The 5 Myths of College Costs

By Chris Wills

How many purchases in life would you spend hours or even days on without knowing the cost? Imagine looking at homes or vehicles and obsessing over their details to find the right one, only to then be told the seller would get back to you on the price that they were customizing only to you.

Seems crazy right? Yet that is essentially how the college pricing model works. No purchase -- let alone one as significant in amount and impact -- is so vague and hard to understand. It is no surprise, then, that myths and inaccuracies abound regarding paying for college.

Here are 5 that every family should be aware of:

Myth #1 - You will get a scholarship if your son or daughter has a phenomenal GPA and test scores

Unfortunately for those families counting on their child's 4.0 GPA to pay for a full-ride, this is not true. In fact a surprising number of colleges do not give any scholarship money to students based on grades and/or test scores, otherwise known as merit aid.

Some colleges do, and it is important to know who they are because strategically, if your child has terrific grades and high test scores, it likely makes sense to target those schools because you have the opportunity to get more free money. Visit College Navigator (nces.ed.gov/collegenavigator/) to look at how much each insitution is awarding (or not) in merit aid.

Schools that do not give merit aid instead focus on giving their free money to families who may have trouble affording college because of their income. This is called need-based aid.

Myth #2 - Money saved in a 529 Plan under your child's name will hurt your chances of getting financial aid

While it is true that assets in your child's name outside of a 529 Plan may affect your aid award, assets within a 529 Plan are treated the same as savings in your name and are only assessed at a rate of 5.64%. You are also allowed a savings allowance, meaning that for 2015-16, the first $6,300 of your savings isn't assessed at all. And we haven't even started talking about the tax advantaged growth benefits.

What matters far more is your income, which is assessed up to 47%. So keep saving!

Myth #3 - Colleges hold the leverage with their pricing

Colleges have done a fantastic marketing job of promoting an air of exclusivity with the acceptance process, and they've then used that to raise their prices nearly every year, and at rates substantially higher than any other industry, including health care.

But aside from the Ivy League schools and a handful of other exclusive ones, the reality is that it is a buyer's market and colleges need you far more than you need them. Yet unlike most other big purchases like a home or vehicle, families don't realize that the price of college can be negotiated, which is called an "appeal."

Just like an airline ticket, nearly everyone in a college's incoming class is paying a different price. So it doesn't make sense that a college gets to collect all your financial information to set that price, and then families just have to accept it and pay it, or worse yet, take out loans and go into debt to do so.

If your family income circumstances have changed, most colleges will be receptive to an appeal. What they don't want you to know, is that they will also be receptive -- and will likely give you more money -- if you appeal and use a better offer from another college, especially a main competitor.

Myth #4 - A public university is always less expensive than a private

Yet another smoke and mirrors problem with the cost of college is that like your favorite department store, almost no one is paying the advertised price. So even though the "sticker prices" of public universities are always lower than privates, they also don't give nearly as much free money.

Private colleges because they do not receive state tax dollars like publics, are far more dependent about tuition revenue to pay their bills and thus are far more aggressive price discounters. In fact Inside Higher Ed reported that tuition discounting by privates reached an all-time high of 48 percent last year and only appears to be rising.

Read that last statistic again -- the average private school sticker price is being discounted by 48 percent!

Now based on your family income and other factors, it doesn't necessarily mean that *your* discount will be 48 percent, but it does mean you shouldn't rule out private colleges because you perceive them to be more expensive.

Myth #5 - Starting at a community college saves a lot of money

If it went as everyone *intends* for it to go, starting at a community college and then transferring to a 4-year school to complete a bachelor's degree would indeed save a lot of money. But 2 big issues often get in the way of that happening:

One, only 20 percent of students starting at a community college transfer to 4-year institutions, which defeats the point of starting at a CC to save money on the cost of a degree if none is actually acquired. The better news is that of those students that do actually transfer, around 70 percent end up with a bachelor's degree.

The second issue is that depending on what school you transfer to, not all credits may transfer, again defeating the point of the cost-saving strategy, or at least making it less efficient.

A third and related issue that many families are not aware of is that financial aid awards are typically lower for transfers because colleges provide more aid to first-year freshmen as incentives to keep them and their tuition dollars at the school for 4 years. Free money that would have been available as a freshman is often not available as a transfer.

Chris Wills is the President of College Inside Track and is passionate about helping families navigate the complicated college process, find the right fit, and save lots of money.