

Hide That College Fund!

By Steven Menashi

THANOVER, N.H. He more impoverished you look, the more aid you get," counsels "College Financial Aid for Dummies," a popular guide to financing higher education written by Herm Davis and Joyce Lain Kennedy. "If you have assets of \$50,000 or more," the authors instruct, "make major purchases before December 31 of a child's junior year in high school." They suggest buying a computer or a car.

It seems farcical that financial aid advisers would suggest preparing for college "by buying big ticket items with cash," considering that tuition averages \$17,846 a year at private four-year colleges and \$8,562 at public ones. As these costs continue to skyrocket, saving money for college would seem to make sense. Unfortunately, such common sense eludes those responsible for Federal financial aid programs — both grants, which don't have to be paid back, and low-interest loans.

Economic need — defined as the

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difference between a particular college's tuition and the Government-calculated Expected Family Contribution — determines who gets help. Families with higher incomes as well as more savings and fewer children qualify for less aid. The system thus punishes families with the foresight and prudence to save for their children's education.

This faulty formula is used by all

An aid formula that punishes savings.

institutions that offer need-based aid. But the Federal Government is the biggest culprit: it provides 75 percent of all financial aid.

The economist Martin Feldstein has written that need-based financial aid is "equivalent to a substantial capital levy on the wealth that a family accumulates before and during the time that a family's child attends college." He estimated that such programs lead

the typical middle-income family with two children to save half as much as it otherwise would.

Another problem is that Federal aid formulas don't provide an incentive for parents to seek out a school with a relatively low tuition. A state university might cost \$7,000 a year, while a private college might cost \$25,000. But a family that qualifies for financial aid would be expected to pay the same amount out of pocket regardless of which school the child chooses. It's no wonder that universities have felt free to increase prices. College costs rose 77 percent from 1985 to 1995.

Americans need a system that doesn't penalize those who save and that encourages thrift in shopping for college. The Government has provided some incentives to save. The tax-free education I.R.A., for example, was introduced this year, though families can contribute only \$500 a year per child. Still, this program and others don't eliminate the arcane student loan rules that keep Americans from saving "too much."

Yes, the Government should help families pay for higher education. But we shouldn't punish the ants for the sake of the grasshoppers. □