

Discussing college funding with your teen



Wealth Management

College expenses are currently rising faster than inflation. This means it may be practical for you to make a decision today about how much of your child's projected college education you may reasonably be able to afford.

Use the worksheet on the other side of this page to estimate how much it will cost, where funding may come from and what student loan payments he or she may be responsible for after graduation.

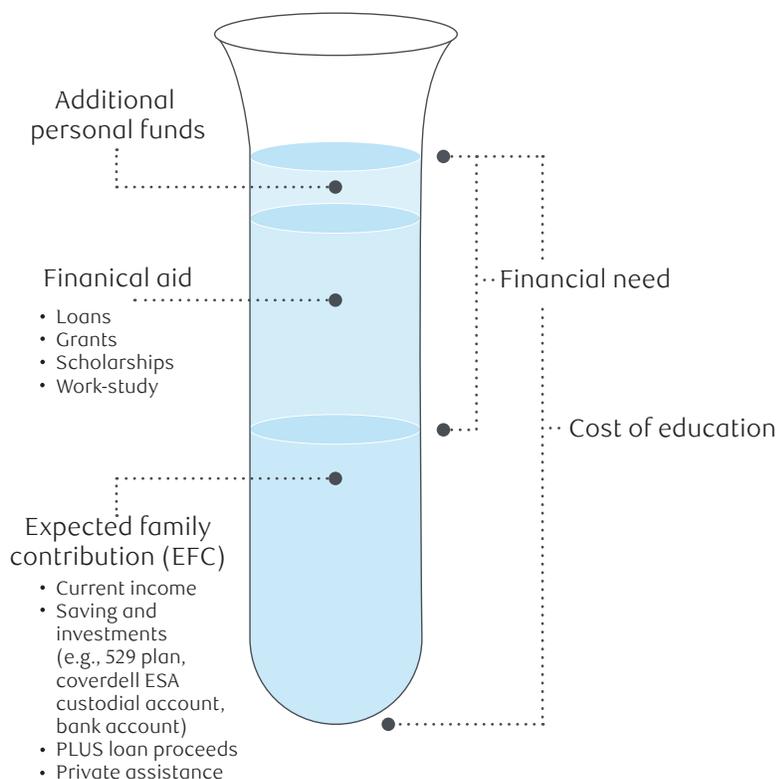
Talk with your teen now about what they may be responsible for paying, so that everyone has the same expectations about paying for college.

Where will funding come from?

If you claim your child as a dependent on your taxes, the federal government's financial aid formula mandates that you will be responsible for an Expected Family Contribution (EFC) that will come

out of your own pocket. The EFC is based on your current income, savings and investments, and is the same, regardless of the college your child chooses. The difference between your EFC and the cost of a particular college equals your child's financial need that may be covered by financial aid from the government, the educational institution itself and independent organizations.

Beginning with the 2023–2024 academic year, the term Expected Family Contribution will be replaced with the term Student Aid Index (SAI). There are some modifications to the calculation of this number, but the change in terminology is largely a recognition that families rarely end up actually contributing their EFC to college.



What strategies make the most sense for your family?

Every family's situation is different. So the choices you make and the conversations you have may depend on how you respond to three key questions:

Question #1 — Do you intend to fund 100% of college costs? If you do, it may be practical to set expectations now, so both you and your child are clear about what you will each be held accountable for. You may want to talk about how many semesters you will pay for, whether he or she will live off campus or on, what extracurricular activities will be acceptable,

what grade point average he or she will need to maintain and what consequences (if any) there will be if these expectations are not met.

Question #2 — Do you intend for your child to contribute to his or her college expenses? It may help motivate your child to study harder and graduate more quickly if they have a financial interest in doing so. If you expect your child to contribute, you'll need to define how. For example, you may want to establish a rule that a percentage of every cash gift or earnings your child receives be contributed to a college savings account. Or, set the expectation that your child needs to participate in a work-study program or obtain outside work during college years to help with expenses.

Question #3 — Are any loans needed? If so, how much and in whose name will the loan(s) be obtained? The amount borrowed may affect the type of college your child applies to (e.g., public or private, top tier or middle tier, etc.).

Key take away

Communicating these expectations up front can help you and your teen avoid unpleasant surprises and help you both better prepare for the college experience that lies ahead. It may also increase your student's awareness of the financial burden you are undertaking on their behalf and contribute to greater scholastic and economic effort on their part.

Estimate the cost of college education

Average out-of-state public school cost per year:	\$43,280*
Average private school cost per year:	\$54,880*

1. Cost at school of your choice per year: _____
 x 4

 2. **Total estimated cost of college:** _____
- There are many kinds of aid available, such as financial aid, work study, and scholarships. For the purpose of this worksheet though, assume no other contributions are available to you.)
3. Estimated family contribution per year: _____
 4. Estimated student contribution per year: _____
 5. **Estimated total funds available:** _____
 6. Estimated total cost of college from line 2 _____
 7. Estimated total funds available from line 5 - _____
 8. **Estimated loan amount needed** = _____

Find your approximate loan amount needed on the chart below to see what monthly payments on your loan would be after you graduate from college. These amounts factor in a 6.8% interest rate (an approximate education loan rate) and monthly payments over 10 years.

Loan amount	Monthly payment	Loan amount	Monthly payment
\$7,500	\$86.31	\$30,000	\$345.24
\$10,000	\$115.08	\$32,500	\$374.01
\$12,500	\$143.85	\$35,000	\$402.78
\$15,000	\$172.62	\$37,500	\$431.55
\$17,500	\$201.39	\$40,000	\$460.32
\$20,000	\$230.16	\$45,000	\$517.86
\$22,500	\$258.93	\$50,000	\$575.40
\$25,000	\$287.70	\$55,000	\$632.94
\$27,500	\$316.47	\$60,000	\$690.48

Find great calculators for determining aid, loans, and payments at www.finaid.org/calculators



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*Based on the 2020–2021 average total costs of a four-year college education, including tuition, fees, room and board: \$43,280 for public out-of-state, \$54,880 for private (Trends in College Pricing – 2020 The College Board). Assumes 7% annual inflation adjustments (FinAid.org).

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