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“Buying” College in the 21st Century: Clients Should Search for Colleges They Can Afford

February 7, 2019 by fpapractice | 3 Comments

Last month, I went shopping for my dream car. I researched and then drove a few Mercedes, Infinitis, and Audis. They were all impressive in their own ways, but I settled on a beautiful dark grey Audi A7. It accelerated and handled better than the others, and the subtle baritone growl of its turbocharged V-6 was nothing short of seductive. It was luxurious and sporty, which was perfect for me! I told the dealer that I wanted to buy it, and we went inside the dealership and I signed the papers. I then looked up at the dealer and asked, “So how much does it cost?”

That would never happen, right? Nobody would ever fall in love with and commit to making a more than $100,000 purchase without knowing the price. Unfortunately, that is exactly what most families do with the college selection. They tour school after school, fall in love with the beautifully manicured campuses and the dorm suites with granite countertops. The student gets accepted to this “dream” school, but mom and dad turn pale when they get the financial aid award letter weeks later. The parents then must say no to the dream college or raid retirement savings and/or take on significant debt. The failure to limit the college search to affordable colleges has put many parents in this unenviable position.

This article lays out a strategy that shows you how you can help clients identify those schools likely to award their family the most aid and to eliminate those that are cost prohibitive. Armed with that list, clients can then calculate the net cost of each school. This way, they can begin their college search with a list of great schools that they know they can afford before they step onto their first campus.

Need-based or Merit Aid?

The vast majority of aid falls into the need-based and merit categories. Since need-based awards (on average) are larger than merit awards, the first step should be to see if they qualify for need-based aid, and that means calculating Expected Family Contribution (EFC).

Step 1: Calculate EFC

Calculating and minimizing EFC for both FAFSA and CSS Profile is a critical first step in the effort to save on the cost of college. My favorite calculator is the College Board's calculator, because it calculates EFC under both methodologies. Once your client has their estimated EFC, they should do what they can to minimize it, but that discussion is beyond the scope of this article.

Step 2: Compare EFC to COAs

Compare the EFC it to the Cost of Attendance (COA, which is tuition + room and board + books and fees + travel). It will fall into one of these three categories:

1. The Good—EFC is lower than the COA of in-state public colleges.
2. The Bad—EFC exceeds the COA of most private colleges.
3. The Ugly—EFC is lower than the COA at private colleges but higher than public colleges.

You can find the COA and other data on Collegedata.com, my go-to source. You can utilize the College Match search engine there to filter schools by over 15 different criteria, including geography, major, four-year graduation rate and financial aid criteria.

Step 3: Let "The Good, The Bad and The Ugly" Guide You

The following sections dive deeper into how the Good, the Bad and the Ugly can guide you and your clients in the search for affordable schools.

"The Good" Strategy—EFC is Lower than In-State Schools

If your clients have a low EFC and their student is a high academic achiever, the student will be a very attractive candidate and colleges will award a lot of aid to attract them. Search for schools in College Match that meet a high percentage of need (start at about 85 percent, then drop lower if necessary) and have a four-year graduation rate over 50 percent. If your client's student is not a top achiever, search in College Match for "Moderately" or "Minimally Difficult Schools" and gradually lower the "percentage of need met" until you get enough colleges in your results.

Finally, don't forget about in-state public schools. Since their COA is generally lower to start with, the net cost of a state school may be lower than a private school. Be wary of out-of-state public schools, however, as they tend to be priced similar to a private school but offer little merit or needs-based aid to out-of-state students.

"The Bad" Strategy—EFC Exceeds Most Private Schools

If your client's EFC is exceptionally high, they will pay sticker price unless their student gets merit aid. Many parents make the mistake and assume that their bright honor student will get merit aid no matter where they apply and are in shock when they get their financial aid package that includes no aid at all. Elite schools like the Ivys, Northwestern, Amherst, Cal Tech, Stanford and Notre Dame do not offer merit aid because they can attract top students without "paying" them to attend.

If clients don't want to pay sticker price, they should consider some lesser-known schools (e.g., Furman, George Washington, University of Miami) which offer merit aid to most students. These schools are trying to compete for the same students looking at Notre Dame and Boston College, but realize that students may need a financial enticement to attend. In College Match, select the appropriate "Entrance Difficulty" filter, select schools that offer merit aid to at least 20 percent of students in the merit aid pulldown and check the box "Include only students without financial need."

Once you have the list of schools from the above search, check the "Admissions" tab for each school to see if the student's SAT/ACT/GPA is in the top 25 percent. If they are, you likely will get at least the average merit aid award at that school. Go to the "Money Matters" tab, and under the "Profiles of Financial Aid—Freshmen" section, look at the last line which is the average award for merit-based gift.

If a student in a high EFC family has average grades or lower, look again at your in-state public schools.

"The Ugly" Strategy

The "Ugly" strategy is named accordingly as you need to deploy a mix of the Good and the Bad strategies. It's messy and ugly, and there is no quick and easy approach. Clients may want to let the COA of the particular school they are targeting drive their approach. Similarly, if a second sibling will start college within two years of the first, the EFC will be split between the two and clients will be able to leverage aspects of the Good strategy.

Summary

The college selection process is no picnic, and has become excessively complicated over the years due to the rising cost of college. Unlike days of old, significant planning must be done before students even apply if your client's goal is to minimize the net cost of college. By estimating EFC and net cost of college before your client's student applies, they can eliminate those schools that will put their student's future and their own retirement in financial jeopardy. If clients don't have the time to invest in this process, they should seek outside help from a qualified college financial expert.

Robert J Falcon, CFP®, CPA/PFS, is the founder of College Funding Solutions LLC, and the founder of Falcon Wealth Managers LLC, both in Concordville, Pa. He holds his MBA from the University of North Carolina Kenan-Flagler Business School.

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3 THOUGHTS ON "“BUYING” COLLEGE IN THE 21ST CENTURY: CLIENTS SHOULD SEARCH FOR COLLEGES THEY CAN AFFORD"

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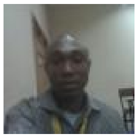
Ihagh G. T.

February 8, 2019 at 3:14 pm

interesting post. great advice



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Richard Buckley

February 12, 2019 at 12:00 pm

Good discussion, but it’s fair to point out that families should not blindly eliminate private colleges because of sticker price. They do offer significantly more aid than state schools. Very few students pay sticker,and data show that the average discount is about 50 percent.

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Robert J Falcon

February 20, 2019 at 2:30 pm

Richard, your comment is spot on. “The Good” strategy describes how low income families can maximize aid by identifying those schools that meet 90% or 100% or need

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