

The College-Aid Shuffle

By JESSICA SILVER-GREENBERG

College applications are in, and some lucky students already have received acceptance letters. For many parents, though, the real work is just beginning.

It is the height of financial-aid season, that time of year when families scramble to grab grants, scholarships and loans to offset the rising cost of a college education. Many will find themselves in a classic quagmire: They are considered too wealthy to qualify for help, but not wealthy enough to pay full freight.

Fortunately, there are a number of strategies that can help maximize the amount of financial aid families receive. Even Ivy League schools, including Harvard and Princeton, have adjusted their aid formulas so that parents with higher base incomes can qualify. Among the changes: The universities now will consider how the higher cost of living in cities such as San Francisco can damp even well-to-do families' finances.



Sarah Lawrence College/Associated Press

Sarah Lawrence College: \$59,170

The secret is to make yourself more appealing in the eyes of college-aid officers by using such legitimate tactics as postponing income, accelerating any possible tax deductions and moving assets from one account to another.

Planning ahead pays off. Parents who have at least a couple of years before their children apply to school have a bigger range of tools. But even families with incoming freshman can make moves to maximize their aid and scholarship packages.

Some families use outside consultants to help them navigate the financial-aid process to maximize their potential aid package. College-aid officials urge parents to examine such firms carefully.

"Just as in any financial consulting, there is a range of experience, background and motive in the folks doing the consulting," says Joe Paul Case, the financial-aid dean at Amherst College. A good consultant will "advise them about the realities of need-based aid, and give them a realistic picture."

Rising Costs

It's no wonder that so many families find themselves in a bind. Faced with poorly performing endowments and painful budget cuts, public and private colleges across the U.S. are raising tuition and scaling back aid—a double whammy for families.

Average annual tuition at four-year private colleges for the 2011-2012 academic year is \$28,500, up 4.5% from a year earlier, according to the College Board, a New York-based nonprofit that administers college entrance exams, while average room and board charges have risen 3.9% to \$10,089. Between 2001 and 2012, tuition and fees at four-year private colleges rose at an annual average rate 2.6 percentage points greater than the consumer-price index. The priciest colleges now cost close to \$60,000 a year.

Debt, too, is on the rise. Students who graduated from college in 2010 are shouldering an average \$25,250 in debt, up 5% from a year earlier, according to the Project on Student Debt, a nonprofit research group.

Big Moan on Campus

The eight most expensive U.S. colleges for 2011-12.

- Sarah Lawrence College **\$59,170**
- New York University **\$56,787**
- Columbia University **\$56,310**
- Harvey Mudd College **\$55,998**
- The New School **\$55,890**
- Claremont McKenna College **\$55,865**
- Wesleyan University **\$55,706**
- Bard College **\$55,617**

Source: CampusGrotto.com. Includes tuition, room and board, and other fees.

At the same time, 529 college-savings plans—state-sponsored programs that boast tax advantages—have, like other stock-driven strategies, left many parents disappointed. Consider: A family that socked away roughly \$1,000 a year in a 529 plan tracking the Standard & Poor's 500-stock index beginning in 1990 and needed to tap the money beginning in 2008 couldn't even fund a single year at a private college, according to an analysis by the Education Sector, a think tank based in Washington.

Given all this, many parents are shocked when they learn that a school considers them rich enough to pay the full bill, says Kalman Chany, author of "Paying for College Without Going Broke." Other parents don't even try for aid because they assume they won't qualify—and wind up leaving money on the table.

Here's what to do

Working the Form

The most important element in applying for financial aid is the Free Application for Federal Student Aid, also called the Fafsa, which determines how much in federal grants and aid a college-bound student will get. The form, which is used by all public and private universities, asks families to provide income and asset information, but doesn't require you to report the value of your primary residence. If your child is attending a private college, families also must fill out the College Board's CSS/Financial Aid Profile, which schools use to determine how to distribute their own aid funds.

The CSS takes into account factors that are largely ignored in the Fafsa. For example, the CSS looks closely at home values: Parents who have seen their home values tank in recent years should include the "quick sale" value of the home—which is roughly 80% of the value that the home is currently appraised at, says Deborah Fox, who heads Fox College Funding, a San Diego-based firm that helps families with late-stage college planning. If that value is substantially below your outstanding mortgage, it can increase your aid package.

The CSS also weighs the cost of private-school tuition for siblings. If you are paying for that, make sure to include it.

If you don't get as much as you were hoping for, don't despair—ask for a reassessment, or a "professional judgment review." Your chances of getting a better package will increase if you can show your investments have taken a hit because of a volatile stock market, or that your listed assets, such as commercial real estate or other business investments, can't be tapped to pay for college.

Ashmita Baral, 19 years old, benefits from lower in-state tuition at the University of California, Berkeley, though her parents still had to appeal her initial financial-aid package. "It was really complicated, with lots of little things you have to know," says Ms. Baral, a freshman majoring in biology.

Maximizing Aid

For parents who have more time to plan, there are numerous ways to increase the amount of financial aid your child can get.

The single most crucial year is the one that begins on Jan. 1 of a student's junior year in high school. In financial-aid parlance, that's known as the "base income year," and it's the one that counts most in determining a family's eligibility. Any income earned or assets acquired that year are counted more heavily than in later years.

Older parents should consider postponing retirement distributions that year, and avoid selling assets if it means big capital gains. For some, that means either selling stocks before the base income year or afterward.

To maximize aid, delay converting an individual retirement account to a Roth IRA since many financial-aid offices count any converted money as income. Also consider deferring any bonuses into the next calendar year, says Mitchell D. Weiss, a college-planning consultant and adjunct professor of finance at the University of Hartford.

Another strategy: Accelerate any big-ticket business-related purchases into that crucial year to reduce reported income. "If you are thinking about buying a new car or renovating your office, go ahead and do it then," the author Mr. Chany says.

Elizabeth Johnson, 53, decided she had to start planning early if she wanted to afford the tuition bills for her two sons. So Ms. Johnson, who owns a real-estate firm in Deltaville, Va., and whose oldest is a high-school junior, decided to pay all her 2013 real-estate taxes this year to

To reduce her adjusted gross income. Her goal: to lump the expense into this year. An added perk: She can deduct the total amount on her federal tax return.

For parents who own a business, such as a consulting firm or real-estate brokerage, there are more options for shifting assets around to maximize aid, Ms. Fox says. One is to move income from the parent's high tax bracket to the child's lower one.

Here's how it works: Parents can decide to hire their child to perform work for the business. The child's salary then helps reduce the total amount of income taxes the parent pays. And the child uses the money to pay for college. School-aid advisers say the strategy helps both parents and children, since the kids get valuable experience while earning a small salary that can help offset tuition or other expenses.

That is what Toni Christy, 51, is doing: In order to offset her taxable income, she hired both her sons to assist with transcribing and editing at her San Diego business, which provides transcription services for the deaf.

Parents don't have to pay payroll taxes on such payments as long as their children are under 18, but they must pay a market wage and the children have to be doing real work to avoid attracting the attention of the Internal Revenue Service.

If you are using a 529 plan to save for college, make sure the plan is listed under your name and not your child's, Mr. Chany says. (If necessary, you can easily change ownership of the account.) That way, you are apt to get more aid money.

Be strategic in spending down assets, says Michael Dixon, a certified financial planner in Palm Beach, Fla. Financial-aid formulas weigh student assets more than parental ones. The Fafsa, for example, counts student assets at 20%, as opposed to 5.64% for parental ones. To further reduce the total asset count for your child, you also should roll over custodial accounts, including UTMA's and UGMA's, into a 529 plan in your name.

A number of websites can help determine how to qualify for the greatest amount of aid, such as SimpleTuition.com's [TuitionCoach](#) and [FinAid.org](#).

Alternative Financing

Some families resort to riskier strategies to finance a child's education, such as taking out certain kinds of loans—such as margin loans on brokerage accounts, or passbook loans, which allow parents to borrow against savings accounts.

Such tactics might reduce your net assets in aid formulas, but if you run into trouble repaying your passbook loan, for example, your bank could freeze your savings account. The loans also might come with hefty interest rates.

Some advisers, disappointed by weak returns in their clients' 529 plans, are recommending permanent life-insurance policies to pay for college. The policies combine traditional life insurance with a tax-sheltered savings accounts and other protections.

The downside: The plans typically come with large agent commissions that can erode initial savings. But they are gaining in popularity since they typically are invested in bonds, not stocks, says Michael Wall, president of Wall Financial, a financial-advisory firm in Altoona, Pa.

Then there are student loans. These should be the last resort, since they typically carry steep interest rates and can't be discharged in bankruptcy.

If you need to borrow, look at federal loans first, experts say. You can get unsubsidized Stafford loans and Parent PLUS loans regardless of your income. Federal loans typically charge the lowest rates, and lawmakers have upped the borrowing limits on Stafford loans in recent years.

Above all, don't panic. As Ms. Fox puts it: "Money is available for those parents who know how to get it."