ARCO

COLLEGE FINANCIAL AID ANNUAL

1990

College Financial Aid Annual 1990

College Research Group of Concord, Massachusetts
John Schwartz, General Editor, *Newsweek*

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Now in one, comprehensive, annual volume, all the information you need to put together your optimum financial aid package. Shows you where the aid is, how to apply for it, and how to get the maximum amount from all sources.

Includes:

- ✔ **Detailed information on public aid—federal, state, and local**
- ✔ **Comprehensive guide to private sources of aid, including more than 2,000 scholarship listings and eligibility requirements**
- ✔ **Step-by-step chapter on putting together your aid package**

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Introduction

You may have heard the story of Mike Hayes, the young man from Rochelle, Illinois, who asked America to finance his college education with pennies. He wrote syndicated columnist Bob Greene with an interesting proposition: if every one of Greene's readers would send him a single penny, it would cover his estimated $28,000 four-year college expenses. Greene decided to go along with the idea to see how far Hayes would get. Greene recognized two problems: that people would be spending 22 cents on a stamp to send a kid a penny, and that relatively few people would go to the trouble to send the penny at all. To overcome the second problem, Greene ended his September 6, 1987, column with these words:

"Do it. Right now. Put the paper down. Go put the penny in the envelope.

"I mean it. Now.

"QUIT READING! Go put the penny in the envelope."

It worked. In an October 4, 1987 column, Greene reported that more than 70,000 pieces of mail reached the post office box dedicated to "Many Pennies for Mike." The average correspondent sent 34 cents, though three people sent checks for $100. Hayes has gotten far more than his $28,000.

We checked up on Mike this year while we were putting the new edition of this book together. He is still in school, studying to be a food scientist. "I'm not sure what I'm going to do with it yet," Mike says. "Probably some lab research." Since arriving at school, he has also qualified for a veterans scholarship because of his father's military service. And while an irreverent roommate accuses Mike of squandering his pennies on "beer and chicks and stuff," Hayes says he has spent the money on school and living expenses, not high life. He is still grateful to his donors. "I probably wouldn't be in college" without the outside funds, he says.

Something to remember: Mike Hayes is a self-professed "middle-class white kid," not poor. Hayes' father is a pharmacist. But the "Many Pennies for Mike" campaign illustrates a basic reason for this book: *Financial aid is not just for the needy. Considering the high cost of college today, everyone is needy.* Even scarier, Hayes is attending a *public* school—the University of Illinois at Urbana-Champaign. Just imagine how many pennies he would need if he were attending a pricier private school where, according to the College Board, the annual average cost tops $10,000. At several colleges, the cost of tuition, room and board is nearing $20,000: Sarah Lawrence is charging $19,960 for the fall 1989 school year, and Bennington College wants $19,975. There might not be enough pennies in circulation to cover bills like that.

No wonder more students than ever are looking for help in paying for college—and better-heeled students, besides. According to the Consortium on Financing Higher Education, a Cambridge, Massachusetts-based group made up of 32 top private schools, a whopping 21 percent of recipients of financial aid in 1988 came from families with income of $60,000 or more. Just four years ago, only eight percent of recipients were in that bracket.

The good news is that you don't have to write Bob Greene to pay for college. (The bad news is that you couldn't, anyway, since novelty stories like that one rarely work twice.) Higher education can be paid for without making a national spectacle of yourself and without engaging in financial wheeler-dealings that would make a Wall Street arbitrageur blush. It's not getting any easier, but it can be done.

And that's what this book is for—to help you get the money you need to pay for college. The aid maze is so complex that most of us could use a friendly guide. Yet so many of the guides to getting financial aid are not what computer types call "user-friendly." In fact, some seem almost user-hostile. Most could put Sominex out of business. They are dull, wordy, and overly complex. This book is intended to be different—lively, easy to read and to the point. The book describes the many avenues to financial aid. It shows how you can plan to pay for your college education. And it even takes you by the hand in filling out cumbersome financial aid applications.

We have tried to make this the most useful, readable guide to financial aid on the market today. But it is not a guide for everyone: in the first place, we have chosen principally to provide information pertaining to undergraduates looking for financial aid. We hope to include information for graduate students in future editions of the guide.

We've done some selecting for you already. Several scholarship guides we have come across fatten their pages with thousands of scholarships that are next to useless. They may apply to too few people, offering money to, say, blue-eyed virgins from Lourdès, Tennessee. If you qualify, you probably already know about that scholarship. And if you aren't a blue-eyed virgin from Lourdes, Tennessee, you can't get the money. So why include it? Other scholarships are a little, well, chintzy—some don't even cover the cost of textbooks. We decided to provide you with a realistic list. Scholarship sources in this book provide an average award of $1,000 annually.

Something else distinguishes this guide from others on the market: it is updated annually. Financial aid programs aren't etched in stone; they change from year to year depending on factors ranging from the whims of Congress to losses incurred bythe stock portfolios of the foundations behind their grants. Often factors affect higher education funding from directions no one could ever predict. Take for example the effects of fuel prices on the University of Texas. During the mid-1980s, the Organization of Oil Producing and Exporting Countries loses its self-discipline and floods world markets with oil, dropping fuel prices and setting off a disastrous recession in oil-producing American states like Texas. The Texas recession spins out of control, dragging down with it the banking, real estate, and agriculture sectors of the economy. The Texas legislature, scrambling to make up for the lost tax revenues, raises college tuition across the board—without commensurately raising financial aid. Thus what was widely considered one of the best bargains in American higher education became a mere good deal. Using an up-to-date guide gives you the edge in calculating tuition dollars, shopping for aid money, and anticipating unpleasant surprises.

Before you go any further—Do you *really* want to go to college? Ask yourself that question. If you have bought this book, you probably have already decided that college is the way to go. But what if you're not planning to follow the standard business route? Maybe deep in your heart of hearts you know you're a plumber. You have loved pipes and joints since infancy. You have a plumber's soul. Though a degree in mechanical engineering might enhance your appreciation of the plumbing aesthetic, you don't need it to get started. Considering that a Manhattan plumber makes $40 an hour, college begins to look like a lot of time and money down the drain.

If you do decide to skip college, you'll be in good company. Among the noncollegiate, you will find such well-known authors as Ernest Hemingway and Rudyard Kipling, as well as Abraham Lincoln and Wee Kim Wee, president of Singapore. Other famous people left college before graduating, like Walter Cronkite and Apple Computer cofounder Steven Jobs.

In all fairness to the colleges, it should be noted that many of the noncollege success stories decided not to go onto higher education at a time (or in a culture) in which a degree was less than essential. Uncle Sam democratized college after World War II by paying for the educations of millions of returning servicemen. That college-educated generation expected its kids to go to college, too. More and more Americans are going to college: according to the Bureau of Labor Statistics, nearly half of workers aged 25 to 64 in the U.S. have had some college experience, and 26 percent of workers in that group have had at least four years of college. So it's harder than before to buck the trend.

Besides—while there are a lot of college-educated taxicab drivers, there's also plenty of evidence that going to college pays. Studies regularly show that college graduates earn more than those who do not attend. Higher education simply gives you a leg up in the job market. The Bureau of Labor Statistics reports that nearly 90 percent of people with four or more years of college are in the labor force—that means that they are either working or looking for work. People with a high school degree alone don't fare so well: only 77 percent of that group is in the labor force. A January 1988 report entitled *The Forgotten Half: Non-College Youth in America* says "The plight of the young person without advanced education, never easy, has become alarming in recent years." The report went on to say, "In a fast-changing economy that demands increasingly specialized skill, these young people are in danger of being left at the starting gate." The business world pays attention to credentials (maybe *too* much attention, but that's a subject for a different book), and a college degree is one of the basics. And the professions are getting *more* specialized, not less.

Ultimately, the value of a college education has to be measured in terms that go beyond the balance sheet. Something about dollar signs and decimal points flattens the wonder inherent in the college experience. Treated right, higher education is a four-year excursion into the life of the mind, with opportunities for gaining knowledge and personal growth. At its best, college teaches you how to learn, so that you can tackle any task set before you. With the right courses, you can heighten your appreciation of literature and the arts, making the acquisition of knowlege a lifelong pleasure. Yes, it's important to find the money to pay for school. But once the financial side is taken care of, enjoy the unfettered opportunity to broaden your horizons and expand your powers of thought.

Anyone Can Pay for College

1. The Short Course: What This Section Will Tell You

In effect, this chapter serves as a short version of the book, with basic information about financial aid for people in a hurry. You'll find capsule descriptions of the basic kinds of financial aid, some tips here and a few warnings to make sure you don't lose out. This chapter also includes a long-term and short-term view of trends in paying for college that could help you plan for the near and distant future.

2. There are Right and Wrong Ways to Pay for College

In *Citizen Kane*, Charles Foster Kane tells an associate, "It ought to be easy to make money—if that's all you want to do." When he made that statement, Kane—like the man he was modeled on, publishing magnate William Randolph Hearst—was a millionaire many times over. You, the reader, are probably not a millionaire many times over. Even if Kane was right, college is not the time to make moneymaking your sole goal. When you're going to college, the last thing you want to do is to spend so much time trying to pay the bills that you can't enjoy the experience—or worse, can't keep up with your studies.

There are plenty of bad ways to pay your way through college. The most common is simple overwork: taking on two or more jobs to make ends meet. One friend was working his way through law school with no less than three part-time jobs. He ended up spending a semester recuperating from hepatitis, and almost had to put off graduating. (Today he's a successful attorney—still overworked, but getting paid handsomely for it.) Other diseases commonly spring from exhaustion, such as mononucleosis. Why ruin four great years of your life by keeping your nose so close to the grindstone that you can't even enjoy your studies, much less develop a social life? If you decide to work through your college days, choose your employment wisely. Later in this book, we give you some tips on creating your own small business in order to earn money, and direct you to guides that show schemes that have worked for students in the past.

Another way to pay college expenses that gets students into trouble is taking on an oversized debt burden. Education funding experts have warned that taking on too heavy a burden of debts may cause students to look toward safer, higher-paying careers than they might otherwise be attracted to. The same experts also fear that the prospect of being in debt might be enough to scare many lower-income students away from college.While student loans are an increasingly important part of financial aid packages, most schools still have some discretion as to how much of your aid package should be made up of loans and how much should be made up of outside grants. It is sometimes possible to get a college financial aid officer to alter the makeup of a financial aid package. But more on that later.)

Some ideas aren't just bad: they're illegal. Shady-moneymaking schemes attract a number of students for the same reason that they attract criminals: quick money, and lots of it. However, the risk often outweighs the reward, and few students show the street smarts to escape the long arm of the law. Take, for example, the two students at Brown University who were arrested for offering their services as prostitutes a couple of years ago. Their initiative resulted in a particularly humiliating outcome for a moneymaking plan. Or recall John Zaccaro, Jr., son of former vice presidential candidate Geraldine Ferraro, who two years ago was found guilty of selling cocaine to undercover police while he attended Middlebury College in Vermont. Zaccaro's campus nickname was "the Pharmacist." It's hard to build a resume atop an expulsion record or a criminal rap.

The purpose of this book is to help you spend your time wisely and to get the maximum amount of financial aid funds from the most lucrative sources. That way, you'll be less likely to run yourself into the ground trying to make up for aid money you might otherwise have gotten.

3. Figuring Out What College Will Really Cost

The student is more than just a seeker of knowledge—he is also a consumer in the academic marketplace. And all good shoppers know the value of comparison shopping. Comparing colleges, while a complex task, pays off. The main areas of comparison are these: tuition and fees, books and supplies, room and board, transportation and personal expenses. Most colleges publish a "consumer brochure"—a handy resource that sets out expenses. That brochure is a helpful starting point for any student or family.

Tuition and fees vary widely, but the most basic dividing line between institutions is public versus private. Private schools simply tend to be pricier. However, public schools are far from cheap—and out-of-state tuition at many of the most respected public universities rivals that of many private schools.

Books and supplies don't vary as much from school to school as do tuition and fees, but they can add hundreds of dollars each semester to the bill and must be counted in. These costs vary depending on the field of study, so it is important to find out typical figures from the academic department or from students within the major.

Room and board can be measured simply if the student is living in a dormitory: it's part of the total bill. But don't think living at home will simply clear that cost from the college budget. For one thing, you won't save as much money as you think on wholesome, home-cooked meals. Irregular class hours will force the student to buy at least one meal a day on or near campus. And if the student is going to live off campus, living expenses could run even higher, with variations from school to school. The differences between paying for an apartment in Athens, Georgia, and Cambridge, Massachusetts, are enough to skew comparisons of schools that might otherwise appear to be similarly priced.

Personal and travel expenses may add up to more than parents expect. Again, geographic variation wreaks havoc on expense estimates. And while students have historically lived on the cheap, the Benetton generation is more prone to fancy accessories than its grubbier parents, for whom a year-old pair of (non-designer) blue jeans could be considered formal wear. Travel expenses might include air fare for out-of-state students or simply gas and car repair for commuters. In any case, this easily overlooked category can add thousands to the college bundle of costs. Finally, don't forget to add in known medical costs, such as treatment and pharmaceuticals for an existing medical condition.

When you start to see the real cost of college, you might give serious consideration to getting a degree from one of those institutions that advertises on matchbook covers, or to exploring a career in auto repair. DON'T PANIC! Expensive institutions know that they cost more than most people can pay, and they often have the resources to help you.

Once you know what different schools might cost, it's time to work out what you and your family can afford to pay. Taking the difference between what the college costs and what you can afford to pay gives you the amount of your need. This deceptively simple term, "need," doesn't necessarily mean what you think it ought to mean, or what you would like for it to mean. It's a specific, technical term for the amount you cannot pay on your own, and is the amount left after your expected Family Contribution (FC) is subtracted from your cost of education. Your family's contribution to college costs will be determined through a formula developed by the College Scholarship Service (CSS), an arm of the College Board, based on information you provide by filling out the Financial Aid Form (FAF). Family Contribution is the product of a formula, too: it is derived from the family's income after basic expenses are extracted, along with a portion of the family's assets outside of those needed for retirement or business.

4. Financial Aid: What It Is

Financial assistance comes in three basic flavors: grants, loans, and work-study. Grants do not need to be repaid, while loans must be repaid some day. Work-study lets students work in order to gain the money to pay for school. You and the financial aid administrator at the college of your choice will negotiate a financial assistance package that will probably contain some combination of these three varieties of aid.

Your aid will come from a number of sources, from the most massive federal programs down to institutional funds unique to your school. Aid might come from the state, private foundations, the school, or even your employer. If the aid comes from a federal government program or a state agency, it is known as public aid; sources such as employers, donors, or foundations are known as private aid.

Federal Aid

Since the federal government is the largest source of student aid, it pays to know something about the major federal programs. The federal government, through the Department of Education, offers the best-known college financial aid programs. These are:

Pell Grants

■ Pell grants went to about three million students in the 1989–90 school year. This program was once known as the Basic Educational Opportunity Grant program, and you might see it referred to as such in older materials. These grants are distributed based on family need and education costs at your school. The maximum available in the 1988-89 school year was $2,200 per year, though the maximum amount changes from year to year depending on how Congress funds the program. Eligibility is determined by a standard formula which was passed into law by Congress; this formula places you along a Student Aid Index which is used by the schools to determine how much money you will receive. The amount of the grant you may receive is not standardized. Different schools, with their varying tuitions, disburse different amounts. Pell Grant eligibility is generally limited to five full years of undergraduate study, unless your program requires more than four years for a bachelor's degree. While Pell Grants once went only to students who attend school at least half-time (another term with a strict definition—see the glossary for more details), beginning in the 1989-90 school year grants were made available for the first time to extremely needy students who attend school less than half time. By the way—even if you think you will not qualify for a Pell Grant, you need to apply. Many schools won't consider you for aid until they see your Pell results.

Other Aid

■ Supplemental Educational Opportunity Grants (SEOG): These are grants, as the name indicates, and need not be repaid. As the word "Supplemental" indicates, SEOG's are often used to supplement grants already in place, such as those to Pell Grant recipients. It comes to as much as $4,000 each year depending on need, the availability of SEOG funds at the school, and the size of your own aid package. Unlike Pell Grants, which the government promises to pay to all eligible students, SEOG funds come to schools in a set amount. Once that fund dries up, there's no more until next year.

■ College Work-Study (CWS): This is basically a part-time job, funded by the federal government and administered by your school. Most undergraduates are paid by the hour, and often at the minimum wage. The jobs are awarded on the basis of need, the size of CWS funds at your school, and the size of your aid package.

■ Perkins Loans (formerly National Direct Student Loans): These are loans made by the school with federal money, and have to be repaid. These loans offer low interest—five percent—and can total as much as $9,000 for four years of college. Repayment usually begins nine months after you leave school, and you have up to ten years to repay the loan. Interestingly, payment on your loan can be temporarily deferred if you enter such programs as Head Start, VISTA, or the Peace Corps; the armed services will also repay part of Perkins Loans. The federal government has targeted schools with high default rates on Perkins Loans and is giving less money to schools with a high proportion of deadbeats. So when comparing schools, it's worth asking at the financial aid office about the default rate—it could determine whether or not you will get any of that wonderfully cheap five-percent-interest money.

■ Stafford Student Loans (SSL): These used to be called Guaranteed Student Loans. Like all loans, they must be repaid. They are generally reserved for low-income students who pass a needs test. These loans are made through a lender such as a bank, credit union, or savings and loan—and they can charge you an insurance fee that varies from lender to lender, so it's worth shopping around. The "guarantee" in the program's former title comes from the fact that a guarantee agency in your state insures the loans, which are reinsured by the federal government. Like the Pell, the Stafford is an "entitlement" program: if you qualify, you get the money. Freshmen in 1990 will pay eight percent for the first four years of repayment and 10 percent after that. In your first two years of school you can borrow up to $2,625 each year; upperclass students can borrow $4,000 annually, up to a total of $17,250 for undergraduates and $54,750 for graduate or professional study (minus the amount borrowed as an undergraduate). These figures include a five percent loan origination fee that goes back to Uncle Sam to help defray the costs of running the program, so you don't get quite as much money as it seems. Repayment begins six months after graduation or leaving school, and must amount to monthly payments of at least $50.

Like SSL's, PLUS Loans and Supplemental Loans for Students (SLS) provide additional funds for educational expenses after high school—but you can get PLUS and SLS loans without requiring a needs test. You do, however, have to have already applied for a Pell Grant and a Stafford Student Loan before you can apply for PLUS or SLS. PLUS loans go to parents, while SLS loans go to students. Interest rates for SLS and PLUS loans are set anew each June; during the 1989-90 school year the rate is 12 percent. Parents can borrow $4,000 a year or the cost of attendance, whichever is less, up to a total of $20,000 in PLUS loans for each dependent child enrolled at least half time. Independent undergraduates are allowed to borrow the same amount on top of GSL limits. These debt maximums don't include Stafford Student Loans. Debtors usually must begin repaying interest on these loans within sixty days after first getting the money, though other arrangements can be negotiated.

The best sources of information on local standards set for Guaranteed Student Loans, PLUS Loans, SLS Loans, and other forms of state student aid are your state educational agencies. A list is provided in the fuller description on state aid in the chapter, "The World of Available Aid–Public Channels."

Three of the federal program are "campus-based": SEOG, CWS, and Perkins Loans. "Campus-based" simply means that the programs are administered by financial aid officers at each school. Campus-based programs are also available to students who attend school less than half time. As we mentioned above, these are not entitlement programs like the Pell Grant or the Stafford Loans. The government gives each school a set amount of cash; when it's gone, it is really gone—no more campus-based aid can be had until the next year's allotment comes through. The schools set their own deadlines for these programs, so ask at your school's financial aid office and apply as early as possible to catch some of the money before it runs out.

The federal government has several other ways of helping students get through school. The government provides a tuition-free education for thousands of students. The only catch is that the schools are owned by Uncle Sam: They are the military academies. If you don't mind the haircut and want to serve your country through the military, the service academies are an excellent way to do so while getting your degree. If you don't get into these highly competitive academies, the service branches maintain ROTC units on many campuses. The ROTC is another rich lode of scholarships. The ROTC also has a number of scholarships geared toward helping minority students, and to boost the number of students entering important-but-strained career fields such as the health professions. There's more on those programs in the chapter, "The World of Available Aid—Public Channels."

State Aid

The overwhelming majority of state aid to undergraduates is need-based—78 percent. It's part of a continuing trend among the states to increase their support for higher education. However, each state is different, and some states spend far more than others. Over 86 percent of all state grant aid tends to be awarded by the seventeen states with the largest dollar volumes; six states spent less than $1 million each year, according to a 1985-86 survey. Also, states go through cycles of generosity and stinginess that are virtually impossible to predict. But look for programs that state legislatures have instituted in order to attract more students to certain career fields, such as teaching, and so-called "non-need-based" programs (usually academic scholarships), which are booming.

College Funds

This money includes everything from athletic to academic, or merit, scholarships. The last few years have also been building years for college and university endowments, with hundreds of millions of dollars flowing into schools as diverse as Harvard University and Arizona State. Some, but certainly not all, of this endowment money has gone into scholarship funds. Other college funds might find their way to students in the form of tuition discounts for prepayment, aid in receiving loans, and other innovative programs. Most schools also keep funds on hand for short-term emergency loans for students.

Employers

Many employers help put students through college through the burgeoning field of cooperative education, in which students alternate semesters of school with semesters of work. Not only does this provide professional skills and a leg up in the employment game, it also puts money in the student's pocket. It is best developed at technical and engineering schools like Georgia Tech, which places hundreds of students into positions in a five-year degree program, but all kinds of institutions offer cooperative education programs—almost 1,000 schools boast such programs. See page 59 for listings of these schools.

Many employers also pay their employees to go to school. Millions of employees have the right to go back to school on their company tab, though relatively few choose to take the time. Other programs pay for the dependents of employees to attend school.

Private Scholarships

This is a relatively small part of the financial aid picture, and many carry daunting eligibility requirements—the old "red-haired Methodist from Georgia" problem. There's a lot more money to be drawn from federal and state programs, but hundreds of millions of dollars are nonetheless available in private scholarships—not an amount to turn your nose up at. Just remember to go after the big money first and early, and then look around for whatever private scholarships you might be able to pick up.

5. The Long-Term Trends in Paying for College

The long-term trends in paying for college have repercussions for every student and every family. Three main trends have shown up lately: Families are paying a larger share of college costs these days and will continue to do so; financial aid funding is shifting away from grants and toward loans; and the number of college-age students is decreasing. Let's look at each individually.

Students and parents are indeed paying an increasing share of college costs, because federal aid to education hasn't kept up with student need. During the Reagan years, the emphasis in federal aid shifted to the needs of the poorer students as funds dwindled. Between 1980 and 1988, the number of students overall who received federal aid plummeted, and Pell Grants went from being a program for middle- and low-income students to being almost exclusively a low-income program. In 1980, 31.5 percent of all freshmen received Pell Grants; in 1988 the percentage had dropped to just 15.6 percent—the lowest level in the history of the program, according to the Cooperative Institutional Research

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Program. Other federal aid programs showed similar declines. The percentage of freshmen receiving Supplemental Educational Opportunity Grants dropped from eight percent in 1980 to less than four percent in 1988. And fewer students than ever are entering the federally funded College Work-Study program, which, during the same time dropped to less than seven percent from 14.5 percent.

The dropoff in federal assistance has sent students to other sources to make up their college funds. "These trends suggest that the burden of paying for college is increasingly falling on students, their families, and the nation's colleges," said Alexander W. Astin, professor of higher education at UCLA's Graduate School, who directs the annual survey of freshmen that provides the information cited above for the American Council on Education. Family contribution, savings, loans, and institutional grants are on the rise. A 1985 study by the National Institute of Independent Colleges and Universities points out that between 1979–80 and 1983–84, the average family contribution toward paying the price of attending an independent college or university grew from $3,313 to $5,705 for recipients of federal aid—a jump from 53 to 62 percent. The rate of increase was largest for low-income families, soaring 97 percent from $329 to $648 for families with annual incomes of less than $20,000. Nearly 80 percent of freshmen depended on their families for meeting college costs in 1988—a record high, up from about 70 percent in 1980. The percentage of freshmen relying on college grants and scholarships jumped from about 13 percent in 1980 to 20 percent in 1988.

At the same time that families have been required to shoulder more of the burden of college costs, the nature of the remaining aid has changed radically. The past few years have seen a marked shift in aid away from grants, which do not need to be repaid, and toward loans, which must be repaid eventually. Today loans make up about half of the aid that goes to college students, which means that recent graduates go into the world with a debt burden that is nothing short of massive—especially for graduates of professional and medical schools.

One trend that shows an eventual silver lining is the sweep of demographics. The post-World War II baby boom is coming to an end. Demographic predictions indicated higher education enrollments would have already started to drop off in the 1980s as the baby boomers waned. The dropoff has not happened yet—largely because of a 15 percent growth in the enrollment of 22- to 34-year-olds between 1980 and 1988. Still, the 18-year-old population will continue to ebb into the 1990s, until a baby "boomlet" that is expected to push enrollments back to mid-70s levels by the year 2000. All this means a coming drop in the pool of college-age students. While the best-known and most prestigious public and private schools will continue to attract a steady stream of applicants, the nation's smaller private schools will suffer. In the last decade nearly 150 small liberal arts colleges shut down, as more students in a shrinking overall pool of college-age students opted for less expensive public education.

The reason that this news is good news for students is that it means many colleges are working harder to attract students. As a corollary to that trend of a diminishing pool of college-aged students, we can expect to see continued strong demand for students with high scholastic achievement. Such scholarships are not based on need, and will remain popular since bringing these students into a school helps the reputation and academic climate of a campus—and because such programs are the easiest student aid to sell to alumni and other sources of contributions.

One final note on demographics: While minority enrollment has been growing over the past few years, it has not kept pace with the minority groups' greater representation within the larger population. At the same time, the portion of the school-age population that is made up of minority students is growing; minority students could make up almost a third of Americans between the ages of 18 and 24. The effects of such changes can only be guessed at so far, but there is a distinct possibility of a greater percentage of aid money being committed to providing educational opportunities for black and Hispanic students in coming years.

The Annual Report

■ **Monies for financial aid: What was up, what was down:** The grant picture has been mixed. Between 1987 and 1988 Pell Grants rose from $3.9 billion to $4.3 billion. The maximum Pell Grant rose in 1988 by $100, reaching $2,200. But since Congress appropriated less than the administration requested for the grants, more students will be worried about getting money at all than getting the extra hundred bucks. Supplemental Educational Opportunity Grants and the College Work-Study program each lost about $4 million during that period: SEOG fell from $412,500,000 to $408,415,000, while College Work-Study dropped from $592,500,000 to $588,249,000. State Student Incentive Grants, which are matched by states, lost more than $3 million from their 1987 level of $76,000,000. Federal loan programs also dropped slightly. The Perkins Loans are down $2.3 million, from $188,000,000 in 1987 to $185,736,000 this year. Guaranteed Student Loans lost $152 million, from its $2.7 billion figure in 1987.

As of this writing, 1989 has seen no major lowering of income or raising of requirements in order to qualify for aid. But since the amount of federal money allocated to higher education has not kept up with the overall rate of inflation, and since college tuition has risen at about twice the rate of overall inflation, it means that college will be harder than ever to pay for. No surprise there.

State aid has been trying to catch up with college costs and to make up for losses from federal shortfalls. In 1988-89, states probably will award nearly $2 billion in grant aid to more than 1.7 million students. Nearly 80 percent of that amount will come from need-based programs. There has been a strong rise in the money allotted to non-need-based programs, such as merit scholarships—that segment of the financial aid field has jumped 63 percent since 1983-84. However, the nearly $60 million spent on that kind of scholarship still pales in comparison to the sums that go to need-based aid.

■ **Tough talk from the feds:** The default rate on student loans is nothing short of astonishing. In the ten years between 1978 and 1988, the cumulative cost of defaults in the federal guaranteed student loan program has shot up from $977 million to $5.3 billion. The estimated $1.8 billion the government is spending in 1989 to pay off these defaults is now one of the biggest budget items for the Department of Education—almost as big as funding new student loans.

The financially squeezed federal government has taken several approaches to reducing the default problem. Along with getting tougher on students, the feds are planning to penalize schools that educate deadbeats, hoping that the school will bring additional pressure to bear on the students to pay up. This move is aimed at those schools with high default rates—especially for-profit trade schools, where the default rate runs an average of 40 percent. (The default rate at four-year schools is nine percent—still high, but not stratospheric.) So by 1991, schools with high default rates will have to cut their deadbeat rate or be barred from federal loan programs.

■ **New laws, new obligations:** Only recently have schools begun to catch up with the changes mandated in the Higher Education Act of 1986, an update of the Higher Education Act of 1965. Predictably, the new law says parents will have to pay more for their children's education. The law changes the way the government looks at a family's financial need. The most important change: 70 percent of the students after-tax earnings are now thrown into the family income figure. Before this change, a freshman was expected to contribute $700 to the family effort. Ironically, the new rule means that the harder a student works, the more his family will have to pay for his education. Some families are actually encouraging their college-age children to work less, while other students are asking for payments in cash to avoid reporting requirements. So with one change in the education laws, the federal government is encouraging sloth and fraud.

There is another change in the way schools view the student contribution to family need. In the past, students estimated what their earnings would be for the year, and that estimate was used to determine what the family would have to pay. Now the school looks at the student's income from the year before. That isn't just an accounting trick: the change puts a new burden on students returning to school after working full-time, or who had good jobs in high school. Those students will be expected to put up the same kind of money that they had when they were working. If you fall into this category, be prepared to argue this point with your financial aid adviser, who might be able to find leeway for you elsewhere in the funding scheme.

Yet another change in the formula might come as good news for young marrieds. If one of you is working and the other is going to college, the new method of determining need will take your struggle into account. In the past, the government penalized people for being married by expecting couples to put most of their money into college financing.

There will always be conflicts between how much money students and colleges say they need from the government and how much money the government is willing to give. College-bashing has become a favorite pastime in politics and in the press. Despite campaign promises that George Bush would be "the education President," so far he seems more than willing to follow the example of the Reagan administration, which tightened the purse strings for virtually all nonmilitary expenditures. It remains to be seen whether President Bush's appointees will show the overt hostility toward higher education that his predecessor's appointees showed. Here's an example: explaining that federal funds can't keep up with rising college costs, Reagan's Deputy Under Secretary of Education for planning, budget, and evaluation, Bruce Carnes, told the *New York Times* "Colleges always want more. . . Colleges are filthy stinking rich and they are rolling in dough and they are going to be getting buckets of the stuff."

Of course, even if President Bush wants to do everything in his power to help students pay for college, he would run into trouble pretty quickly. His hands are tied by the "Reagan Revolution." By cutting taxes and increasing spending, President Reagan pushed the U.S. budget deficit to historic levels. Because the financial markets of the world are watching factors like the enormous U.S. budget deficit to judge the financial health of the country and its assets, Bush can't spend too much money on anything. Likewise the Democrats, who still control the Congress, will step most gingerly into any attempt to give more money to college students.

There could be a good side to the bad blood: All of the anger puts pressure on colleges to keep costs down and to come up with innovative ways for their students to be able to pay for school.

In other proposed legislation, students might be asked to give more than money alone to get an education. Bills have been introduced into Congress to make national service—where young people put in time in the military or in community work—a prerequisite to getting federal aid. A bill introduced by Senator Sam Nunn (D-Ga.) and Representative Dave McCurdy (D-Okla.) has been criticized for putting yet another obstacle in the path of students who want an education but can't afford it; the bill's sponsors deny the charge. Even if the bill does not pass in its present form, other similar youth service bills are gaining popularity with Congress. And since the higher education laws that govern student aid come up for review again in 1991, you can expect to see a strong attempt to include some form of a student service program.

■ **Colleges feel the heat:** Schools hardly need to be reminded that they need to cut costs. While tuition continues to rise at an annual rate of seven percent—far higher than the inflation rate for the rest of the economy—schools are feeling the financial squeeze more than ever. Expensive research programs and physical costs are making schools reconsider their funding priorities. According to an article in the May 10, 1989, *New York Times*, The Johns Hopkins University has kicked off a five-year plan to cut costs—a plan that includes eliminating programs in its prestigious arts and sciences school. Washington University has shut down its dentistry school, and has announced plans gradually to close its department of sociology. And Columbia University says that it will phase out its geography and linguistics departments, transferring some courses to other departments and dropping others entirely.

These aren't podunk schools—these are high-powered, wealthy institutions. Johns Hopkins' latest fundraising drive brought in $500 million. So you can imagine what this means for smaller schools without the prestige and fancy endowments. And you can bet that the impact on financial aid, already severe, will only get worse. With school costs increasing and with government funds decreasing, colleges are looking for every way to make students pay more of their share of education.

■ **Students are standing up for their rights:** Across the nation students are protesting against tuition hikes—and sometimes winning. In a blend of 1960s activism and 1980s dollar-watching, students held demonstrations and sit-ins at virtually every college in the City University of New York system in May of 1989 over a new law allowing a $200-per-year increase—the first since 1983. New York Governor Mario Cuomo subsequently vetoed the tuition increase, instructing the universities to look toward administrative savings instead of the students' pockets. Other student movements in other states have stopped or lessened tuition increases, especially those that must be voted in by state legislators. In other words, you are not powerless.

Other Trends to Watch

Colleges have been trying to fight their big-spender images with a variety of programs. Many of them can help students shave thousands of dollars from their higher education costs, while others have an almost hucksterish quality and seem more calculated to generate headlines and attract students than to help a large number of students pay for college. So when you hear about a program, ask yourself who will benefit from the program and how much it will do for them. Is it a continuing program, or a one-shot promotion? We'll look at a few examples here, saving a fuller discussion of alternative financing methods for the chapter, "Getting the Most College for the Money."

Case Study 1: Washington University

The prestigious St. Louis school introduced America's first two-tier tuition increase for fall 1989: incoming freshmen will pay 20 percent more than last year, while returning students will pay just 10 percent more.

Case Study 2: Bard College

Many offerings combine the quest for excellent students with a hint of gimmickry. In 1986 Bard offered a fascinating deal to the top ten graduates in the senior class of any high school in the U.S.: instead of the usual tuition, which at that time ran $14,550, those stellar students would only be required to pay whatever it cost to attend a public university in the applicant's home state.

Case Study 3: Stevens Institute of Technology

This respected technical school is simply trying to keep its students from being hit by inflation shock by promising to freeze tuition at freshman levels. A recent study by the National Association of College and University Business Officers counts fifty-four schools that feature prepayment plans that freeze tuition for students who can prepay all four years of tuition at once. Some even help procure loans so that families can afford the prepayment. But Stevens has gone a step farther with this program, which it pioneered in spring of 1987.

A word of warning about the innovative college prepayment programs: When they first appeared in 1985, many of them sounded too good to be true. For just a few thousand dollars several years in advance, schools like Duquesne University offered to fully guarantee college tuition. The schools would take the economic risk of investing the money. The programs looked so good that nine states and a crowd of schools also got into the act and have investigated opening such programs. (Michigan, Florida, and Wyoming have programs in place already.) Alas, in the case of Duquesne at least, the program has turned out to be too good to be true. Pioneer Duquesne announced in March that it would suspend its tuition prepayment plan to revamp it. The school was earning less money than it had anticipated on the bonds that it was buying with the prepayment money, and it needed to raise tuition at a faster rate than anticipated when the program was planned.

Endnotes: Tips on Filling Out the Application

Here are a few tips on filling out your financial aid application for the filer who is in a hurry. The most important point for applicants to specific scholarships is: Don't apply if you're not eligible. Some students try a scattershot approach, submitting hundreds of letters for awards they couldn't possibly receive because of everything from academic standards to geographic requirements. The glut of these semifraudulent applications has caused many foundations actually to ask that their names be removed from the scholarship rolls—thus injuring deserving students who might not otherwise find out about the programs.

The second tip—and this is a deceptively obvious point—is to fill out the entire application properly. The late great legal educator Bernard Ward used to talk about judging essays for civic competitions. To weed out the flood of entries, the first thing he recalled doing was to measure the margins on each page. If the applicant's typing slopped over the prescribed margins, Ward would blithely chuck the essay without a thought as to its content. Heed Ward's example: fill out the forms letter-perfectly. Leave no blanks: where a question doesn't apply, simply write in "n/a" and move on. Some agencies return forms that have blanks, and the paper runaround can make you miss important deadlines.

A third tip, or warning: use common sense if you pay an outsider to help you with your financial aid search. Most students still hear about financial aid opportunities through high school guidance counselors or college financial aid officers. While this is often a good route to take, sometimes such officials are overworked, or can't keep up with changes in the financial aid scene on top of their other duties. Thus families often can't get the high-quality, individual attention they desire from the usual free channels. At the same time, many families look for help simply in filling out financial aid forms and in managing the complex applications process—the same way families hire experts to help file their tax forms.

That is why many families have turned to independent financial counselors, many of whom are former guidance counselors and financial planners. They also pay $40 or more for computerized scholarship searches. But some of these firms walk a fine line between what is acceptable, what is unethical—and what is illegal.

Independent financial aid finding services might help find more money, but it might come at the expense of your conscience. While a college financial aid officer is likely to describe the world as it is, a paid financial planner is likelier to describe that world as it could be, going so far as to offer suggestions of ways for parents to hide income from disclosure requirements on financial aid forms. Advisers might recommend shifting assets into retirement accounts, annuities, or universal life insurance policies—none of which need to be listed on financial aid applications. Though not illegal, some college financial aid officers claim the practices are unethical at least, and that they take aid money away from truly needy students.

Financial aid professionals don't look kindly on the "bend the rules" financial guys. Jerry Davis, Director of Research and Policy Analysis at the Pennsylvania Higher Education Assistance Agency, recalls sitting down with a financial adviser to talk about his investments when the young whiz kid started telling Davis about how he advises parents on how to hide their assets to escape their being accounted for in a needs analysis. Some of the advice was a little, shall we say, dishonest. Davis said nothing at the time, but did sit down and write a letter the next evening to the young man telling him that if he had indeed found a loophole, he could be sure that Davis would work to close it. Davis takes such things seriously—but so should you. The penalty for lying on federal aid forms is as much as ten years in jail; you can read that part right by where you sign your name.

Some for-profit financial aid services go over the line. A while back officials at Canisius College, a small Buffalo, New York, school, noticed that 350 of the school's 3,000 financial aid requests had been put together by a local aid-search firm. (The official realized that many of the forms were filled out in the same handwriting.) Nothing wrong with that, but the school did more checking and discovered that the forms contained many interesting errors, from undervalued homes to claims of more children in college than were actually attending. According to the *Wall Street Journal*, if the misinformation had not been detected Canisius could have paid $400,000 more for aid than it should have—about five percent of its annual financial aid budget.

Beyond the familiarity with fancy footwork, many experts question whether these financial aid entrepreneurs provide much of a service. Orlow Austin, financial aid director for the University of Illinois–Champaign, performed an informal check on such services. Austin asked students who were already receiving financial aid from his office to file with financial aid finding services. He found that once the services had gotten their $40 or more from the students, they rarely uncovered more sources of financial aid than the students had already procured through the school's own financial aid office. Austin also points out that while many of these services offer a money-back guarantee, it is a rare student who actually takes the trouble to ask for a refund—largely because the aid process is so complex that students are unlikely to know when they have not been well served, and are also likely to blame themselves for not working hard enough to pursue financial aid avenues.

Finally, many of these self-proclaimed financial "experts" know a lot less than you will after having read this book. They could be stockbrokers or financial wizards who have sniffed an opportunity in education costs, but many of them haven't done the necessary homework needed to serve the individual student. And like stockbrokers, many of them are just pushing the hot instrument of the moment—a tuition aid plan that has recently burst on the scene that will earn them a healthy commission if they can force it on you. The one-size-fits-all approach wasn't appreciated in Procrustes' day, and works no better today.

If you do decide that you need to speak with a financial adviser, protect yourself. Anyone can call himself an investment adviser, so it's important to find someone with special expertise. Certified Financial Planners have at least three years of experience and have taken at least a two-year course in financial planning and a six-part certification exam. College finances make up a part of that training and testing. "That's one of the most-requested strategies—to set up a game plan for sending a kid through college," says Mark Tuttle of the Institute of Certified Financial Planners, the non-profit organization that polices the profession. To track down a CFP in your area, call the Institute at 1-800-282-PLAN (7526). They can even refer you to CFP's who specialize in college planning.

The lesson: it pays to establish a strong relationship with the financial aid officers at your school. They are most likely to know the field well and to have special knowledge about what is available at your school. And if you must go outside for help, let your conscience be your guide.

You and the Tax Laws: What the IRS Has Done to Higher Education

Recent revisions of the tax laws have put a gradual and consistent squeeze on methods parents have used in the past to meet the costs of higher education. The changes in the tax codes have hit four areas the hardest:
(1) They have made it much harder to shift income to children in lower tax brackets, but a new law encourages saving for college with U.S. Savings Bonds;
(2) They reduced their generosity by limiting the tax-free status of scholarships and grants;
(3) They have cut the interest deductions for educational loans (except in the case of home owners—see below).
(4) They have reduced tax benefits for employer-paid educational expenses.
Let's look at each broad category individually.

Income Splitting Has All But Split, But Some Help Is On The Way

Once upon a time parents could spin off their income to their kids and their lower tax bracket, which would mean less taxes paid while keeping money all in the family. Tax shelters like the Clifford Trust proliferated. Nowadays the tax laws have gotten tough on kiddie tax shelters—though income splitting is still a good idea, if you do it right. If you give your child investments that produce less than $1,000 a year, then that income will be taxed at the child's lower rate. However, if you give investments paying more than $1,000 a year to kids under 14, the excess will be taxed at the parent's higher rate. Kids get taxed in their own bracket starting at age 14. Your child has to own the income-producing asset outright. In the past, parents could simply tell the bank to credit the child's account with interest earnings from, say, a mutual fund. Now you have to give the child the entire savings account or you will still be taxed on the interest income as if it were going to you. And when you give something big enough to create substantial income, you risk triggering the gift tax, which kicks in with gifts of more than $10,000 (or $20,000 in the case of joint gifts).

Parents still accomplish a certain degree of income splitting, however. Without resorting to the legal complications of setting up a trust, many parents create custodial accounts for their children through a bank or a mutual fund or brokerage firm. In the case of a custodial account handled through a brokerage, for example, an adult—parent, grandparent, guardian, or any adult—opens a stock account at a broker's office in the child's name. The custodian then can buy and sell the securities, collect the income from sales and investment, and spend it on the child or plow it back into the account. The custodian need not be that adult—in fact, a bank or trust company can serve as custodian. When the child comes of age, he or she can take over the account and sell off the securities, or keep the ball rolling. But remember the caveat above: if the child is under 14 years of age and the income rises above $1,000 a year, the excess will be taxed at the parent's rate. And the same gift-tax limit applies: $10,000, or $20,000 in the case of a joint gift. The rules governing custodial accounts vary from state to state, but those differences don't generally affect tax consequences of having the accounts.

What sort of properties make good gifts to minors? Gifts that require little attention; if you exercise too much control over the child's property, the IRS might not let you call it a gift for the purposes of shifting income. Some of these set-it-and-forget-it investments include bonds, which you can buy in the minor's name and which sit quietly until the date of maturity—the bond's that is, not the child's. Many savvy investors are buying zero-coupon municipal bonds, which are tax-free and can be timed to reach maturity when your child is ready for college. Also, mutual fund shares provide steady supervision for an investment. Even good old U.S. Savings Bonds can make an attractive gift investment when you consider that you don't have to report the interest income until the year the bond is cashed in or matures. That means you can buy bonds for an under-14-year-old and defer interest reporting until the child has reached 14 years of age, when the income will be taxed at the child's lower rate.

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