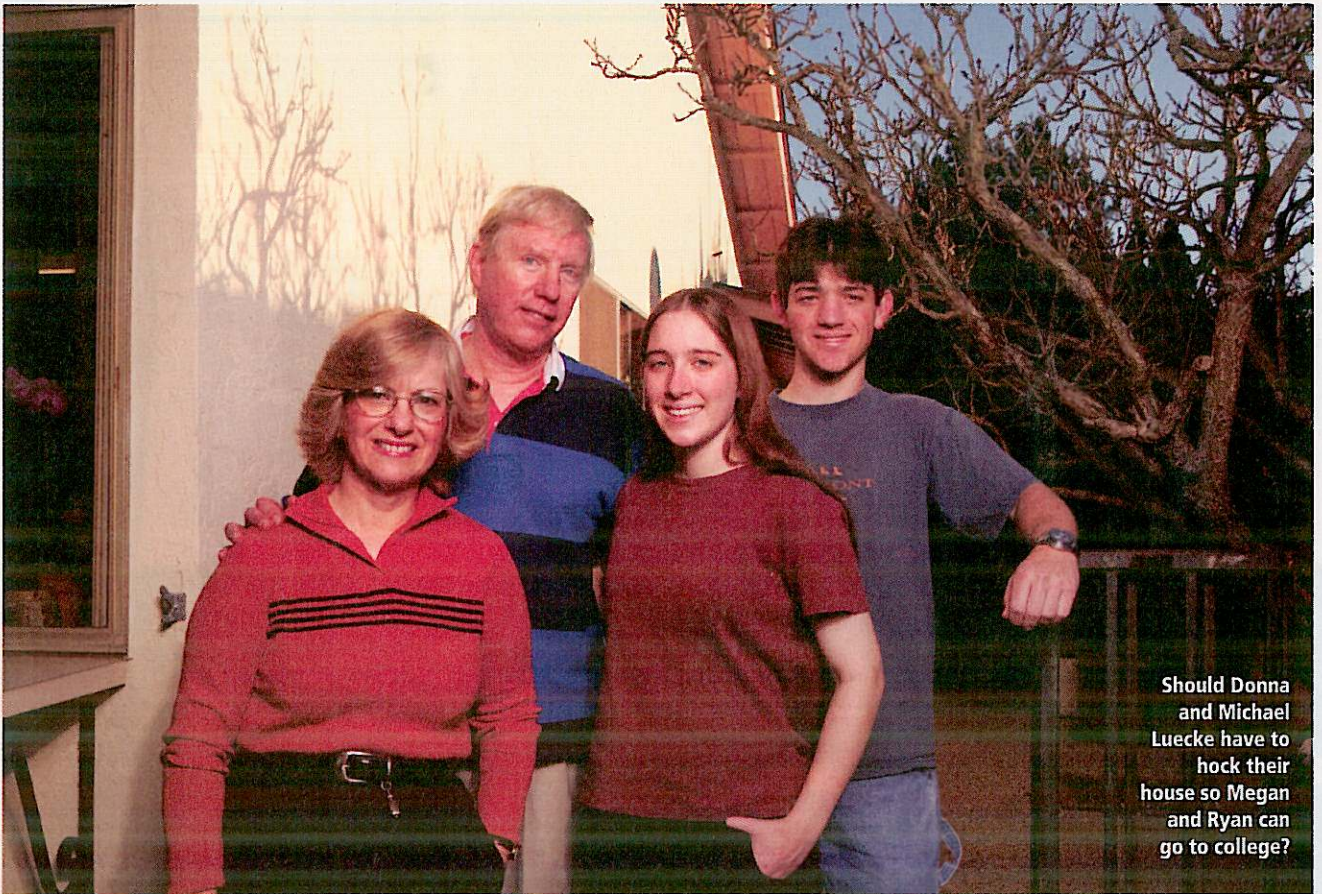


TUITION PLANNING

College Aid Stratagems

Private schools are counting inflated home costs when assessing how much to give your kid. Here's how to deal with this and other traps | By Ashlea Ebeling



Should Donna and Michael Luecke have to hock their house so Megan and Ryan can go to college?

NOW THAT COLLEGES HAVE GONE FROM MERELY expensive to rapacious, it's not just average Americans who have to worry about financial aid formulas. The upper-middle-income class—by which we mean people making \$150,000 to \$300,000 a year—is affected. If you are in that income range and have or will have kids attending college, start planning now. Choices you make today about buying or mortgaging a home or funding a pension could have a huge impact on your net worth after the college bur-sar gets through with you.

Rising home values have laid a trap for families aiming to send their kids to expensive private colleges. As some schools fig-

ure it, each \$100,000 gain in your home's value makes you able to contribute \$5,000 a year more toward college costs, which can top \$45,000 a year now (including tuition, fees and living expenses) and on today's trend line will top \$100,000 by 2019. Other schools ignore some or all of your equity when deciding if you need financial aid. It isn't easy to find out which formula a school uses.

Donna Burtch Luecke works in a bank; her husband, Michael, is a biotech consultant. Last year his business struggled, and they earned less than \$100,000. But they have \$300,000 in equity in a 1,600-square-foot home in San Diego worth \$600,000. If the Lueckes' twins, high school seniors Megan and Ryan, pick

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the wrong school (aidwise, that is), their equity could boost the Lueckes' net college costs \$56,000 over four years, figures Deborah Fox, whose Fox College Funding is helping the Lueckes through the college maze. "Colleges think you're sitting on a gold mine, but it's just a house," Donna laments. "There's a limit to what you can do with the equity if you've already got large mortgage payments."

What schools expect you to hock your house? There's no complete list available, and many families aren't aware it's an issue. "It's the inside story of needs analysis," says Carl Buck, vice president of College Funding Solutions at Thomson Peterson's, a

says Sandy Baum, senior policy analyst at the College Board. That is, if you squeeze an extra dollar of take-home pay out of your boss, 46 cents of it belongs to the college.

Surprisingly, "available income" includes money you contribute to a 401(k), even if you have no other pension. Schools usually let you deduct big medical expenses and sometimes private school tuition for younger kids. There's also a wealth levy: In a family of four, parents are expected to kick in 5% of certain nonretirement assets above \$42,000 as part of their annual family contribution.

If you have two kids in college at the same time, your total expected family contribution, for both kids combined, rises just 20% above the one-child level. That means that with two kids in college you can qualify for aid at a higher income level—perhaps with a gross as high as \$240,000, compared with \$160,000 for one child, says Baum.

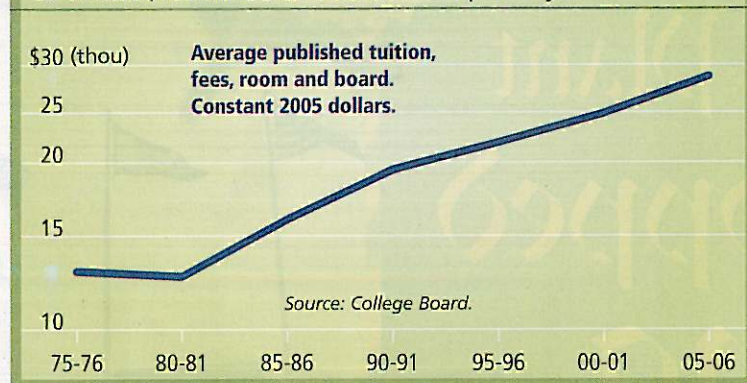
There are lots of variations from school to school, but the most significant one is the treatment of your house. Princeton and Carnegie Mellon don't count home equity at all. Skidmore includes all home equity in parental assets but makes exceptions, such as (in one recent case) for a widow who had used insurance proceeds to pay off her mortgage, says Robert Shorb, Skidmore director of student aid and family finance.

Here's a weird one: 29 elite schools—known as the 568 Presidents' Group, after the federal antitrust exception that allows them to set joint-aid rules—count the market value of a house, up to 2.4 times a family's income, as an available asset, regardless of a family's equity. (If your income is \$100,000, the cap is \$240,000, and you're supposedly able to kick in an extra \$12,000 a year from your house, even if it's already mortgaged to the rafters.) Happily, the 568 group, including Dartmouth, Duke and the University of Pennsylvania, plans to change to a more generous scheme that counts only equity and caps that at 1.2 times income. (Member schools are listed at 568group.org.)

Another way to detect a school that will probably make a house grab: if it asks you to fill out the College Board's CSS Profile

Higher (Priced) Ed

The average annual tab for a four-year private college, even adjusted for inflation, has more than doubled in the past 20 years.



publisher of college guides. Parents' ignorance is understandable; the standard Free Application for Federal Student Aid (Fafsa) form, used to determine eligibility for federal grants and subsidized loans, hasn't asked about homes since 1992. Most state universities use only the federal form.

But when hundreds of private schools (and a few leading public ones, such as the University of Michigan at Ann Arbor and the University of North Carolina at Chapel Hill) parcel out their own funds for aid, they do ask about houses and other assets, in addition to income. (Some also count stepparents' and noncustodial parents' income and assets; Sarah Lawrence College even extends that to homosexual partners.)

From all this a school calculates your "expected family contribution." If that is less than expected costs—including tuition, fees and living expenses—the school helps bridge the gap with some combination of tuition breaks, loans to parents or student and maybe a campus job for the kid. This is "need-based aid," as opposed to "merit aid," which goes to desirable students irrespective of income.

Aid formulas, alas, are taking on some of the complexities of the federal tax code, and also give rise to the familiar phenomenon of marginal tax rates. Your marginal rate is the penalty you pay for earning an incremental dollar of income. In the most widely used private college aid formula a family of four reaches a 46% marginal rate on only \$66,000 of available aftertax income,

The college aid rules impose both a marginal income tax and a wealth tax.

form. Most Profile form schools count at least some equity, using one of four College Board methods. When we asked financial aid officers at several of those schools which method they used, they said they'd have to look it up. If even they don't know, how can families—with young kids or teens—plan?

Some pointers for parents of college-bound kids:

► Instead of investing in a fancier house, stuff your tax-advantaged retirement accounts—before the kids apply. Although schools essentially expect you to stop making 401(k) contributions while your kids are in college, few count the money

Money & Investing

already in retirement accounts, no matter how much, as assets available to fund college. "Very few people know or understand that," says college planner Troy Onink in Russell, Pa.

▶ Empty any accounts in the kids' names. Private schools expect students to contribute 25% of any assets in their names to college bills each year. The federal formula requires a 35% contribution. (That will drop to 20% beginning in the 2007–08 school year.) You can legally deplete kids' accounts to pay for camp or a computer. Or move the money into a 529 college savings account, says Joe F. Hurley, founder of Savingforcollege.com. Private schools count 529s owned by students as parental assets, meaning just 5% of the balance is included in the expected family contribution. And it appears, as a result of a new law, the federal formula will adopt the same approach to 529s, says Hurley. (Grandparent-owned 529s aren't counted as parental assets, but withdrawals from them are sometimes counted as student income.)

▶ Apply for aid, even if you think you don't quite qualify. And watch the deadlines. The June 30 deadline printed on the federal form is misleading; each college has its own, usually much

earlier deadline. Many schools won't even consider you for merit aid unless you also fill out the financial aid application.

▶ Without lying, lowball the value of your house. Defensible approach: Figure what you could get (minus commissions and taxes) if you had to sell in 30 days.

▶ Don't assume the results you get from Web calculators—even on a school's own site—are necessarily accurate. Example: Dartmouth's calculator asks for your home equity, while the school, one of the 568 group, now looks at the home's market value. "We do not attempt to explain the intricacies of the formula on our Web site," says Virginia Hazen, director of financial aid. Oh. Talk to financial aid counselors at the colleges your child has applied to. And then write a personal letter explaining any unusual circumstances—say, if you lost your job or reported a big, one-time capital gain.

▶ When the time comes to pay the bill, consider using a home equity loan or line of credit instead of the federally sponsored parent Plus loans. As part of a budget cut Congress just passed, as of July 1 the interest rate on Plus loans will be fixed at 8.5%, more than double the rate two years ago. **F**