

A Guide to College Financing Options

Are you asking yourself these questions?

How will I pay the balance of my school costs?

Should I dip into my retirement?

Should I charge it to my credit card or take out a loan?

Which options offer the best tax savings?



The chart below outlines the advantages and disadvantages of several college funding options, from Federal Direct PLUS Loans to tuition payment plans. The information presented here should be used to help parents think about their options but should in no way be used in place of advice from a qualified financial planner, tax expert or other similar professional.

Financing Option	Advantages	Disadvantages
Federal Direct Student Loans (subsidized and unsubsidized)	<ul style="list-style-type: none"> • Fixed interest rate – 6.8%; Undergraduate Subsidized loans have a fixed interest rate of 6.0% through June 30, 2009; 5.6% after July 1, 2009 • Loan forgiveness in the case of death or total disability • Deferment and forbearance options • Enables student to establish credit in their own name • No interest accrual on subsidized loan while student is enrolled at least half time or during the grace period • Six month grace period 	<ul style="list-style-type: none"> • Low annual loan limits • Interest accrues on the unsubsidized loan while student is in school
Federal Direct Parent PLUS Loan	<ul style="list-style-type: none"> • Parents of dependent undergraduate students can borrow up to the cost of attendance, less other financial aid • Loan forgiveness in the case of death or total disability • Deferment and forbearance options including while student is in school • Interest paid on loan may be tax deductible 	<ul style="list-style-type: none"> • Borrowers with poor credit may be turned down for loan • Deferment and forbearance options will lead to interest capitalization
Private Alternative Student Loans	<ul style="list-style-type: none"> • Students can borrow up to the cost of attendance less other financial aid • Co-signer allowed if student's credit record is not acceptable • Interest paid on loan may be tax deductible • Extended repayment terms may be available 	<ul style="list-style-type: none"> • Credit requirements, loan fees, interest rates and loan amounts vary • Interest accrual may begin immediately after disbursement • No forgiveness of loan in the event of death or total disability unless borrower purchases option • Variable interest rates with no or very high caps that can adjust as frequently as monthly

Financing Option	Advantages	Disadvantages
Home Equity Loan or Lines of Credit	<ul style="list-style-type: none"> • Both variable and fixed interest rates available • Readily available assuming the home has equity • Interest is typically tax deductible • Long repayment period makes monthly payment lower 	<ul style="list-style-type: none"> • No forgiveness of the loan in the event of death or total disability unless borrower purchases option • Loan amount is dependent on amount of equity in the home • Closing costs or other fees • Home is collateral for the loan • Repayment begins immediately • Long repayment period makes total interest paid higher
Tuition Payment Plans	<ul style="list-style-type: none"> • Usually offered by colleges and private agencies • College-sponsored plans usually have low or no fees • Beneficial for financing small balances, managing cash flow or using in combination with other financing options • Possibly no interest charges 	<ul style="list-style-type: none"> • Private agency fees or high interest • Repayment period usually limited to college term or year, so installment payments can be high • No forgiveness of plan in the event of death or total disability unless borrower purchases option
Credit Cards	<ul style="list-style-type: none"> • Some credit cards have incentive point programs • Low minimum monthly payments and long repayment periods • Best used for short-term cash flow purposes 	<ul style="list-style-type: none"> • Cards that earn incentive points usually have an annual fee • Processing fees for advance payments; interest rates can be high • No forgiveness of loan in the event of death or total disability unless borrower purchases option
Whole Life Insurance	<ul style="list-style-type: none"> • Usually borrowed from cash value or dividends of whole life insurance • Usually a low fixed interest rate • Sometimes interest does not have to be repaid 	<ul style="list-style-type: none"> • If not repaid, the loan reduces the investment earning and death benefits • Interest payments not usually tax-deductible
Traditional and Roth Individual Retirement Account (IRA)	<ul style="list-style-type: none"> • Easy access • Debt-free option • Early withdraws for qualified education expenses are usually not subject to additional tax penalties 	<ul style="list-style-type: none"> • Future interest lost on investment • Potentially putting retirement at risk • Income limits tax-deferred eligibility
401(k) and 403(b) Retirement Plans	<ul style="list-style-type: none"> • Easy access • Withdrawals can be allowed for qualified education expenses • Debt-free option • When a loan is taken out, the interest you pay goes back into the fund 	<ul style="list-style-type: none"> • Taxed at withdrawal • Future interest lost on investment • Potentially putting retirement at risk