

Making College Affordable

Donna, a hypothetical high school senior, recently learned she had been accepted at two private universities. Her parents were thrilled but also concerned because they can't afford the full cost of tuition. Their first thought was to take out a loan against their 401(k) plans. But they decided against it after learning that doing so would reduce the potential growth of their retirement assets. Another disadvantage: They would be required to pay back the loan with after-tax dollars.

Exploring the alternatives

Instead, Donna's parents contacted the schools' financial aid offices and found out about various options such as grants, loans and work-study programs. They also submitted the Free Application for Federal Student Aid (FAFSA) online to take advantage of federal Stafford and PLUS loans, which offer lower interest rates than most private loans.¹ In fact, recent rules make qualifying for PLUS loans easier and allow parents with new PLUS loans to postpone making payments until six months after a child completes college or drops below half-time status. Finally, they found information on scholarships, loans and awards at various financial aid websites.

In the end, Donna was able to go to the school of her choice—and her parents didn't have to jeopardize their retirement to get her there.

¹fafsa.ed.gov