



The **Top 5 Tools** That Can Help You Pay for College



The cost charged by colleges and universities [has risen dramatically](#) over the past 20 years. Today, an undergraduate degree from an in-state, public college costs more than \$100,000. Rising costs charged by schools have caused millions of Americans seeking higher education to question how they will pay for their degree.

Students often leverage multiple sources to fund the total cost of college tuition and related expenses. Unfortunately, many are unaware of key funding opportunities available that could help reduce the amount they would need to borrow to pay for college – or think they won't qualify.

Therefore, it's vitally important to [fill out the FAFSA for each year](#) of college to access available federal, state and institutional funding sources. Many funding opportunities are offered first come, first served – so fill out the FAFSA as close to the October 1st start date as possible each year. Students often miss out on valuable financial aid by mistakenly assuming they won't qualify. Don't miss out – fill out the FAFSA for each year of school to reduce the amount you will need to borrow to pay for your degree.

Here are the top 5 sources students use to fund their college education:

1

SAVINGS

Most parents understand the value of a college education in today's economy and begin doing their best to put money aside for college as early as possible. Many take advantage of helpful 529 plans that, when started early, can allow parents to take advantage of tax-free growth through compound earnings over time. According to Sallie Mae's 2021 *How America Pays for College* study, the typical family covers approximately 45% of college costs through savings.

2

INSTITUTIONAL AID

Colleges and universities offer institutional aid to help pay for college. This comes in the form of grants, scholarships and work-study programs offered directly by the college.

Students can access and apply for available institutional financial aid by filling out the FAFSA. Some colleges also require a form called the [CSS Profile](#), which delves deeper into your family's financial situation and can unlock financial aid from your particular school. You may also want to talk with a financial aid officer at your chosen school to understand all of the aid opportunities offered by the institution.

Institutional aid is very valuable; it does not need to be repaid. Needs-based or merit-based (academic or athletic) awards come from the college itself, from a related organization or alumni groups offering scholarships to incoming students. Some schools even provide full-ride scholarships to select groups of qualifying students. A small group of schools promise to give you a package that covers most costs without any loans. Always fill out the FAFSA so you're considered for these funding sources.

3

FEDERAL PELL GRANTS

Each year, students who don't complete the FAFSA leave behind billions of dollars in unclaimed [federal Pell Grant](#) money. Pell Grants provide needs-based federal financial aid for students from low-income families. Grants do not need to be repaid and do not carry any interest. Your eligibility and the amount you receive is based on your financial need, as determined by the information provided in your FAFSA application. The 2021-22 Pell Grant maximum is \$6,495 – an increase of \$150 over the 2020-21 academic year. All eligible students receive at least 10% of the maximum award amount for the year, depending on financial need.

In addition to the Pell program, the federal government offers other grants which do not need to be repaid. Many states have grant programs, too. Fill out the FAFSA for each year of school to access all the aid you're eligible to receive before you take out student loans.

4

FEDERAL STUDENT LOANS

The [U.S. Department of Education](#) is the largest consumer lender in the country providing federal loans to undergraduate students to help pay for college. Student loans are a commitment and a legal obligation. The interest rates, terms and conditions on federal student loans are set by Congress and differ among the types of available loans.

There are 3 types of Federal student loans available to fund an undergraduate degree:

- [Direct Subsidized Loans](#) are made to eligible undergraduate students who demonstrate financial need.
- [Direct Unsubsidized Loans](#) are made to eligible undergraduate, graduate, and professional students, but eligibility is not based on financial need.
- [Direct PLUS Loans](#) are made to parents of dependent undergraduate students to help pay for education expenses not covered by other financial aid.

To apply for federal student loans, fill out the FAFSA. Undergraduates can borrow from \$5,000 to \$12,500 per year in Direct Subsidized Loans and Direct Unsubsidized Loans, depending on the year of school and dependency status. Student and parent borrowers will sign a federal Master Promissory Note acknowledging the legal obligations and terms of loan repayment, so be sure to maximize other school funding sources to prevent over-borrowing and make a plan now for how you will repay your loans after graduation.

5

PRIVATE STUDENT LOANS

Some borrowers may seek to take out private student loans offered by a bank, credit union or state-based organization. Private loans can be a good option for borrowers for whom federal loans don't cover the full cost of school. While private student loans may allow a student to borrow more money than federal loans, they often have higher interest rates. However, students with very good credit and a cosigner might qualify for a private student loan with an interest rate lower than federal student loans.

[It's important to shop around and compare interest rates](#), terms and conditions among the private student loans you're considering. Private loans are credit-based, so the interest rates, terms and conditions will differ between institutions. In addition, lenders require the school to approve or certify your private student loan amount to help you avoid borrowing more than you need. Be sure to borrow only for the cost of tuition and related expenses so that your payments are manageable when you finish school.

Key Takeaways:

It can be challenging for students and families to make a plan for how to pay for college. Do your research, talk in detail with the financial aid counselors at your chosen school and leverage [student loan repayment calculators](#) to understand what student loan payments will look like after you graduate.

Student loans are a financial commitment – just like a mortgage or credit card. Whether you graduate or not, you will still need to pay on your student loans. Maximize all other funding sources via the FAFSA before you borrow for college. Taking the time now to understand college funding sources will help you complete your degree with the least student debt possible.

And, make sure what you are buying is worth it. Take the time to weigh whether the price of the degree and the cost of the school you'd like to attend give you a positive return on your investment since - like any major purchase - it needs to pay off for you in the end.



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