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Education financing chat with Bill Simpson

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Bill Simpson, founder of Azimuth Financial Planning in Portsmouth, N.H., took readers' questions about financing education costs. Here's a transcript of the discussion.

Bill_Simpson: Hi I am Bill Simpson and will be answering the questions today. Please note that each situation is very different based on your financial circumstances, the target school, age of the child, etc., so I will keep answers at a high level and at least aim to point you in the right direction. There are a few web resources listed in the top 10 tips, and I will mention a few more if applicable. Note I have no relationships with the various sites I may mention, generally they are sites that I have found to be informative, easy to navigate.

worried_mom__Guest : Hi, We have two sons. Our oldest is 15, a freshman in high school. Due to financial hardships, we have not been able to save for college. We do have a \$25,000 life insurance on him that we can borrow against. Do you suggest that option? Where do we start?

Bill_Simpson: First start by exploring all financial aid, scholarship, and loan opportunities, good start on the basics is www.savingforcollege.com. Concerning the life insurance on a child, I would consider it a lower priority than college funding, and not a very good vehicle for saving for college due to high fees which eat into the return. Consider ceasing premium payments now, directing the future payments to 529 plans, one for each son. Also look into surrendering the policy for the cash value and dividing the cash value between the two 529 plans. Please note there are rules about how much can be placed in a 529 plan, the same site mentioned can give you more details. Would suggest checking out the Mass UFund plan through Fidelity, the Utah Savings plan through Vanguard, and the Nevada Vnaguard plan, again more details can be found on the above site.

in_shock_parent__Guest : our son has signed for stafford loans for college, but not taken them out yet. we just found out these are unsubsidized loans at 6.8 percent, meaning he won't have to begin paying them back until six months after graduation, BUT ... and this is a big but ... they'll be accruing interest all the way through until then, unlike the subsidized loans he had been offered elsewhere. our question -- still worth it for him to take them out, or should we try home equity loans for that amount (and likely more) at a lower interest rate?

Bill_Simpson: Not having details on your financial situation, I would generally consider the home equity loan, or line, a last resort, because it does put your home at risk if there is a future disability or job loss which impacts your ability to pay. Explore all loan options in addition to the Staford, maybe a Perkins if you qualify, first before home equity. Still think the Stafford is better option than home equity, especially the subsidized one you mentioned were offered elsewhere. The onus is on the child to pay back and doesn't affect your home.

Bill_Simpson: But if no other option, weigh the PLUS loan, basically loan for parents, vs the home equity. The PLUS usually has rate of T Bill plus ~3%, capped at 9%, but has origination fee of ~4%. That needs to be compared to home equity closing costs, the tax deductible interest rate, and your tolerance for risk.

Bill_Simpson: Note that the home equity loan/line could improve your financial aid situation at some private schools that do include home in finaid calculation.

sueash__Guest : My daughter was accepted to West Virginia Uiversity, they rec'd her application 1/2008 & her FAFSA in Feb. well before the deadline. After sending them additional info in march I assumed they had everything they needed. I contacted them a few times and they told me they were running behind getting all the finacial aid packets out. Well they finally sent the packet to me and they are telling me they did not accept her until May and theres no more aid available. I have a letter from them accepting her in April now she declined other offers from 5 other colleges....any advise I'm sick!!

Bill_Simpson: Would suggest contacting the head/Director of FinAid at WVA, explaining the difficulty they

have placed you in and the fact that it may affect your ability to send your daughter there. FinAid departments will negotiate, so don't accept the 'no' answer they gave you before. I would also look into contacting the other schools you previously turned down, perhaps they are not filled and would be willing to let your daughter in, also look at PLUS Loan to perhaps make up the difference. Other loans that might be available depending on your circumstances are the Stafford and Perkins. See my previous answer web site reference for the basics on the loans. Good luck.

PERPLEXED__Guest_: have zero college savings. all money went into 401k. My child is a high school junior. age 53 with 10 years left on a 15 yr mortgage. Is a state school my best option?

Bill_Simpson: Congrats on funding the 401k, I consider retirement the higher priority vs college. But start today exploring all financial aid, scholarship, and loan opportunities. You will need to fill out financial aid application next year, go to FAFSA.ed.gov for details. Collegesavings.org is another site that describes basics of aid and savings programs. State school is definitely your best option, cost ~ \$13k average nationwide vs \$30k for private, NE cost are much higher, more like \$38k for private. If your child is an exceptional student, more of the upper tier private schools, Harvard, Yale etc., are offering substantial aid packages, so that could be an option.

Katieb__Guest_: Would borrowing from a 401K plan be a last resort to help with my daughter's education. There will be one year that I have two in at the same time and that is the year I am worrying about.

Bill_Simpson: Yes borrowing from 401k is last option. My experience is folks don't often replace the funds, you lose potential appreciation, and since many are already underfunded for retirement, this places their retirement at even greater risk. Would suggest looking at loan options, Stafford, PLUS, Perkins, and perhaps home equity line of credit first (last resort), but you would have to run some numbers comparing the options.

Dan__Guest_: I own a small business. Will money that is in my business capital account be considered available for me to spend on my son's college?

Bill_Simpson: Generally small biz assets are excluded from a Federal perspective, I say generally because some private schools may include. Lot of ifs and buts, too many to go into here, but quickly found nice description online at www.finaid.org/fafsa/smallbusiness.phtml.

matt__Guest_: My friend said to check with my local credit union about personal loans and a credit card, does this sound right?

Bill_Simpson: Not knowing if you are a parent or student I will take a stab at it. Do not use a credit card to pay for college!!! The rates are extremely high, 18-25%+, compare to various student and parent loans, 5%-9% with some private loans a bit more. Your credit union may provide various loans, but compare and shop, contact the college about what they have available. Get an overview of various loans and financial aid at www.savingforcollege.com.

xx__Guest_: What about withdrawing from a Roth IRA? We have two that were basically funded for tuition costs, put in a Roth to keep it off of the FASFA.

Bill_Simpson: You can withdraw the money from a Roth for higher ed purposes without paying the 10% early withdrawal penalty. You will pay income tax on withdrawals over and above your contributions, which come out first. And what you don't use can of course be used for retirement.

Bill_Simpson: BUT please make sure that you are fully funding your retirement! Do you have enough set aside in other IRAs, 401k, 403b, pension plans and considering Social Security to retire when you want and live off the savings until age 90+?

Bill_Simpson: there are no loans, scholarships, grants etc. for retirement as there are for college, and assuming you can work until a later age may make sense now, but that assumption can be impacted by health and other issues that arise as you age.

newbie__Guest_: we have 2 small kids (under age 3), I've been saving \$500 per month - does this seem reasonable? assuming college in 16 years, how much will it realistically cost by then? also, can i hope financial aid may be more favorable if I have both in college at the same time?

Bill_Simpson: To answer this I would need to sit down and do some calculations, but figure you will need \$100k at least now to pay for 4 years. Go to savingsforcollege.com, there is a calculator there. Having both in school would help finaid wise.

2Bpoor__Guest_: Can you remmend a web site that ranks how well colleges meet a student's financial need?

Bill_Simpson: Try www.collegeboard.com, gives stats on cost and average aid.

Alex__Guest_: Hi - my son will be going to college this fall - I have a 529 plan with one year of tution in it in state school. Should I pay all one-year tutions or pay some and borrow some? what makes sense to you. Thank you.

Bill_Simpson: You might consider spreading the 529 out over the four years as student loan rates are okay right. Look at all loan and aid possibilities, fill out the FAFSA to see what you get for aid, look at loans and then fill in the rest with 529. leaving the 529 to grow during his/her college years might reduce future need as student progresses.

Andy_2__Guest_: What are the tried and true best vehicles for student loans. I have a college freshman starting in August and the college is already requesting \$5K due in July. After scholarship, merit and student aid my parental contribution will be about \$15K for the first year...not too bad I guess. Please advise....Parents' PLUS loans, Home Equity Credit Line?

Bill_Simpson: Would look at Perkins and Stafford loans first as they are subsidized based on need. Then look at PLUS and compare to potential home equity. Not a big fan of home equity based on risk of default and loss of home. But if financially secure it is an option, so compare PLUS origination fees & interest rate to home equity fees.

jim__Guest_: what are you hearing about availability of PLUS loans this fall?

Bill_Simpson: PLUS loans based on credit of parent, requirements are tightening, but definitely worth looking into after the need based loans such as Perkins/Stafford.

Angela106__Guest_: Hi, I am on the other end of the student loan spectrum, I have recently graduated, with over \$150K in private student loan debt , my monthly payments are around \$1300 a month, got any advice?

Bill_Simpson: Perhaps you can consolidate the loans into one loan with a fixed rate with an extended term to reduce the payment. June of 06 law was signed that included provision allowing the consolidation.

2Bpoor__Guest_: What do you consider to be a reasonable maximum debt limit for a student graduating from a four-year college?

Bill_Simpson: That is a tough one, I reqally don't have a firm number as it would be based on your future salary which dictates your ability to pay. Some Drs are graduating from med with \$100-200k, but their income may be able to handle. Suggest look at future salary and analyze vs local housing costs etc. and figure how much of a montly loan payment can be afforded.

SummerAdmin__Guest_: Hi Bill, great advice here. As a college administrator- can I offer a suggestion? Parents may want to look at summer college classes as well. Our college classes cost 58% less than fall and spring classes and there aren't all those fees. Each college has different policies but a student who aggressively takes college classes can cut their time in school to 3 1/2 or even 3 years. But be careful, some colleges limit the amount of summer classes they will accept!

Bill_Simpson: Hi folks,

Bill_Simpson: Check out this great suggestion from local college admin person, might be opportunity to cut the cost.

student_Guest_: I am planning to go to grad school next year, and am still paying off loans from undergrad (for the next couple of years). Now, I know that those loans would be deferred while i'm in school. However, I really do not want to have to take out any more loans. So the options are scholarships, and....anything else? Isn't my expected contribution based on my assets (i.e. savings account, etc)? This is probably really naive, but I would rather not fund my grad school education with my savings, so are there any suggestions you may have?

Bill_Simpson: There are grants, loans, available for grad school. And yes they will look at your assets when determining finaid, generall 20% of a student's assets are counted. Grad schools offer offer opportunities to work for school to reduce costs, teaching assistant etc.

thor_Guest_: Some people tell me to fund a 529 and others tell me not to. What is the real truth?

Bill_Simpson: Fund the 529, it offers tax deferred growth, tax free withdrawals for higher ed. Many state plans have improved over the years in terms of reducing costs, expanding investment options. Your risk is the child doesn't go to college, but in that event you can use for another child, grandchild. Look into Mass, NH, Utah, Nevada, and WVA Select plans as options, more details at savingsfrocollege.com.

Stephen_Guest_: Hi all, I am employee in Financial Aid and Financial Services at one of the fifteen community colleges in MA and I am alos a parent of three, I would highly recommend the state community college system for families struggling to meet the rising costs of private education. The atmosphere is great and with the joint admissions program, students can get their requirements finished in a low cost, high quality academic environment and then have the option of taking those credits to their choice of state schools. I would urge those of you struggling with cost to consider this option.

Bill_Simpson: Group, another great suggestion from another college finaid person. Have had people use this option community college for years 1 & 2, then transfer to 4 year to get the degree from that institution. Average cost per year for 2 yr school full time is half the cost of public 4 yr.

lizzie_Guest_: I had a company 401K and moved to an IRA I am planning on withdrawing from it but there will be a 10% withdrawal penalty but they said I will get back when I file my taxes so how much should I take out if I need 40K and additional 10%? And do you know for my taxes I would just need to include receipts to show I paid for higher education?

Bill_Simpson: First, have you analyzed your retirement plan and have you funded it to the point you can retire when you want on the amount you need? If you have not, please do this before making this move. There are no grants, scholarships, or loans for retirment. You retire on your savings, whatever pension may be available, and social security, which might amount to \$24k in today's dollars. Your student has many more options, part-time, loans, etc.

Bill_Simpson: However, if you must, the 10% penalty is on the withdrawal, so \$4k, and you will pay income taxes.

Sofie_Guest_: I'm a 29 year old student returning to college. My parents have not supported me financially for over 10 years now. Will their incomes still be a factor when I apply for financial aid? Is there anything I can do - they are not willing to help pay for school, yet they earn a considerable amount and hold large assets.

Bill_Simpson: You are not a dependent so their income won't be a factor. You can save now, look at financial aid, grants etc., part-time work study, go to www.savingforcollege.com.

tom_Guest_: Last year I made \$8,000 more than the year before and then my financial aid was cut by \$6000. Hardly seems right

Bill_Simpson: Those are the breaks, parents income is factored in at 22%-44%, students at ~50% when Fed/school determine finaid. So income is factor to consider when looking at paying next year's tuition, perhaps in future you can defer some payments.

babs__Guest_: Any reason you do not recommend the New York 529 plan?

Bill_Simpson: No, I just haven't had any clients from NY that were saving for college, and the other options I have mentioned were pretty good. There are over 50 different plans, some state have 2-3 so can't keep up with all. But, just took quick look at NY plan on savingforcollege.com and the direct plan you can use without an advisor looks pretty good, low expense ratio, 0.55%, think it has Vanguard funds, and you get a tax break if NY resident. So check it out in more details. Would note that the Utah program also offers Vang fund for 0.25%, half of NY plan. That small difference can be large when compounded over 10-20 years.

lizzie__Guest_: Yes, I have looked at retirement and our cash is tied up currently in 4 houses and it isn't a good time to sell and it will take time so we were thinking of taking money from the IRA for a few years until we sell something.

Bill_Simpson: So if retirement is funded then you must ensure the IRA fundsd withdrawn are replaced. My experience is they are not in most cases. You will also lose the tax deferred growth of the retirement funds. Perhaps explore loans against the various properties?

David__Guest_: Hi my son just finished up college and he owe 197k. his sallie mae alone is over 12% interest. Is there any help out there for this circumstance?

Bill_Simpson: You might be able to consolidate the loans into one loan, and extend the payments. Try finaid.org or estudentloans.com, bankrate.com to get a feel for availability.

Angela106__Guest_: I cannot find a site that will consolidate private loans with a fixed rate

Bill_Simpson: Try finaid.org, or estudentloans.com, bankrate.com to get a feel for availability.

Fifee__Guest_: Hi...I am a single mother of 2, and need help with financing my education, outside the aid of FAFSA

Bill_Simpson: Look at some of the previous discussion for some tips, try savingforcollege.com for basics. You are probably looking at various grants, loans, and your own savings. Try 529 plan as savings vehicle.

melmom__Guest_: I have another hint on how to save money for college: consider the town the college is in. My daughter attends a school in Worcester and rents an apartment. Her rent is less than what her friends pay in Boston, maybe a couple of thousand a year.

Bill_Simpson: Another great tip, I also went to school in Worcester, although many years ago the apartment rent was drastically lower than my counterparts in Boston, although we did have 10 people living in a 3 bedroom.

david__Guest_: Does your advice cover student loan payback advice after graduation?

Bill_Simpson: Sure, right now just trying to keep it short and sweet. After grad it really is a factor of budgeting among various necessities (rent, car, insurance, food,etc.), and loan consolidation if it will lower rate and payment if needed.

Poor_House__Guest_: My son is attending college in the fall. We filled out the FAFSA, and he received financial aid (Grants, Perkins and Stanford loans) and we are still short 25K. What is the best way to borrow the money, Private Loan through Next Student (Cosigned but in the students name), Private Loan through Sallie Mae (Signature Student Loan), or a Sallie Mae PLUS loan?

Bill_Simpson: I don't hve the details on the various loans you mentioned, but I think the PIUS loan might give you the lowest rate, ~ t-bill rate +3%. Always suggest keeping the student responsible, they need to have skin in the game, so if the other loans offer attractive rates might go in that direction.

david__Guest_: is to possible or even wise to consolidate 9 student loans that are both federal, (5), and private, (4)?

Bill_Simpson: It might depends on the rates, term. You need to analyze situation today, all payments and rates vs one loan. You could figure out with spreadsheet.

Bill_Simpson: Hi All,

Bill_Simpson: We've run out of time today. Hope you got something out of it, I had fun. Thanks for chatting. ■

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