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When College Money Runs Out

Q. I was able to pay full tuition for my older child but I will run out of money when my younger one is a sophomore. It doesn't seem fair to pay for one and not the other. Any ideas?
— Empty pockets

A. If the money's not there, the money's not there.

No matter what you'd like to do for your kids financially, a free college education is not a right.

You do have options, but they're not without consequences.

You should start by having a conversation with your younger child so she has an understanding of what college expenses mean to your personal financial future, said Claudia Mott, a certified financial planner with Epona Financial Solutions in Basking Ridge.

"There may be a lot of good reasons why you aren't able to fully pay for the cost of your second child's college education such as a change in your financial situation or the differences in the choice of school and associated costs," Mott said.

Your child may consider less expensive college options, such as starting at a community college and later transferring to the school from which she wants a diploma.

She said before you look at borrowing options, be sure that you have exhausted any and all forms of financial aid that might be available from the school which could offset some costs. Most schools will require you to complete the Free Application for Federal Student Aid (FAFSA) and some require the CSS Profile as well, she said.

Alternative sources of money to pay for college could come in the form of student loans, a home equity line of credit or a home mortgage refinance.

Mott said you may also want to have your student agree to take out an unsubsidized loan, which would delay the repayment until after graduation.

"Keeping up with the interest payments during the life of the loan will reduce the future payments," she said, noting you can learn more about federal education loans at www.direct.ed.gov.

As you consider loan options, Mott said, be sure to understand the interest rate, any associated costs with closing the loan and the payment amount.

"It is also important to know how the new payments you will be making will affect your monthly budget to determine which option is most affordable," she said.

With the rising cost of college, many parents have also looked to their retirement savings as a source of funding, putting their own financial future at risk, Mott said.

"Taking a loan against a 401(k) may be a near-term answer to paying the tuition bill, but if you separate from the company, the loan must be repaid," Mott said. " A hardship withdrawal may be used to pay for education costs if you qualify, but there will likely be a 10 percent penalty if you are under age 59 ½."

A regular withdrawal will be treated as taxable income and may also carry a 10 percent penalty depending on your age, she said.

Providing a college education for a child is an expensive goal for a parent and shouldn't put their financial future in jeopardy, she said. Excessive borrowing or use of retirement assets needs to be considered with caution and an understanding of the long-term impact.
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