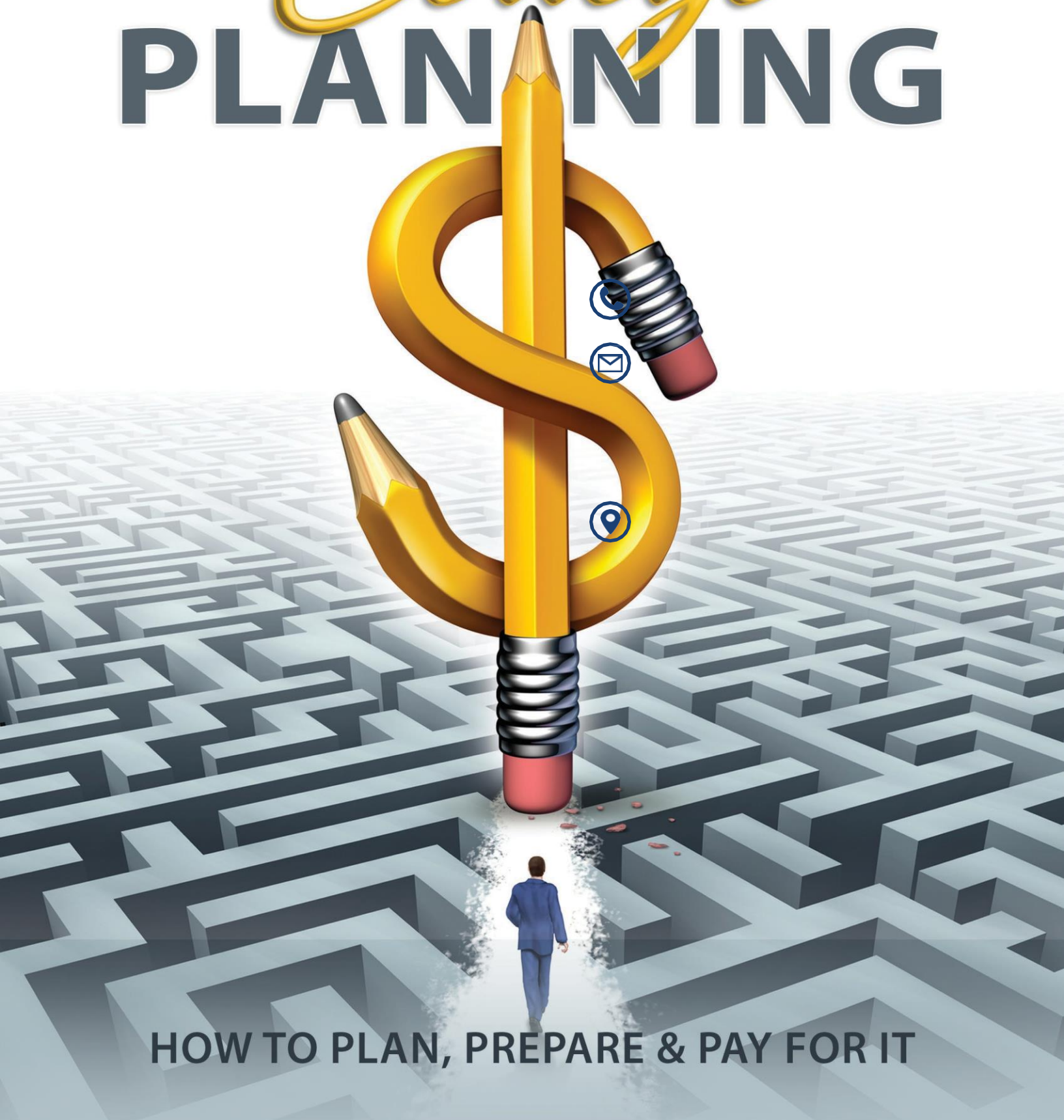


# *College* PLANNING



HOW TO PLAN, PREPARE & PAY FOR IT



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# 10 MYTHS ABOUT *College* FUNDING INTRODUCTION

College tuition and other expenses related to higher education call for a great deal of planning if you want to succeed in funding an education or avoid being saddled with debt for decades to come. Complicating the matter is that the United States Department of Education and the College Board have identified a number of myths about student financial aid that are misleading to students and parents. Below are some of the more common myths to watch out for.

If you need additional information about funding an education, sources of help include student counselors, financial aid offices at colleges and career schools, the U.S. government's Federal Student Aid Information Center (1-800-433-3243) as well as professional financial planners and consultants in the private sector who include college funding among their services.



# MYTH #1: COLLEGE IS TOO EXPENSIVE TO AFFORD.

This is almost never true. Generally you can pay for college. Even with respect to “expensive” colleges, once student financial aid is taken into account, the net cost of attending a private college could be substantially less than the published tuition and fees price.

In fact, most students don’t pay full price, so don’t rule out a college simply because of the cost. Students and families can use a Net Price Calculator to get an estimate of what they will actually pay after including some types of financial aid.

Both private and public colleges are awarding significant amounts of financial aid to make their colleges affordable. The key is that you have to apply for the aid. No family should rule out a college because of its sticker price. Financial aid generally takes into account family circumstances.



## MYTH #2: ONLY STUDENTS WITH GOOD GRADES GET FINANCIAL AID.

Yes, many colleges award merit scholarships based on high school average, SAT score, rank in class (if reported), but they also consider service to the community, participation in the arts, athletics, and academic major as other criteria.

More importantly, eligibility for student aid from the federal government and grants from individual colleges are based on the student's financial need, not academic record.

“While it is the case that you may not qualify for an institutionally based scholarship if you did not perform well in high school, if you have financial need, you will qualify for need-based aid from federal sources, state sources or college sources,” says Christopher Hanlon, director of financial aid at Albright College in Reading, Pennsylvania.

The place to start is with the U.S. Department of Education's “Free Application for Federal Student

Aid” (FAFSA), which the government uses to determine how much you and your family can pay for college (known as “Expected Family Contribution” or EFC) based on your financial situation. The lower your EFC, the more aid you will receive.

Most aid is given to students in the form of low-interest loans, but there are also federal grants for students with exceptional need. Work-study positions are available to students whose financial background falls somewhere in the middle. Some students receive all three types of aid. While your loans will need to be repaid with interest, money received in the form of grants or work-study does not need to be repaid.

**Keep in mind, however, that grades do enter the picture when students start receiving aid.**

“Once students are in college and receiving federal aid, they must maintain the minimum satisfactory academic progress guidelines set by their college or university to continue receiving federal financial aid,” says Sarah Trausch, assistant director of incoming freshmen and transfer students at Creighton University in Omaha, Nebraska.





## MYTH #3: OUR FAMILY INCOME IS TOO HIGH FOR A CHILD TO QUALIFY FOR AID.

You won't know if this is true until you apply by submitting a Free Application for Federal Student Aid (FAFSA). You may discover that financial assistance is available through work-study programs, athletics, or merit scholarships.

Merit scholarships are awarded based on specific criteria — for example, high school average, SAT scores, rank in class, and service. Family income is generally not a factor. The largest growth in institutional aid budgets is merit money. Colleges are competing locally, regionally, and nationally for talented, gifted students. Many colleges are offering merit money in order to improve their rankings in college guides.

Also, both the federal and institutional need analysis formulas take into consideration family income, family size, number of students in college, federal and state taxes paid, and other factors. Finally, the key factor in determining financial need is the college's cost of attendance. A student may demonstrate financial need at some colleges and not show financial need at other colleges.

Do not believe that a child is ineligible for aid due to family income. Apply first, and then allow the financial aid offices at each college to provide guidance on how to pay the costs at their college.



## MYTH #4: APPLICANTS WHO HAVE MONEY SET ASIDE IN A COLLEGE SAVINGS ACCOUNT WON'T GET ANY AID.

Not true. Saving will provide the applicant with more opportunities, most significantly:

- Both student and parental savings will reduce the student's indebtedness. Remember that the largest component of student aid is low-interest loans.
- Savings will provide money to assist the family in paying both direct and indirect college costs.
- Remember: parental and student assets are not counted dollar for dollar in either the federal or institutional need analysis formula.

Generally, up to 5.6% of the assets are considered available to pay for college expenses if in the

parents' name and 35% if in the student's name. Consequently, planning ahead for college costs through 529 Plans and Coverdell ESA accounts is a prudent investment strategy when saving for future college expenses. Finally, the "Expected Family Contribution" (EFC) is calculated primarily on the basis of income, not family assets.

Do not be afraid to save. Only a portion of both student and parental savings are assessed in the federal need analysis formula. Families should begin a college savings plan for their children as early as possible. In the long run, it will make it easier and less expensive to pay the college bills and reduce some anxieties associated with selecting a college.



## MYTH #5: YOU HAVE TO APPLY FOR FINANCIAL AID ONLY ONCE.

This is false. Filling out the Free Application for Federal Student Aid (FAFSA) isn't a one-time-only event. You need to do it every year that you want to be considered for financial aid until you are done with school.

The good news is that you can keep the same Federal Student Aid ID, so if you're filling out the form online, you can just select "FAFSA Renewal" when you're given the option. The FAFSA will then automatically transfer non-financial information from one year to the next.

Financial information is different. Obviously your and your parents' income taxes will change, as might the amount of money you have in bank accounts and investments, so updated financial information is required each year.

Even if you filled the FAFSA out previously and didn't receive aid, it's still worth filling out again — especially if your financial situation has changed. You may even qualify for more aid.



## MYTH #6: IT DOESN'T MATTER WHEN YOU SUBMIT THE FAFSA.

It does matter. You can complete your FAFSA as early as October 1 for the upcoming aid year. The sooner you submit, the more likely you are to get aid.

Filling out the FAFSA is a bit like Black Friday. The first people to show up have the best chance of scoring the deals, while those who are late may miss out.

That means you should not wait until your or your parents' taxes are filed. Submit the FAFSA with an estimate of taxes based on last year, and then submit a correction later. It's easy to make a correction to your FAFSA online.

Nor do you need to wait until you are accepted to a school before applying for financial aid. While most schools won't send out acceptance offers until March or April, their FAFSA deadline may be as early as February.

The FAFSA will give you the option to send your completed application to up to 10 schools. After your FAFSA is processed, you will receive a Data Release Number, which you can distribute to any schools to which you have applied.



## MYTH #7: YOU ARE MORE LIKELY TO WIN A SCHOLARSHIP IF YOU PAY A FEE.

### WATCH OUT FOR THIS MYTH.

Falling for it could be hazardous to your financial health.

If you have to pay a fee to apply for a scholarship, it may mean that you're not in fact applying for a scholarship opportunity, according to Amanda Gilliam, of Briar Patch Educational and Career Consulting. She explains that sometimes scholarships you pay for are profit-making endeavors.

How can you tell the difference between a scheme and a scholarship? Gilliam says to be wary of any offers that claim to guarantee a scholarship if you pay a fee because that's simply not how legitimate scholarships work. In addition, you should steer clear of any "scholarship" that asks for your Social Security number. That could be a ploy to steal your identity.

Gilliam suggests setting up an email account specifically for scholarship offers. That will make

it easy to keep track of potential offers while also alerting you if any faux-scholarship sites sold your email address to marketers. You should immediately unsubscribe from any scholarship junk mail that doesn't apply to you.

Also, watch out for any website that asks you to pay a fee to fill out the FAFSA. There is only one official FAFSA form online, and you should complete it on the Federal Student Aid website (<https://studentaid.gov/>) or the myStudentAid mobile app. Stay away from websites that aren't official, especially if they request a payment. The FAFSA is a free application, and you should never pay a fee to complete or submit it.



## MYTH #8: IF WE APPLY FOR A LOAN, THEN WE HAVE TO TAKE IT.

That's not true. Loans are usually a significant part of aid packages, but students are not obligated to take them. In some cases, families will decide that they do not need to borrow the recommended loan amount, or they will decide to borrow a smaller amount.

Federal Stafford and Perkins loans are very attractive, low interest loans. Families should compare federal loans with other loan programs and select the one with the best provisions.



# MYTH #9: IT'S DIFFICULT TO APPLY FOR AID BECAUSE THE FAFSA IS LONG AND CONFUSING.

It's not as bad as you might think. Because of its reputation of being a major headache over the years, the U.S. Department of Education, with the assistance of student financial aid administrators nationally, has simplified the FAFSA. Completing the FAFSA online is especially easier to do, and more accurate.

“There is a difference,” says Joseph Trentacoste of enrollment services at New York’s Mercy College. “Paper FAFSAs can be confusing to complete and have to travel through the mail and be entered into the Department of Education computer system,

which can take up to three weeks for processing.” Completing the form online, on the other hand, can often make information available to a school within two or three days.

If you fill out the FAFSA online, you’ll be walked through the process with each section having specific directions explaining how to complete the individual questions. Once you have completed the FAFSA online and submitted it, you will have an opportunity to correct any mistakes in your original data.

If you're prepared with documents — including your Social Security card, tax information and your current bank statements — filling out the FAFSA can usually take less than an hour.

In addition to being necessary for federal aid, the FAFSA is also used by many states, universities and some outside scholarship programs to determine aid. The FAFSA is often “the first step” to apply for many of these nonfederal aid programs, says Rich Nickel, president of College Success Arizona, an organization that offers scholarships and mentoring to low-income and first-generation college students.

“Wondering and worrying and fretting is actually a lot worse than doing the form,” Nickel sums up. He likens FAFSA anxiety to worrying about going to the dentist: it's not as bad as you think it's going to be.





# MYTH #10: I SHOULD STEER CLEAR OF STUDENT LOANS TO AVOID INCURRING A MOUNTAIN OF DEBT!

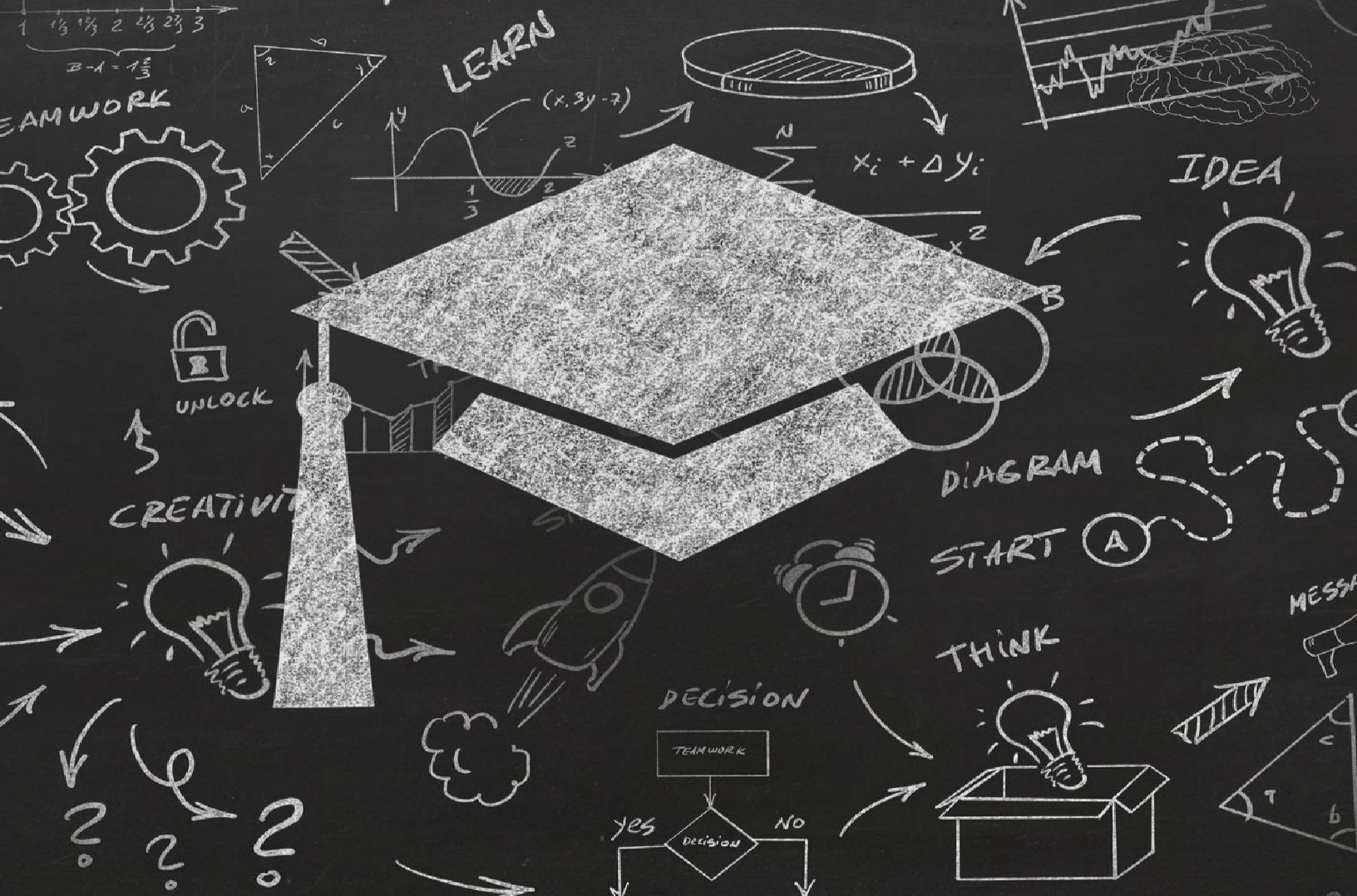
Despite the horror stories in the media, the “curse” of student debt is often not as bad as you hear. In Oregon, for example, just 54% of 2019 graduates of the state’s 4-year colleges had student loan debt, with an average debt load of \$27,542.<sup>1</sup> Nationwide, the average debt for a bachelor’s degree among the class of 2019 was \$28,950.<sup>2</sup> That’s less than the average cost of a new car.<sup>3</sup>

Some students may even find that their loans qualify for federal loan-forgiveness or repayment programs, such as the following:

- If you have a medical degree, the Department of Health and Human Services has three programs that can help pay back the loans associated specifically with your medical degree.

- If you volunteered with AmeriCorps or work in the public sector, you could be eligible for a Segal AmeriCorps Education Award, which provides money to be put toward loan repayment, or the Public Service Loan Forgiveness Program, which essentially cancels any balance left on your loan after 10 years of payments.
- Teachers are often eligible for loan forgiveness or loan cancellation in return for a service commitment.

Whatever your situation, it’s important to understand student loans so you can borrow responsibly. In general, federal loans are better than private loans, and subsidized are better than unsubsidized. Parent loans should be a last resort.



## Build a budget first and accept only what you need. You don't have to borrow the full amount offered to you in your financial aid package.

With careful planning, funding a college education can be one of the soundest investments you'll ever make. If you need help, consider seeing a professional financial planner or consultant in the private sector who is knowledgeable in college funding and, if you like, can work it into a comprehensive financial plan.

1. "6 myths about the cost of college" – Oregon Goes To College, May 6, 2021: [https://www.capitalpress.com/specialsections/education/6-myths-about-the-cost-of-college/article\\_4c2a2688-926a-11eb-bfee-db98ce7a9bc1.html](https://www.capitalpress.com/specialsections/education/6-myths-about-the-cost-of-college/article_4c2a2688-926a-11eb-bfee-db98ce7a9bc1.html)

2. "What's the Average Student Loan Debt for a Bachelor's Degree?" – Anna Helhoski, NerdWallet, Apr 26, 2021: <https://www.nerdwallet.com/article/loans/student-loans/whats-the-average-student-loan-debt-for-a-bachelors-degree>

3. "The Average New Car Price Is Unbelievably High" – Financial Samurai, 7/28/2021: <https://www.financialsamurai.com/average-new-car-price/>

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