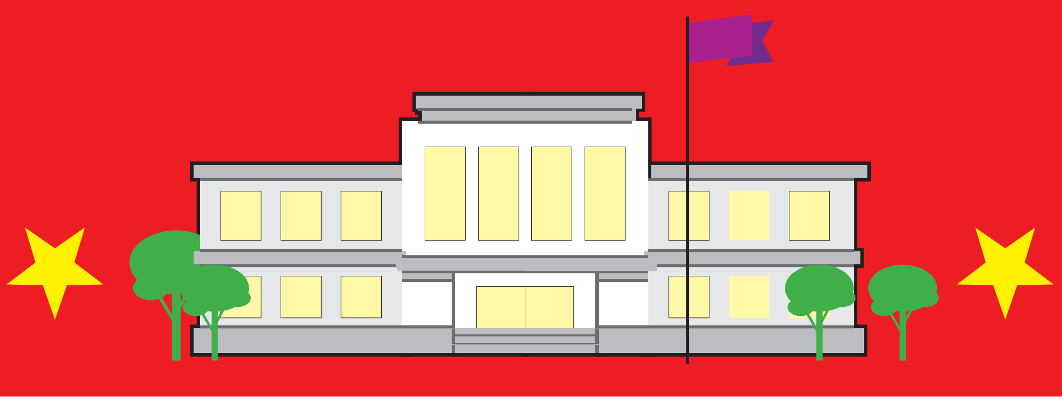

PAYING FOR COLLEGE

Navigating the financial side of higher ed can be scary and confusing. So much jargon. So many options. Not *enough* options! The first thing to know? There are really just two kinds of college money: your savings and financial aid.

SAVINGS

The amount you and your kid have saved (as well as your income) will determine how much financial aid you'll get. Here are three smart moves to max out aid.

INSIDE TIP! *Urge your kid to save part-time job money in a Roth IRA, if possible. It won't be counted against her when calculating federal aid.*

SAVE MONEY IN YOUR NAME, NOT YOUR KID'S
Parents are expected (depending on age and income) to contribute up to 5.6% of their assets. For students, it's 20%. That means, for example, your 529 college savings account should be in your name, with your kid listed as the beneficiary. This way, you'll be expected to contribute only up to 5.6% of it, rather than 20%.

PUT RETIREMENT MONEY IN A LOCKBOX
Money in a 401(k) or IRA isn't counted as an asset when calculating federal financial aid. In general, it's not a good idea to use retirement funds to pay for your kid's college. They can always borrow for college. You can't borrow for retirement. Also, if you withdraw money from your 401(k) or IRA and use it for college, that money is treated as income that could reduce the amount of aid you get.

REDUCE YOUR "BASE YEAR" INCOME
How much money you earn in your so-called base year—January of your child's sophomore year of high school through December 31 of junior year—will determine how much financial aid you'll receive the first year of college. Look for ways to lower your net worth and your income before that January 1 arrives. Use savings to pay down debt. And if you're expecting a financial windfall, try to get it before base year begins.

FINANCIAL AID

This blanket term covers all the other means of paying for college, aside from your savings.

FOUR FIRST STEPS

1. **USE THE GOVERNMENT'S FAFSA4CASTER** when your kid is in ninth grade, for a ballpark estimate of how much federal financial aid your family could get, including Federal Pell Grants.
2. **CHECK OUT NET PRICE CALCULATORS** on the website of each school your kid is interested in. You'll get a more customized cost estimate that takes into account your personal finances.
3. **COMPLETE THE FREE APPLICATION FOR FEDERAL STUDENT AID (FAFSA)** when it's available on October 1 of senior year. It's mandatory for unlocking grant money and low-interest federal loans.
4. **LOOK OUT FOR ADDITIONAL FINANCIAL AID FORMS.** The CSS/Financial Aid Profile is required by many private schools and scholarship funds, as well as some public schools. It can give you access to more grants and loans.

FOUR BASIC FLAVORS OF FINANCIAL AID

GRANTS
This is money that does not have to be paid back. The biggest program disburses Federal Pell Grants to low-income students. The annual maximum varies. You must submit the FAFSA to be eligible. States and the schools themselves may also offer grants.

SCHOLARSHIPS
Like grants, they do not have to be paid back. Unlike most grants, some scholarships are based on merit rather than need, and there can be conditions attached, such as maintaining a good grade point average.

WORK-STUDY
The Federal Work-Study program arranges part-time campus jobs to help pay tuition or living expenses.

LOANS
These provide money for school that your kid and possibly you have to pay back. There are two kinds...

FEDERAL LOANS
Backed by the U.S. government, these tend to have the lowest interest rates available and offer flexible repayment options. The FAFSA is required to access them. Here are the two most common types...

PARENT PLUS LOANS
These higher-interest loans for parents have less flexible repayment options. They're used to fill gaps when a student's financial aid and savings don't cover costs. Borrowing limit is the cost of attendance minus the student's financial aid. Like private loans, these should be a last resort.

DIRECT LOANS
AKA Staffords. These have the lowest fixed interest rate, although there's a cumulative borrowing limit. Repayment of Direct Loans starts six months after graduation, and it's flexible, including the ability to tie monthly payments to your income level. There are two kinds...

UNSUBSIDIZED
Your kid will be responsible for interest that accrues during school. These don't require you to demonstrate financial need.

SUBSIDIZED
The government pays the interest while your kid is in school. Demonstrated financial need required.

INSIDE TIP! *Max out all gift aid and federal loans before considering alternatives such as high-rate private loans.*

PRIVATE STUDENT LOANS
These tend to have the highest interest rates and the least flexible repayment options, and should be considered only as a last resort.