suggests that parents who have appreciated stock give that stock to a child, who then sells the stock to pay for college expenses.

“The parent avoids getting taxed at a high capital gains tax rate and the child potentially sells the stock at a much lower tax rate,” Krishnaswamy says, adding that it’s important to avoid triggering the kiddie tax. Furthermore, if the stock sale lets the student pay at least half of college expenses, he or she may qualify as independent for tax purposes. That makes the child eligible for the $2,500 annual American Opportunity Tax Credit. At $300,000, the parents’ income is too high to qualify for that credit.

One of Aguilar’s client families used this strategy, gifting their twin sons appreciated stock from their mother’s former employer during the children’s junior year of high school. The boys sold the stock, paid less tax than their parents would have, and were able to claim the tax credit.

Bear in mind that only $1,000 of the credit is refundable, so the student needs some income to take maximum advantage. “You could get some income from a family business, and then you’ve turned a capital gains strategy worth $3,000 to $4,000 into a chance to save more than $10,000 over the kid’s college career,” Krishnaswamy says.

Parents who own businesses have even more options. “Employ the kid,” Aguilar says. “That shifts income from the top of your tax bracket down to their tax bracket. They’re not getting taxed on the first $12,000 at all.” An employed child age 21 or older is also potentially eligible for a company tuition reimbursement plan, with a maximum reimbursement of $5,250 annually. That gives families another break for a student’s senior year of college or any year of graduate school.

Business owners could also draw a reasonable salary from the corporation, then leave any remaining corporate income in the corporation as retained earnings. “If you need more, you can get a dividend. The tax rate is lower on dividends,” says Kashif Ahmed, a planner in Bedford, Massachusetts.

PICK A LESS EXPENSIVE SCHOOL

If a client family is going to pay sticker price for college, they might want to seek out a manageable sticker. Highly selective colleges can cost $70,000 per year. Many public and private options are less expensive, sometimes by a lot. “You could simply attend your in-state flagship school,” Falcon says.

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The question of whether to choose a cheaper or more expensive school can be a good entry point to a family conversation about money and values.

“Do we think that a premium college education pays for itself? How do we perceive the value?” asks Yves-Marc Courtines, a principal at Boundless Advice in Manhattan Beach, California. “Wealthy parents are already struggling with how to talk with their children about wealth and financial values. By framing it as a joint purchasing decision, we enable them to start the conversation.”

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