


FINANCIAL COORDINATION
2019-20
 Providing Everything You Need to
 Better Prepare for College

THE RIGHT BALANCE



- Is the **Expected Family Contribution** or **EFC AFFORDABLE**?
- Underlying financial logic of the EFC using College Board ratios
 - Integrate college costs into current family budget
- Go a step further to balancing current needs with college costs, protection and retirement
 - **Achieving Financial Well-Being**


EFC Financial Priorities:
Current, College, Retirement


- Evaluate monthly cash-flow to determine income budget, if any, after meeting current expenses
- Non-retirement savings/investments are income-supplements
- **PLUS** loan available for parents to stretch budget

PLUS (*Parental Loan for Undergraduate Studies*)

- **Annual Limit** is COA not covered by aid
- **Credit-history** reviewed but no income/ratio test
- **Repayment begins 60-days** after final disbursement
- **Federal government** is the only source
- **Fixed rate** with 10-year repayment (**7.6%** for 2018-19)
- **Parents** of qualifying student can borrow
- **Insured** against death (of the borrower & student) & disability (of the borrower)


SAMPLE CASE (CONTINUED)


1. 2 parents (*older is age 45*), 2 students (*ages 17 & 13; students have no financial resources*)
2. Annual gross income from wages of **\$100k**
3. Fed tax liability of \$6,739, NY of \$4,559 and FICA of \$7,650 (*2018 tax tables/ deductions/ rates*) resulting in about **\$81,052** of net income after taxes
4. **\$11,100** in **Accumulated Savings** (non-retirement investments) (*last 2-years of redirected retirement savings*)
5. Home equity value of \$100,000
 - What is the annual **EFC**? FM = \$14,470; IM = \$13,668

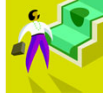
STEP 1: Apply Budget Guidelines to Sample Case



Budget Worksheet for Graduates: Pg 2


1. **Housing & utilities: 30% of net** or \$24,300
2. **Food: 10% of net** or \$8,100
3. **Debt allowance: 12%** or \$9,700 (**\$808/mth**)
4. **Transportation: 15%** or \$12,150
5. **Clothing: 5%** or \$4,050
6. **Medical: 5%** or \$4,050
7. **Savings Rate & Insurance: 8%** or **\$6,480 + 2%** or \$1,620 (80/20)
8. **Miscellaneous allowance: 5%** or \$4,050

STEP 2: Apply Results to Determine **Income Budget for College Costs** 

- Total Tax (#3 from slide 5) = **\$18,948** Total Expenses (#1 - #8 from slide 6) = **\$74,500**
- Resulting **Income Budget**:
 $\$100k - \$18,948 - \$74,500 = \underline{\$6,552}$
 (or **8%** of net income; the "**Student Loan**" budget item from **Budget Worksheet for Graduates**)


STEP 3: Determine EFC Affordability 

1. **Income Budget**: **\$6,552**
2. Redirect **Savings Rate**: **\$6,480**
3. EFC Shortfall: $\$14,470 - \$6,552 - \$6,480 = \underline{\$1,438}$
4. From **Accumulated Savings** Each Year: **\$1,438** on **\$11,100** of non-retirement savings (covers more than 7 years of EFC shortfall)
5. Can afford EFC of **\$14,470** without PLUS 

 **OTHER OPTIONS/SCENARIOS**


Carrying credit card or other high-interest debt?

- Consider using a "Debt Swap" to reduce interest rate and monthly payments even if PLUS not needed
 - Sample case: **monthly debt allowance** (#3 on Cash-Flow Worksheet) of **\$808/mth** or **\$9,700/yr** used to pay credit card payments (at **17.24% interest** \approx **\$34,000** in credit card debt using **2% minimum payment** and **14-year payoff**)
 - **\$808/mth** is the payment for **\$66,000** in PLUS at **8%** interest


 **OTHER OPTIONS/SCENARIOS**

What if there is no income budget or accumulated savings?

- Possible Solution:
 - Redirect **Savings Rate** (8% of net income) as budget: Sample Case = **\$6,480** or **\$540/mth**
 - Leverage budget with PLUS: **\$540/mth** at **8%** interest (2018-19 rate for PLUS is 7.6%) = **\$44,507** total PLUS loan
 - **\$44,507** \approx **\$11,000/year** college cost budget

KEYS TO AFFORDING EFC 

1. Already saving a portion of income: **Savings Rate**, (also for retirement) **and/or**
2. Have an **Income Budget** after subtracting taxes and expenses, **and/or**
3. Have **Accumulated Savings** as income supplement for college expenses
4. With **PLUS** to stretch budget

FINANCIAL WELL-BEING: Retirement 

- Retirement projection using EFC logic:
 - Savings rate: 8% of net income in sample case
 - Equivalent starting salaries with 3% COLA each year starting at age 22
 - Retire at age 67 and death at age 87 (20-years in retirement)
 - 6% preretirement return/4% after retirement return
 - **Does not** take into account interruption during college years
 - \approx **33% of pre-retirement income/year from savings**

SOURCE: Clear Focus Financial "How Much will Your Retirement Cost" calculator

**FINANCIAL WELL-BEING:
Protection**



- Protect income with Insurance
 - Review life and disability insurance coverage
 - PLUS is insured against death and disability of borrower and death of the student
 - Student Loan is insured against death and disability of borrower

LAST DITCH OPTIONS?

ALL students can attend public college with a little help from parents!

ECC \$6,800, SUNY Bflo State \$12k and SUNY UB \$14k as a commuter

- **ALL INCOMES:** Student loan, work full time during summers and part-time during school year= \$5,500 + \$1,200 + \$2,560 = \$9,260
- **Under \$125k:** Excelsior, student loan, and/or work = \$6,870 (UB) + \$5,500 = \$12,370 + work

NY EXCELSIOR SCHOLARSHIP

- Tuition-free for NY public 2& 4-yr colleges
- **2019-20 and beyond** up to \$125k in 2017 AGI using prior prior year
- Integrates with TAP and Pell
- 30 credits/yr; passing GPA; on-time completion and residency/work post-graduation in NY required
- HESC.NY.Gov

COLLEGE BOARD TOOLS



- **“Cash-Flow Worksheet for Parent Borrowers”** to categorize expenses, determine college budget and estimating PLUS payments
- **“Budget Worksheet for Graduates”** for financial ratios (pg. 2)
- **“Debt Planning Worksheet”** to determine debt options other than PLUS
- **“Financial Planning Tips”** on savings and budgeting

WRAP UP



- **Perform financial exercises**
 1. EFC Formula results
 2. *Cash-Flow Worksheet for Parent Borrowers*
 3. Step by Step to establish **college budget**
 4. Estimate **retirement** and **protection** needs
- **Schedule counseling session to review progress and/or preliminary results**
 - Professional help available: Use AMEDF subsidized **counseling certificates!**
 - 70% - 100% subsidized
 - Received at Session 2 conference
 - Up to **8** in 24-month period
 - Use evaluation to request certificates

AMEDF Help Us Help You

- **Evaluation- Please turn in!**
- Get the word out (www.AMEDF.org)
- Register and designate AMEDF to benefit from use of Goodsearch.com and Goodshop.com
- **Participate in additional counseling and at-home exercises (CB Big Future, CB worksheets)**
- Make a donation
- Take action!