College Aid: Don't Take the Bait

by Kim Clark, Money magazine
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If you're facing a $100,000 to $250,000 four-year college bill in the not too distant future, you probably see yourself not just as an anxious parent but as a pauper-in-waiting.

When some life insurance agents look at you, on the other hand, they see an ELF. As in "easy, lucrative, and fun."

At least that's how Tim Austin, founder of the National Association of College Funding Advisors, characterized parents of college-bound kids in a conference call last year to recruit new members to join his group -- which, despite its name, is actually an insurance marketing organization. (MONEY signed up for and attended the session.)

In a follow-up e-mail, Austin's NACFA associate Brian Kay urged prospective members not to miss out on "this obscenely profitable niche." And they aren't the only insurance pros positively giddy about the potential of the college market.

Hyperbole abounds on the websites of groups soliciting insurance agents and financial planners to join their forces and sell a combination of policies and advice to anxious parents: "Astounding results!" "A gold mine!" "Today's hottest market!"

For fees typically ranging from $800 to $4,000, these advisers -- who represent a niche within the college planning universe -- promise to help families save for college, pick good schools, and maximize aid.

The product many are promoting: life insurance. They tout guaranteed returns and point out that a loophole makes life insurance one of the few savings options that won't hurt a student's chances for need-based aid. That's mighty attractive to parents disappointed in 529 returns and frustrated by colleges' miserly aid packages.

Yet a four-month investigation by MONEY has found that, in reality, the people most likely to profit from this strategy are the planners themselves -- most of them insurance agents with flimsy college-planning credentials and, often, little understanding of financial aid.

Their insurance strategies, while attractive in theory, turn out to help relatively few families pay for school. And in too many cases, they do real harm by jeopardizing some kids' chances of getting into good schools, possibly lowering aid awards, and locking away or even losing family savings -- money parents may need to pay tuition bills.

What's more, while some of these sales practices violate the spirit and perhaps the letter of state insurance laws, regulators are largely unaware of them; a review of disciplinary action by federal and state authorities over the past five years found fewer than a dozen related cases.

"There are good college planners out there, but also too many who think the solution to every family's college funding problem is to buy an annuity or life insurance policy," says Lynn O'Shaughnessy, author of *The College Solution*. "They are snake-oil salesmen, and no one is policing them."

Contributing to the lack of enforcement action: Parents often don't realize they've been sold an inappropriate investment.

"It can take years to become obvious you're stuck with what's essentially a worthless policy" for college savings, says Massachusetts Attorney General Martha Coakley. She adds that sharp increases in college costs, combined with the tough economy, make parents especially vulnerable to hard-sell tactics: "More financial pressure and more anxiety create more opportunity for scammers to take advantage."

Understand this: Not every college financial planner is just out to sell you insurance, and some of those who recommend a policy may genuinely have your interests at heart. Many also provide other valuable services, such as assistance picking colleges for your child and applying for aid.

The challenge for parents is to separate the genuinely helpful advisers from those who are merely looking to nab an ELF. The key is to recognize the bait they're dangling, then take the steps to avoid the trap.

THE BAIT: "I'M A CERTIFIED COLLEGE FUNDING EXPERT"

The titles carry a ring of authority: College funding adviser. Certified college adviser. Certified college planning specialist. Certified college planning relief specialist.

At least 1,300 college financial planners boast of these professional labels; the vast majority -- more than 90%, according to the heads of the various associations they belong to -- are also insurance agents. The problem is, to earn these titles, planners get a lot of instruction in marketing to parents but little mandatory training in college savings strategies and financial aid.

Consider, for instance, what's involved in earning membership in the National Association of College Funding Advisors: Only two of the initial 12 hours of training are about financial aid; the rest focus on marketing techniques, such as scripts and presentations to deliver at college funding workshops designed to recruit new clients, says NACFA president Austin.

This instruction is sufficient, he adds, because members are supposed to focus on insurance and outsource parents' college-related questions about admissions and financial aid to the College Planning Network, a sister company that employs former admissions officers and other college experts.

Some other groups grant certifications after a few more hours of initial study, then passing an online -- and, so, open book -- test. (All of the groups also have some continuing education requirements.) By contrast, to become a certified financial planner, candidates must pass a two-day, 10-hour proctored exam covering many financial topics.

There's another key difference:

Unlike the CFP designation, which is recognized by most state insurance departments, none of the college financial planning organizations have registered with regulatory authorities to make their certifications official. Rick Darvis, head of the National Institute of Certified College Planners, the oldest group, says it is up to individual members to worry about obeying state laws.

The National Association of Insurance Commissioners and other regulators contacted by MONEY were largely unaware of the college planning certifications. According to Sharon P. Clark, head of the NAIC's committee on life insurance, the seemingly scant training of college funding specialists could violate rules in most states that bar agents from presenting themselves as advisers when their real goal is to sell insurance. Certification from an unapproved organization, she says, could also cross the legal line into false advertising.

For now, the lack of oversight leaves parents to mostly fend for themselves against advisers who may be dispensing incorrect information and bad advice -- something Donald Wisdom, president of an IT integration company in Santa Clarita, Calif., knows firsthand.

In 2010, Wisdom paid $3,500 to Brian Safdari, a certified college planning specialist with College Planning Experts for advice about aid and help in selecting colleges for his son, then 17. He says, "I just wanted my kid to be able to go to the college he wanted to go to."

Wisdom says that Safdari warned him that a rental property he owned could raise the amount he was expected to pay by 12% of his equity in the place.

He says Safdari then urged him to take out a bigger mortgage to reduce his equity and put the proceeds into an insurance policy that wouldn't be counted in the financial aid formula. When Wisdom's own research showed the maximum hit on the rental would be just 5.64%, he demanded and got a refund.

He then paid another counselor a few hundred dollars to suggest colleges and filled out the financial aid forms himself. His son ended up getting $32,000 in annual scholarships to the University of San Diego, a private school.

Safdari stands by his comment that certain assets can reduce need-based aid up to 12%, although when asked, he could not provide any examples. He also notes that private schools can use whatever calculation they want when awarding their own scholarships, and that "there is a lot of confusion" over the complicated federal formula.

How to avoid the trap

Pay only for what you need. An admissions consultant can help you zero in on affordable schools by developing a list of appropriate state universities and a few private colleges likely to award scholarships to your child. Expect to pay $135 an hour, on average.

Find a consultant through the **National Association for College Admission Counseling**, the **Independent Educational Consultants Association**, or the **Association of Independent Certified Education Planners**.

More interested in help saving for college expenses? Your best bet is to work with a fee-only financial planner, who won't be tempted to sell you a big-commission policy (find one with college expertise at **napfa.org**).

Trust but verify. Before committing big bucks to a college funding adviser, make sure he or she knows the facts.

Double-check any recommendations you get on authoritative websites such as **studentaid.gov** and **finaid.org**. Or you can check the basics at **College 101**.

THE BAIT: "THIS POLICY WILL LOWER YOUR COLLEGE COSTS"

"Without the proper guidance, practically all of the student's and parents' assets are there for the taking and are eventually absorbed by the college," warns Starvingmarket.com, the website run by College Funding Solutions to recruit planners.

College funding specialist Ron English of Greenville, S.C., last year's top-selling general agent for MTL, an insurer that is targeting the college market, says he advises wealthy parents to move assets into life insurance because "bringing your EFC down from $200,000 to $100,000 [over four years] ... increases merit awards."

There is one problem with these kinds of pitches: The claims often have big holes in them.

Take merit aid. These awards are usually determined by the admissions office, not the financial aid office, based on a student's grades, scores, or talents, says Peter Van Buskirk, former head of admissions and financial aid at Franklin & Marshall College, and author of*The Admissions Game*.

In the rare cases when household finances are taken into account, students from families with substantial savings have a good chance of getting larger scholarships, says Glendi Gaddis, director of financial aid at Trinity University in San Antonio. Although Trinity doesn't use this strategy, she explains, "a college might hope to entice a student from a family with significant resources, hoping that family might later donate to the school."

For need-based assistance, it's true that 99% of colleges exclude life insurance from consideration. Shifting assets into insurance to shield them from being "taken" by a college, however, usually doesn't help much, because parent savings aren't counted heavily in federal aid calculations.

At most, your contribution could rise by 5.64% of your nonretirement assets, after an exclusion of at least $30,000 a couple, says Mark Kantrowitz, publisher of FinAid.org.

Income, though, is dunned heavily: up to 47% of parental earnings, after a typical exclusion of about $50,000 for a family of four earning $100,000.

Generally, says Kantrowitz, if you have large enough assets to make a big difference in your expected contribution, your income is too big to get a need-based grant. "These insurance strategies usually backfire on the family," he says. "But by the time parents realize that, the adviser who told them to invest in life insurance has already gotten his money."

There are a few types of families that might benefit: those with moderate incomes but sizable nonretirement assets from, say, an inheritance or a second home or whose college-age children have significant savings of their own.

Colleges reduce need-based aid by at least 20% of student assets (excluding anything in 529 plans). You might also gain an advantage if your child applies to any of the 200 or so private schools that ask parents to fill out a second financial form called the CSS/ Profile.

The form asks about items that are excluded from the federal equation, such as homes, small businesses, and retirement accounts. That creates a larger pool of assets the school may count in figuring your contribution. The form, however, usually does not explicitly ask about life insurance.

Even under these circumstances, though, repositioning assets is no guarantee of increased aid.

For one thing, since most colleges are short on grant dollars, they first try to fill a freshman's need with government aid, including student loans, says Kalman Chany, author of *Paying for College Without Going Broke*.

Moreover, each school that uses the CSS/Profile has its own secret-sauce formula for how it will use the information, so, at best, you can get only a rough projection of what, if any, impact asset-shifting will have. All you can know for sure is that at the handful of schools that specifically ask about life insurance -- including Amherst and Boston College -- you can't move the needle.

Worse still, shifting assets could harm your child's chances for admission at some schools. About 20% of private colleges give preference to some students who can pay full price, NACAC has found.

Shifting assets certainly backfired for Catherine Bryant, a swim instructor, and her husband, Luis Aguilar, a municipal equipment operator. In 2009, the Ventura, Calif., couple hired local college funding adviser Linda Taylor, who suggested they raise $100,000 to pay tuition at the University of California at Berkeley for their son Nico with a cash-out refinancing of their home.

If they parked the money in an annuity, Taylor said, they'd earn a guaranteed return and wouldn't have to report the increase in their savings on their federal aid application. The couple took Taylor's advice, but the maneuvering didn't work; Nico didn't get a grant.

It isn't unusual for repositioning to fail to achieve the desired results, but Bryant's story took a particularly sordid turn. When she and Aguilar tried to tap the annuity to pay college bills in 2010, they discovered the investment was fraudulent -- and they'd lost all their money.

Nico had to accelerate his studies to finish college in three years and put off law school; his parents are still paying off the home loan.

As for Taylor, she pleaded guilty last year to wire fraud and is serving a 54-month sentence at a medium-security facility in Victorville, Calif.

How to avoid the trap

Play "before and after." To see if shifting assets might help you, fill out the College Board's EFC calculator and net price calculators posted by the schools your child is targeting, suggests Chany.

First, fill them out correctly; then redo the forms, reducing your nonretirement assets by the amount you might move into insurance. If moving assets won't bring your expected contribution down to at least $7,000 below the cost of attendance, says Chany, don't bother.

Get those grades up. Improving your child's test scores, grades, or special skills could do more to increase grants from private colleges than moving assets, says Chany. Research shows two-thirds of private colleges award bigger need-based grants to students with great academics. A growing number of colleges are including merit scholarship information in their web calculators.

THE BAIT: "YOU WILL EARN A GUARANTEED RETURN"

As some agents tell it, cash value insurance does sound like an ideal investment for college savers. Combining a death benefit and a savings account, the policies offer guaranteed returns, recently around 4% for whole life and at least 2% for indexed universal life policies that can reap additional gains in the stock market.

Investing via monthly premiums (recommended for parents of younger children) or one lump sum (among the few options for parents facing imminent college bills), you build cash value over time. Then you can borrow tax-free against the standard policy later, or withdraw money from a single-premium policy to pay college costs. An annuity offers similar advantages but no death benefit.

The trouble is, it takes years for these policies to build to their guaranteed return; in the early years, high commissions (often 8%) and the cost of the death benefit eat into cash value.

The half dozen college-oriented life insurance policies analyzed by MONEY generally took at least seven years to earn their promised returns. Yet about 25% of whole life policies lapse within five years because people can't keep up the premiums. A policy with an initial cash value of $4,000 that builds to $140,000 in 10 years and a $300,000 death benefit might run you $1,000 a month.

Single-premium policies have other wrinkles. To come up with the lump sum to invest, agents often urge parents to move money out of other assets, such as a 529 savings plan.

That can be costly; if you take profits out of a 529 and don't immediately use the money for college, you'll pay taxes and a 10% penalty. You also can't borrow from single-premium policies or take money out tax-free; plus, parents under age 59½ will pay a 10% penalty on any gains they withdraw.

Worst of all, tapping the policy to pay college bills could hurt future aid because the withdrawals can be treated as taxable income.

The complications and gotchas can turn life insurance and annuities into an expensive mistake for some parents.

Ask Suzette Shilts, a school aide from Hingham, Mass., who in 2010 found herself "in a panic" about how to pay looming college bills for her high-school-age daughter and son. So she went to local planner Kirk Brown, owner of the College Advisors Group, for help. He suggested putting her savings in a guaranteed annuity, which Shilts did. But months later, when she needed the money for a family emergency, she discovered she would lose $1,700 to early-surrender charges. "I thought I was doing the right thing, and it turned around to bite me," she says now.

Brown, who in 2009 agreed to a $245,000 fine to settle state civil charges that he placed several college families in inappropriate insurance policies, says Shilts told him the money was earmarked for retirement, not college -- even though he prepared an eight-page college funding report for her that Shilts showed to MONEY. Brown also notes that Shilts "signed off on all the disclaimer sheets" and that an annuity is a good choice for long-term savings.

How to avoid the trap

Get a second opinion. Don't make a big move like sinking your savings into life insurance without running it by an independent consultant. For $100, for instance, EvaluateLifeInsurance.org, headed by the former insurance commissioner of Vermont, will analyze any life insurance proposal.

Look at other providers. At MONEY's request, insurance consultant Glenn Daily evaluated policies from many of the biggest players in the college market, including Lafayette, MTL, Aviva, and North American.

While the products provided higher-than-average cash values, Daily says, they were complicated and didn't fully disclose true costs -- a common problem. He says parents would do better with a no-commission policy from TIAA-CREF or ones from top-rated mutual insurance companies such as Mass Mutual or Northwestern.

THE BAIT: "COME TO MY FREE COLLEGE FUNDING WORKSHOP"

Once your kid hits 11th grade, you're likely to start getting invitations to free college funding workshops, often held at a local high school and sponsored by a nonprofit. Beware.

Like the free-lunch seminars that some retirement planners use to lure seniors to invest with them, these supposedly no-pressure informational gatherings often turn out to be a thin cover for insurance agents looking to drum up business.

Consider insurance agent Nancy Ziering, who runs a planning business called College and Retirement Solutions in Chatham, N.J. Last spring Ziering gave free college seminars at several high schools, claiming to represent the Education Funding Consultants Association, a nonprofit.

In a recent blog post on the website of Coastal Producers Group, another college financial planning company that she is affiliated with, Ziering encouraged agents to hold a "Free College Financial Aid Night," at schools to win new clients. She wrote, "It would be in your best interest to be affiliated with our nonprofit, as many schools will not allow for-profit businesses access to parents and students." What Ziering didn't disclose was that EFCA had lost nonprofit status years before for failure to file tax forms.

Ziering also happens to be one of the few college planners who has been the subject of disciplinary action. In 2008 she was suspended for nine months and fined $60,000 by the Financial Industry Regulatory Authority after settling charges from at least six clients that she had sold them inappropriate variable universal life policies.

Ziering says she has since stopped recommending the questionable policies. Last fall, however, the New Jersey department of banking and insurance initiated proceedings to strip Ziering of her insurance license, contending that she put at least 15 clients into inappropriate insurance policies. Ziering, who denies any wrongdoing, is awaiting a hearing date.

Imprisoned planner Linda Taylor says she also used a nonprofit to gain access to schools and claims it is common practice. Many advisers follow a formula, she says: "They buy a list of names of families. They send out postcards offering free college funding seminars, they do the seminar, they scare the s--- out of parents and then offer them hope."

NACFA training videos obtained by MONEY seem to follow this approach. In them, session leaders suggest that advisers use questions and information to lead parents into what the late marketing guru David Sandler coined a "pain funnel" to increase their desire to pay for relief.

Sandler's techniques are used by salespeople of all types. To sharpen the pain, some college funding advisers emphasize how complex the financial aid process is. Others warn that colleges can take all your savings, 529 plans have had big losses, or that Washington budget cutters will eliminate their tax breaks.

Says Taylor: "Parents come in, their kid is a year away from college, and they are panicked. They will believe anything."

What to do

Resist the hard sell. Dire proclamations should set off alarm bells.

Despite a few rough years during the financial crisis, 529 plans usually work out better than life insurance for college savers. And tax breaks for 529s are not scheduled to lapse in the fiscal cliff. If you don't waste effort on shortcuts that may not work out and instead just save steadily and, when the time comes, favor affordable schools, you can pay for college without turning into a pauper -- or an ELF.