

After the Diploma: Paying for Graduate School

Maybe you've decided that graduate school is the path to advancement in your current job or your ticket to a better career. Or maybe you just want to take a few classes to upgrade your skills. Either way, returning to school as an adult often involves financial sacrifices. How will you pay for it? Personal savings, financial aid, employer-funded tuition, and private loans may be available to you, and education tax credits might help out at tax time.

Calculate the costs

Before you jump into investigating graduate school funding sources, the first thing to do is calculate how much your education will cost. Along with direct billed tuition and fees, make sure to add in collateral expenses that won't show up on the bill, such as room, books, commuting costs, day-care expenses, and so on. And if you plan to give up your job, factor in the time you'll be without a paycheck and the time it might take you to find a new job. Once you have a cost estimate, it's time to look for the money. Following are some suggestions on where to look for financial help.

Ask your employer

If you're currently employed, the first place to look for education funds is your current employer. Unless you're leaving your job to attend school, find out whether your company offers tuition reimbursement benefits. The first \$5,250 of employer-provided educational assistance is tax free, even if it's for classes that are unrelated to your current position. If your employer pays more than \$5,250 in educational benefits to you during the year, you must generally pay tax on the amount over \$5,250. Your employer should include in your wages (Form W-2, box 1) the amount that you must include in your income. For more information, see IRS Publication 508, Tax Benefits for Work-Related Education.

If your company does offer tuition reimbursement, make sure to find out if there are strings attached. For example, you may need to certify that you're not retraining for a new career, or you may have to work at the company for a certain number of years after you earn your degree or risk having to pay back your benefits.

Some companies may allow you to take a leave of absence and/or work part-time in order to take classes. If this isn't a formal policy, ask your manager or human resources supervisor if this is a possibility.

Investigate your financial aid options

The maze of student financial aid programs can seem like another obstacle in your quest to return to school, but the process is understandable if you do some research and ask questions. Start at your school's financial aid office or at the government's financial aid website www.ed.gov.

To qualify for federal aid, you'll need to submit the government's aid application, the FAFSA. The FAFSA calculates your expected family contribution (EFC), which is the amount of money you are expected to contribute to college costs. As an adult, you'll be classified as an independent student, which means your income and assets will count in the EFC calculation, and if you're married, your spouse's income and assets will also count. If you plan to reduce your hours or stop working this year to attend school, your income will obviously be less when school starts. Make sure to bring this to the attention of your school's financial aid administrator, who is authorized to take special circumstances into account and rebalance aid awards, where appropriate.

Here are some federal and institutional financial aid options:

- **Loans:** The two main federal loan programs for graduate students are Direct Stafford Loans and Grad PLUS Loans. Graduate students can borrow up to \$20,500 per year (or \$40,500 for certain medical training) in Direct Stafford Loans, with a maximum loan limit of \$138,500 (\$224,000 for medical training), including undergraduate borrowing. Grad PLUS Loans have no annual borrowing limits per year; graduate students can borrow up to the full cost of their education (minus any other financial aid received). To qualify for either loan, students must attend school on at least a half-time basis. For the 2018/19 school year, the interest rate on Direct Stafford Loans is 6.595% and on Grad PLUS Loans is 7.595%. The rate is fixed for the life of the loan but resets each July for new loans. For graduate students who are enrolled less than half-time, the federal Perkins Loan, which is dispersed by individual colleges, allows borrowers with financial need to borrow up to \$8,000 per year, with a maximum loan limit of \$60,000, including undergraduate borrowing. The current interest rate is 5%.
- **Work-study:** The federal work-study program subsidizes jobs for both undergraduate and graduate students. Check with the financial aid office at your particular school for more information on the types of jobs available.
- **Military aid:** The federal government also offers educational benefits for veterans and their dependents. Contact your local veterans' office or your school's financial aid office for more information.
- **Scholarships and grants:** At the graduate level, most scholarships and grants come from schools and are often awarded on the basis of merit, not need. So contact the financial aid office of any school you're considering to see what scholarships or grants might be available. Many scholarships and grants are awarded at the departmental level, so your chances might depend on what subject you plan to study. In addition, many private organizations offer scholarships for graduate school; there are several websites where you can search for them free of charge.

Take a trip to the bank

If you don't qualify for federal or institutional financial aid or you need to borrow more than the federal student loan limits, private loans from commercial lenders are an option. However, the rates on private student loans are typically higher than on federal student loans, and private lenders typically offer less generous repayment options.

Use personal assets

Do you have savings that could cover a portion of your expenses? Money left over in a 529 plan? Or maybe you could sell some assets? Just remember that tapping your retirement funds to pay education expenses should be a last resort — money you withdraw from retirement accounts will reduce your future nest egg, and you'll miss out on the potential for tax-deferred growth. And, depending on the type of retirement account you tap, you may face tax consequences and penalties for withdrawing money before age 59½.

Review education tax credits and deductions

In addition to the tax break noted above for employer-provided educational assistance, there are several other federal tax incentives that can help ease the financial burden of returning to school:

- American Opportunity credit — This credit is worth up to \$2,500 in 2019 for tuition and related expenses for the first four years of undergraduate education, provided you're enrolled at least half-time. To take the full credit, your modified adjusted gross income (MAGI) must be below \$80,000 (single) or \$160,000 (married filing jointly). A partial credit is available to single filers with a MAGI between \$80,000 and \$90,000, and joint filers with a MAGI between \$160,000 and \$180,000.
- Lifetime Learning credit — This credit is worth up to \$2,000 in 2019 to cover the tuition and fees for higher education courses taken throughout your lifetime, whether to acquire or improve job skills. To take the full credit, your MAGI must be below \$58,000 (single) or \$116,000 (married filing jointly). A partial credit is available to single filers with a MAGI between \$58,000 and \$68,000, and joint filers with a MAGI between \$116,000 and \$136,000. Unfortunately, the American Opportunity credit and Lifetime Learning credit can't be claimed in the same year for the same student — it's one or the other.
- Student loan interest deduction — If you graduate with student loans, you may be able to deduct up to \$2,500 of the interest you pay on student loans each year. To take the full deduction in 2019, your MAGI must be below \$70,000 (single) or \$140,000 (married filing jointly). A partial deduction is available to single filers with a MAGI between \$70,000 and \$85,000, and joint filers with a MAGI between \$140,000 and \$170,000.

For more information, consult IRS Publication 970, Tax Benefits for Education.

How will you balance school, career, and life?

You've found the money — now you need to find the time. Balancing school demands with the rest of your adult responsibilities can be challenging, though not impossible. Here are some tips:

- Map out your life goals (again) to confirm that returning to school will help you achieve them.
- If you're married, make sure your spouse is an equal partner in household chores and, if applicable, child-rearing responsibilities.
- If you have older children, explain your new routine and how they can help out. If you have younger children, arrange day care if necessary — check to see if your school offers it.
- Look for programs designed for adult students (e.g., support groups, tutoring programs, specially trained academic advisors and counselors).
- Consider going to school part-time, taking classes at night, or signing up for online classes. Each option can save you time and money.
- When things get tough, try to keep things in perspective by looking at the forest, not the trees. Keep in mind the financial and personal rewards that will come after your education is complete.

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