

Paying for College: Tapping a Mix of Resources

– Video Transcript

Funding a college education usually involves a mix of financial resources.

The typical family pays for college with a combination of savings, income, grant aid, student contributions, and loans.

Let's take a closer look.

Savings are the cornerstone of any successful college financing plan. The more you save now, the better off you'll likely be later.

Start with whatever amount you can afford, and add to it over the years when you can.

If you save regularly over time, you may be surprised by how much you might be able to build in a college fund.

A good benchmark is to aim to save about 50% of expected costs.

Then at college time, you can supplement these savings with current income and other resources.

When researching colleges, one of the best things families can do from a cost perspective is to look for schools that offer generous grant and scholarship aid.

One way to do this is to use a "net price calculator" — available on every college website — to get an estimate of how much grant aid a student might be eligible for at that college, and thus what the "net price" — or out-of-pocket cost — might be.

After factoring in savings, income, and grant aid, students can earmark some of their own savings or income from a part-time job. They might also consider other creative ways to cut costs, like choosing an accelerated program to graduate early, becoming a resident assistant to save on housing costs, or starting at a two-year college and then transferring to a four-year school.

In many cases, loans may be needed to help fill a funding gap. But proceed cautiously — student and parent loans should be a strategy of last resort. While a small loan might be manageable, it would be wise to avoid extreme borrowing because high monthly loan obligations can saddle families for years into the future.

Knowing your funding options and being cautious with loans can help make you a smarter college consumer.

All investing involves risk, and there is no assurance that any investing strategy will be successful.