Paying for College - Options for Families to Consider

The price of earning a college degree has increased dramatically over the past decade. The amount of student loans now surpasses credit card debt in the U.S., having reached more than $1 trillion in 2013. Furthermore, for students and their parents, the complicated logistics of financing college can be overwhelming. Below are tips to consider when navigating the maze of financial options.

Eligibility for grants and loans. When applying to colleges, students must complete the Free Application for Federal Student Aid (FAFSA) to determine their eligibility. Students must have access to their parents' most recent tax returns in order to complete the form. Be sure to click on the .gov link when searching for the FAFSA online, as private companies that advertise online charge a fee for filing.

Once the form is completed, the federal government uses a formula to determine the Cost of Attendance (COA) and the Expected Family Contribution (EFC) at the school selected. The government then bases the award determination on family income. In the case of divorced parents, only the custodial parent's income is considered. The student will then receive an "award" letter advising them of their financial aid award.

When reviewing the information, families should consider whether the award is a grant or a loan. Subsidized loans do not accrue interest until the students complete their degrees, and unsubsidized loans begin accruing interest when the money is awarded.

Types of student loans and grants. Students can apply for loans and grants to attend colleges that are state-supported, private, or for-profit educational institutions. Families who demonstrate financial need may qualify for Pell Grants, Stafford Direct Subsidized Loans, or Federal Perkins Loans with a fixed annual interest rate of five percent. Families who do not demonstrate financial need may still qualify for Stafford Direct Unsubsidized Loans or Direct PLUS Loans. The government also offers Direct Consolidation Loans that combine several loans into one monthly payment.

Paying back the loans. Generally, students are expected to begin paying loans back six months after graduation or withdrawal from their college or university. Basic plans use a ten-year payback system, which often puts significant strain on a new graduate's budget or, even worse, adds to the financial stress of those who cannot find jobs in today's competitive market.

Other income sources. To help lessen future debts, students should first try to plan ahead early by earning good grades in high school and applying for scholarships. Students can then save money during college by working part time and avoiding any extravagant spending. Students who receive Pell Grants qualify for on-campus part-time jobs through the Work Study Program. Colleges also often hire students to work as tutors or lab assistants, whether or not those students qualify for the Work Study Program. Additionally, students can apply to serve as resident assistants in dormitories, which usually provide free room and board as well as compensation. Finally, finding a paid internship in the student's profession of choice will not only help save money, but also increase the likelihood of obtaining a full-time position after graduation.

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