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SECTION D

## Loans, savings, tax credits help foot Pa. family's bill

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Troy and Denice Tippen of Wattsburg, Pa., knew early into their marriage that they wanted their kids to go to college. By the time they turned to [Stuart Siegel](#), a financial planner in Erie, Pa., each of their three children had accumulated some savings, but not as much as they had hoped.

"They did a good job, knowing what they knew," says Siegel, president of [College Tuition Solutions](#) in Erie, Pa. "My thrust is showing people how to increase cash flow, use favorable loans, decrease their taxes and, if possible, reduce their college liability."

Using a variety of approaches, he is helping them send three kids to private colleges without sacrificing a middle-class lifestyle or retirement. He charges \$500 and earns a commission on some products he sells.

Today, Ashley, 18, is a freshman at Robert Morris University in Moon Township, Pa., where tuition, room and board this year came to about \$17,000. Preston, 20, is a junior at Messiah College in Grantham, Pa., where

larship offsets some tuition. A school merit scholarship saves \$4,000 for Preston's each year, and he gets a tuition break because he is a residence-hall adviser.

▶ Siegel urged them not to touch their savings, but instead take out additional student loans and allow their investments to grow. Each has taken out about \$10,500 a year in Signature loans, offered by Sallie Mae. Parents co-sign and begin paying interest immediately, but starting in 2002 the Tippens can deduct up to \$3,000 of interest paid on their federal income tax, which in turn reduces their adjusted gross income. In other words, by paying \$3,000 in interest, the Tippens increase each child's eligibility for financial aid by \$1,410.

The Tippens could have taken out PLUS loans, available to parents, but Troy, 45, and Denice, 46, want their kids to have a financial stake in their education. "We wanted the loans in their name, with the thought that that would make them more responsible," says Troy, who dropped out of college. His parents paid his way, and he says that made him feel less accountable. In contrast, Denice paid her own way through college and has a degree to show for it.

▶ The Tippens stopped contributing to Preston and Ashley's savings when each turned 18, but continue to pay \$75 a

### Colleges strive to bring aid to poorer families

Figuring out how to help families pay for college is a never-ending struggle for financial aid administrators. But in light of the shift in recent years toward making college more affordable for middle-income families, a national panel of policymakers is trying to shift the focus onto helping low-income families.

A report last year from a congressional advisory committee, for example, warned that benefits to middle-income families – including the explosion of state merit-aid programs and federal tuition tax credits – have come at a cost. It concluded that the emphasis on helping more affluent families "has caused a steep rise" in the unmet needs of poorer students.

Unchecked, it warned, the problem will get worse as the college-going population increases in the coming years. Most of those students won't be able to afford college without government help.

the total came to about \$24,000. Alison, 15, is a high school sophomore. The Tippens' adjusted gross income in 2001 was \$86,600; Troy is a manager with a public utility and Denice teaches at a public school.

Here's a quick sketch of their approach:

▶ **The first thing Siegel advised, when Preston was 16, was that the Tippens move their children's savings into higher-yielding annuities.** The Tippens paid a capital-gains tax when they transferred some of the earnings, and the kids will pay a 10% penalty if they take money out of their annuities before they turn 59½. But they decided those costs were worth it because they don't have to report the annuities on the federal financial aid application – and that helped them qualify for federally subsidized Stafford loans. (That strategy is allowable, but critics argue that shifting assets masks a family's true ability to pay and thus diverts funds from needier students.) Ashley and Preston took the maximum amount allowed – \$2,625 the first year; \$3,500 the second year – and won't start repaying until six months after graduation.

▶ Their children do not qualify for a state need-based grant, but Ashley's track scho-

month into Alison's account.

▶ **They refinanced their mortgage from a 15- to 30-year loan, borrowing an extra \$37,000 (determined by the equity in their home) which they invested in a diversified separate fund that is available if they need it. If that fund grows at a projected 7.7% return rate, they could pay off their mortgage – and help pay off their kids' loans – in 13 years, Siegel estimates.**

Refinancing also reduced mortgage payments by \$250 a month, and they save more than \$200 each month by consolidating life insurance policies. That difference goes into yet another long-term fund.

▶ The federal Hope and Lifetime Learning tax credits lowered the Tippens' tax bill. Last year, they qualified for \$2,500 in credits; this year, \$3,500.

Though the Tippens used a variety of tools, the idea is to take advantage of differences in interest rates on what they're saving and borrowing.

"It's kind of like, 'Pay me now or pay me later.' We're banking on paying it later with more money," Troy says.

That's not to say middle- and upper-income families don't need help navigating the process, says Dallas Martin, president of the National Association of Student Financial Aid Administrators in Washington, D.C. But "they need to have started that process before they send their kids off to higher education," he says.

Dee Lee, a financial educator in Harvard, Mass., agrees. "If they were going to buy a car, they would be getting out Consumer Reports, they would be checking prices," she says. "Most parents don't do that when it comes to planning for college." Then, when it's time to fill out the financial aid application, "people want, not necessarily a free ride, but they expected more aid," she says.

Others think that assessment is a bit harsh.

**"Oftentimes (families) have done a good job paying down their home and putting money into their (retirement plans)," says Stuart Siegel, a college finance specialist based in Erie, Pa.**

**"As far as other assets go, most people are kind of economically challenged. All we're trying to do is to actually work with the colleges' numbers and help the family meet what is expected of them."**



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