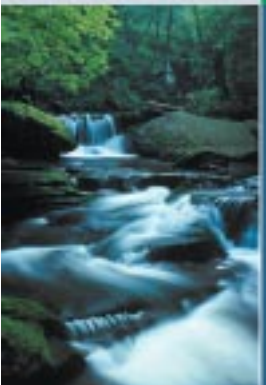


How to Afford to go Back to School as an Adult

Adults are going back to school for lots of different reasons these days, including career changes, keeping up with developments in their field, learning new skills and personal enrichment. At many colleges students may be senior executives, retirees or working moms.

Going back to school when you're older, whether it's to get an advanced degree, brush up with a few courses or get your first college diploma, can be very different from going straight out of high school. You're not likely to have financial support from your parents and you probably have lots of demands to juggle, including a full- or part-time job and maybe even your own family.



► Myvesta is a nonprofit consumer education organization. We provide a wide range of educational materials to assist those in financial need. Visit us on the Web at Myvesta.org.

At Myvesta.org, we've heard from many people with financial problems related to going back to school. Some are trying to pay full-time bills on part-time salaries or make do with one wage-earner in the family instead of two. Others are saddled with high student loan debts.

In almost all cases, problems could have been avoided with better planning and research.

Quite a few students went back to school to start new careers then found they were starting at the bottom of the ladder, making much less than they had hoped. In almost all cases, their problems could have been avoided with

better planning and research.

That's why we created this publication, to help you understand the financial issues surrounding going back to school as an adult and to help you make informed decisions.

Doing Your Homework

Before you go back to school, do your homework to find out what you can afford. Take into account all the various costs that will be associated with going back to school.

Tuition, student loan payments and books are obvious, but there are likely hidden costs: babysitting for your children while you're in class, meals out when you're on the run, commuting costs, the loss of income (or overtime pay) or health insurance from your current job.

For a couple of days, keep track of your spending and think through how it might be affected when you go back to school. Jot down anything that comes to mind right away so you won't forget it later.

Each school will have a financial aid administrator who can help you understand the cost of going to that school. Make an appointment to talk with the financial aid administrator, even if you don't think you will use financial aid.

Ask for detailed information about the costs you should expect if you attend that school and explain any unusual circumstances you may have. It will help the financial aid administrator, who can guide you through the process of paying for school.

At the same time, realize that person works for the school. What he or she says you can "afford" may not really be what's best for you. We have spoken with some "financial aid" people who are really commissioned sales people for the school. They make money by enrolling as many people as possible.

If you have a lot of debt, seriously consider paying it off *before* you go back to school — especially if you will be going full-time.

Consider taking a second job or doing whatever you can to start your schooling debt-free. After school you may have new debts to worry about and it's better if you don't have old debts hanging over your head as well.

Paying For School

Chances are good that Mom or Dad won't be writing a check for your tuition, so you'll have to find a way to pay for it yourself. You may end up tapping a variety of sources:

- ▶ Current income
- ▶ Employer reimbursement programs
- ▶ Savings
- ▶ Financial aid, including loans and grants

Let's take a closer look at all of these:

Current Income

You may pay for some, or all, of your school expenses as you go along. The big plus of tackling school costs this way is that you won't wind up with as much debt as if you borrow some, or all, of the money you'll need.

But unless your schooling isn't too expensive, or you have an income that will easily pay the

You'll have to watch your money carefully and you may have to give up some of your luxuries.

tab, paying as you go will probably require sacrifices. You'll have to watch your money carefully and you may have to give up some of your luxuries (like that weekly manicure or tickets to the game every weekend). *The key to paying for school out of your income is planning.*

Pay close attention to your spending and always be on the lookout for places where you can cut back without driving yourself or your family nuts. Be vigilant, but don't go overboard.

Some families decide that one spouse will work to support the other while he or she is in school. This can be tricky. The spouse who is working may feel resentful about being the sole breadwinner, while the other may feel trapped by the control the other one has over the purse strings.

If you have money in the bank, stocks or other investments, you may want to tap them to pay for school so that you can avoid debt.

One way to help make it work is to keep the lines of communication open. The full-time student shouldn't expect to keep up former spending habits and let the one who is working shoulder that burden, just as the working spouse shouldn't expect the student to never spend a penny for enjoyment.

One option is to give the spouse who is in school an "allowance," while the spouse who is working gets the final say on any large expenses that could be put off until graduation.

Employer Reimbursement Programs

If your employer (or labor union) will pay for most or all of your education, lucky you!

Choose your courses carefully so that the time you invest will be worth it, but don't let the opportunity to get a free ride pass you by.

Employer-sponsored education can be a tremendous benefit in many ways. Before you commit to any classes, be sure to talk with the benefits administrator in your company to make sure the courses you plan to take will qualify for reimbursement and ask for that in writing.

Understand limitations: you may have to take classes within your field, be required to pay back the cost if you leave within a certain period of time, or maintain good grades.

Savings

If you have money in the bank, stocks or other investments, you may want to tap them to pay for school so that you can avoid debt. This can be a great way to cut your costs and avoid interest payments, but it does have its risks.

If you drain your bank account, you may not have money for emergencies and could find yourself relying on credit cards. If you do decide to go this route, think carefully about what you will do if you have a financial emergency after you use up your savings. Rather than drain your savings and hope you don't have a financial emergency, you could get a student loan and begin to prepay it while you are in school.

Under certain circumstances, you may be able to tap an IRA without penalty to pay for school. The IRS allows penalty-free withdrawals to pay for educational expenses if you meet certain income requirements and other qualifications.

If you take a withdrawal from a regular IRA (not a Roth IRA), you'll still be required to pay taxes at your normal tax rate. (Read the section on tax deductions later in this pub to find out how to get more information about this tax break.)

Personal borrowing

Don't have the money? Just borrow it! That's the advice many would-be students hear, and most students use loans of some type to help pay for school. In a moment we'll talk about federal student loans, but there are other ways to borrow.

You may have credit cards, money in a 401(k), cash value built up in a life insurance policy or equity in your home. All of these may be used to pay for your education, but they have their drawbacks.

See Borrowing Options below for the general pros and cons of each.

Financial Aid

According to the Department of Education (DOE), about two-thirds of all student aid comes from federal programs administered by the DOE. These come in the form of grants, loans and work-study programs. We'll describe each of these in a moment. For more information visit ed.gov.

But there are other sources of financial aid. Check out civic, professional and religious organizations, all of which may offer grants or scholarships that don't have to be repaid. Ask the financial aid administrator for information on researching state financial aid programs. Also, plan to spend at least an afternoon at the library and one on the Internet,

researching other scholarships and grants for which you may qualify.

Even if you're pressed for time, be very careful about paying someone to search for financial aid for you. Very often the search process itself can be an education and will lead you

Research scholarships and grants for which you may qualify.

to interesting connections you may not have found otherwise.

If you or your spouse is a veteran, contact the Department of Veterans Affairs to find out if you are eligible for educational benefits. You can also consider the ROTC, which offers educational benefits.

Federal Financial Student Assistance Programs

Most, but not all, of the following programs are based upon financial need. Of course, while you may think you "need" the money, government formulas may show otherwise.

Fill out a Free Application for Financial Student Aid (FAFSA) at ed.gov as soon as possible and that information will be used to determine your Expected Family Contribution (EFC). Your financial aid administrator will calculate your cost of attendance. That cost, minus your expected family contribution, will be your "financial need" that's used to help determine how much aid you may be eligible for. Those programs can include:

Grants

Unlike loans, you don't have to pay back a grant. There are two types of federal grants: Pell Grants and Federal Supplemental Educational Opportunity Grants (FSEOGs).

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Borrowing Options

Type of Loan	Pros	Cons
Credit Cards	<i>Low interest rates for good credit. Easy to get with good credit. Low monthly payments.</i>	<i>Low monthly payments allow large debts to build. High interest rates for imperfect credit. Stiff penalty fees and/or higher interest for missed payments.</i>
401(k) Loan	<i>No credit qualification. Low interest rate.</i>	<i>Can seriously reduce your retirement fund. Tax penalties if you miss payments. May have to be repaid immediately if you leave your job.</i>
Cash value of life insurance	<i>No credit qualification. Low interest rate.</i>	<i>Reduces your death benefit to your heirs.</i>
Home Equity Loan	<i>Interest may be tax deductible. Low interest rate for good credit.</i>	<i>Puts your home at serious risk if you miss payments. Very high interest rates on loans for more than the value of your home or for poor credit.</i>

These two programs are generally available only to undergraduate students.

Also, as with all of these federal financial aid programs, your school must participate for you to be eligible to use that type of financial aid.

Other grant sources include:

- ▶ State grant programs
- ▶ Voucher programs
- ▶ Fellowship programs
- ▶ Scholarships
- ▶ Tuition waiver programs
- ▶ State Work-Study
- ▶ A variety of special grant and loan programs reserved for targeted populations

Student Loans

Borrowing money to pay for your education may seem like the ideal way to go. Many students are eligible for federally insured student loans at attractive interest rates. And as long as you are going to school at least half time, you don't have to make any payments on the loan. Federal student loan programs include Stafford Loans, Plus Loans, Consolidation Loans, and Federal Perkins Loans.

One of the major differences between student loans is whether they are subsidized or unsubsidized.

One of the major differences between student loans is whether they are subsidized or unsubsidized. Subsidized loans are awarded on the basis of financial need and they are called subsidized because you won't be charged interest before you begin repayment or when deferment is authorized. The interest is "subsidized" by the government.

An unsubsidized loan is not awarded on the basis of need and the interest clock starts ticking immediately. You can choose to make interest payments right away, but if you don't, interest will be added to the amount you borrowed and you'll graduate owing more than

you actually borrowed.

Although loans make it possible for many people to pursue their education, they do have a cost. It's easy to overlook how much they cost when you are in school and don't have to make payments.

In fact, it's tempting to just borrow the maximum amount for which you qualify and spend the check as soon as you get it. But that can mean large loan balances, payments and interest charges when you graduate.

One study by Nellie Mae found that the average undergraduate student would have to earn an average of more than \$33,000 a year in order to pay for debts and living costs! That's in addition to your current debt load.

Before you borrow, make sure you understand clearly the terms of the loans and how long they will take to pay off. Factor that payment into your current budget. Can you really afford it?

Don't automatically count on a raise or new occupation as a guarantee that you'll be able to pay them back easily. In many cases, student loans can add several hundred dollars to your monthly obligations and may take 10, 20 or even 30 years to pay off.

Work-study

If you are an undergraduate or graduate student and can show financial need, you may be able to get a work-study job on or off campus. If you have job experience already, though, you may be able to find a better-paying part-time job on your own. Check around.

If you are an undergraduate or graduate student and can show financial need, you may be able to get a work-study job

Your financial aid administrator can give you more information on work study programs.

Choosing Your Career

If you're going back to school to prepare for a career change, research your options carefully before going in a new direction.

Of course, there is no guarantee that any new career will be a perfect match or a great financial move, but you can get a good idea of a field before you invest lots of time, money and energy pursuing your new path.

One working Mom spent four years completing her degree as a physical therapist assistant only to discover that there was a glut of new graduates in that field, as well as a dip in the number of jobs available due to managed care constraints. Her new field even paid less than she was making before she pursued her new education. Yikes!

Another woman went back to law school only to find, after working just a few months at a law firm, that she didn't like it at all!

Make a commitment to interview at least five people in your prospective field ...

Make a commitment to interview at least five people in your prospective field to get the inside scoop on the pros and cons of their jobs. Offer to buy them lunch, be gracious and you'll probably find they will open up.

See if you can talk with someone who has left the field as well, to find out what drawbacks there may be.

A few sessions with a career counselor to really explore your aptitudes and interests may be well worth the investment.

If you are considering going back to school for education in a new field, ask yourself these questions:

- ▶ Compare the price of schooling with the benefit (increased salary or benefits). Will you be taking a step up or will you be in the same range — or even lower than before? You can find

information about salaries and job information at salary.com and jobfind.com. Be sure to also check salary projections for the field you'll be entering.

- ▶ Consider the outlook for that field. Are jobs in that area projected to increase? Or are they likely to decrease due to technology, competition or other factors? How readily will you find a job in your new field? (Talk to the outplacement office.) Will you have to relocate?
- ▶ What will the working conditions *really* (not ideally) be like? Do they suit your temperament and skills? Can you get an internship to try it out?

Take a Tax Break

You may be able to get a tax break if you go back to school.


There are two programs to check out. The first is the Hope Credit, which is a tax credit worth up to \$1,500. Only first or second-year students enrolled at least half time are eligible.

The other, the Lifetime Learning Credit, is a tax credit of up to \$1,000, even if you take only one class. It applies to virtually any kind of course.

See the Tax Benefits chart at the end of this publication for a general overview of tax benefits for higher education. For specific information on the Hope Credit, the Lifetime Learning Credit and other tax benefits for college students, talk with your tax advisor or get a copy of IRS Publication 970 by visiting irs.gov or calling 1-800-829-3676.

Family Ties

If you are married or have children, your decision to go back to school will affect them, perhaps a great deal. Be sure to have open and clear discussions with them about the impact it will have on all your lives.



Will Mom or Dad be less available for school activities or meals? (On the other hand, doing your homework while your kids do theirs can be a very positive example!) Will the family have to scale back on spending while one spouse works full time and the other goes to school full time?

Get the family's support before you make any drastic changes.

Choose carefully, plan well and your education can be one of the best investments you make in your and your family's futures!

Biggest Traps to Avoid When Going Back to School

- ▶ Thinking you can borrow whatever you need and worry about paying it back later when you're making more money.
- ▶ Putting school expenses, tuition or living expenses on high-rate credit cards and paying the balances off slowly.
- ▶ Failing to investigate the actual range of salaries, job opportunities and work environment in a new field.
- ▶ Failing to take advantage of employer reimbursement for schooling.

Tax Benefits

Do not rely on this chart alone. It provides only general highlights of some of the differences among the benefits. See <http://www.irs.gov/pub/irs-pdf/p970.pdf> for more complete explanations. Caution: No double benefits are allowed. See the footnotes.

	Hope Credit (education credit)	Lifetime Learning Credit (education credit)	Education IRA ¹	Traditional and Roth IRAs ¹	Interest Paid on Student Loans	Qualified State Tuition Programs	Qualified U.S. Savings Bonds ¹	Employer's Educational Assistance Program ¹
What is your benefit? ²	Tax Credit (nonrefundable)		Earnings are not taxable	No 10% additional tax on early withdrawal	Deduction to arrive at adjusted gross income	Earnings are not taxed	Interest is not taxed	Employer benefits are excludable from income
What is the annual limit?	Up to \$1,500 per student	Up to \$1,000 per family	\$500 contribution per child under 18	Amount of qualifying expenses	2000: \$2,000 2001: \$2,500	None	Amount of qualifying expenses	\$5,250
What expenses qualify besides tuition and required enrollment fees? ²	N/A		Books, supplies and equipment. Room and board if at least half-time attendance. Payments to qualified state tuition program.	Books, supplies and equipment. Room and board if at least half-time attendance.	Books, supplies and equipment. Room and board. Transportation and other necessary expenses.	Books, supplies and equipment. Room and board if at least half-time attendance.	Payments to qualified state tuition programs. Payments to education IRAs.	Books, supplies and equipment.
What education qualifies?	1st two years of undergraduate	All undergraduate and graduate levels						Undergraduate level
What other conditions apply?	Can be claimed only for two years. Must be enrolled at least half-time in a degree program.		Contributions not deductible. Cannot also contribute to qualified state tuition program <i>or</i> claim an education credit. Must withdraw assets at age 30.		Applies to the first 60 months' interest. Must be enrolled at least half-time in a degree program	Tax-deferred earnings are taxed to beneficiary when withdrawn	Applies only to qualified Series EE bonds issued after 1989 or Series I bonds	Cannot also claim an educational credit. Expires for courses beginning after December 31, 2001
At what income range do benefits phase out?	\$40,000 - \$50,000 \$80,000 - \$100,000 for joint returns		\$95,000 - \$110,000 \$150,000 - \$160,000 for joint returns	N/A	\$40,000 - \$55,000 \$60,000 - \$75,000 for joint returns	N/A	1999: \$53,100 - \$68,100 \$79,650 - \$109,650 for joint returns	N/A

¹ Any nontaxable withdrawal is limited to the amount that does not exceed qualifying educational expenses.

² You must generally reduce qualifying educational expenses by any tax-free income. You generally cannot use the same educational expense for figuring more than one benefit.

About Myvesta...

Myvestasm is dedicated to helping people create healthy financial lives. The organization provides a wide range of materials to inspire and inform people so they can break down their barriers to financial and personal success. For more information visit Myvesta.org online.

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