

# Planning for Higher Education in Divorce

Don't let college planning become an afterthought

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## Key points

- Divorce is an emotionally charged life event that may cause many to leave college planning as an afterthought
- High-net-worth families are not immune from the challenges of funding college and completing financial aid forms properly
- A quality practice for high-net-worth families is the completion of a divorce decree or property settlement agreement that includes understandable terms of college costs





**Nearly half of all U.S. marriages—and more than half of all second marriages—end in divorce. There are many complexities that result from these breakups, particularly when children are involved. Decisions around the funding of college and completing financial aid forms properly can create many challenges for a divorced family. And unfortunately, high-net-worth families are not immune from these concerns.**

#### **Specifying college funding in the divorce decree**

In cases where college funding is either voluntarily provided or issued as a result of a court or state mandate, a quality practice for high-net-worth families is the completion of a divorce decree or property settlement agreement that includes understandable terms of college costs. These agreements should include specific financial responsibilities for both parties in an effort to reduce confusion during the college years. More specifically, funding that defines tuition, room and board, books, and miscellaneous fees at a detailed level is important to creating a clear expectation as part of the divorce proceedings. Challenges can arise when the decree or property settlement agreement is not specific enough in regard to the expenses, such as identifying the institution type (private or public schools) and the level of collegiate pursuit to be funded (undergraduate only, up to masters, or through doctoral study). It's also important to account for inflation increases and future cost projections for any of these types and levels of college costs; this can be done by reviewing historic inflation data on tuition, fees, and room and board through the U.S. Department of Education.

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## Investment and trust considerations

The specific investment vehicles utilized and the titling and protection of assets are important planning considerations as well when defining costs during occurrences of divorce. You should also be aware of other family members who have contributed to your children's college funding so that the goals and mandates connected with college are not overfunded or underfunded. All of these variables can play a role and may have consequences on taxes, gifting strategies, and possibly financial aid.

To complicate matters further, high-net-worth families with minor children often have existing investment accounts designated for college at the time of the divorce. The ownership of these accounts, post divorce, could possibly have a financial aid impact on the student if the custodial parent will have a significantly lower income (and corresponding lower Expected Family Contribution (EFC)) as compared to the noncustodial spouse. Before ownership on the existing investments is established within the decree or property settlement agreement, utilizing various college net price calculators is an important practice. Using the net price calculators will provide insight if the custodial parent will have any possibility of greater financial aid access in cases where he or she may either maintain or expunge ownership of the already established asset. Additionally, if there is a significant income disparity (and corresponding lower EFC) between the divorcing parties, consideration of a 51/49% custody split in favor of the lower-income parent could be favorable if joint custody is desired and financial aid maximization is a goal. Some colleges will use only the income of the custodial parent for their financial aid calculations.

Not only are there a variety of investment vehicles and considerations for existing and future investments, some families entertain the possibility of setting up a trust to fund education for existing and sometimes future generations. Trusts can be established in many different formats. Some trusts can be general in nature while others can be more restrictive, with specific parameters as to how the funds can be used for educational expenses. The type of trust and the state in which it is located and administered require careful consideration and should be discussed with an advisor to determine the strategy that is best for your family's particular situation.

## Filling out forms:

### Financial and merit-based awards

Moving forward to the college years, many high-net-worth divorced families complete the Free Application for Federal Student Aid (FAFSA) and the College Scholarship Service (CSS) Profile even if they will not receive any need-based aid. Both the FAFSA and CSS Profile are financial aid forms that gather various pieces of information, including income and assets, and serve as the driver for need-based financial aid consideration and merit-based aid, respectively. All accredited colleges utilize the FAFSA and several hundred colleges use both the FAFSA and CSS Profile as the data portals that generate both need-based and merit-based award letters.

The two forms have variances when addressing families of divorce. More specifically, the FAFSA will only require that the custodial parent and student fill out the FAFSA. The income and the assets of the non-custodial parent are not included in the data entered by the custodial parent but any child support and/or alimony received by the custodial parent is submitted. For the purposes of the FAFSA, the custodial parent is defined as the parent with whom the child has resided most over the past 12 months as of the date of the FAFSA submission. If the custodial parent is remarried, the new spouse will be included on the FAFSA submission (even if there is a prenuptial agreement in place). Sometimes life's circumstances do not neatly fit into a box on either the FAFSA or CSS—especially in the cases when a divorce is not complete and child custody is in flux. For these cases and questions, the parent should contact the financial aid department at the colleges under consideration for guidance and professional judgment.

The CSS Profile asks for more details than the FAFSA, and it also asks for the information from both the custodial and noncustodial parent (and their spouses if remarried). On the occasion that a noncustodial parent refuses to cooperate and complete the CSS Profile, the custodial parent can contact the financial aid department for guidance on how to proceed. Mandatory cooperation by both parents should also be required in the property settlement agreement or divorce decree.

**Moments of divorce are often emotionally charged life events that many times leave college planning as an afterthought. To avoid the pitfalls of the afterthought, a quality divorce decree or property settlement agreement that addresses college funding in concert with an understanding of the financial aid process can go a long way to providing the financial support your child will need during the college years.**

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As part of the Wilmington Trust Emerald Family Office & Advisory® team, Jerry creates and facilitates customized family workshops for family members seeking engagement and preparation for the present and future roles within their families. These workshops are designed to assist families with communication, personal legacy planning, wealth transition, and financial education. Families exit this experience with a vision for what is possible for their family, including but not limited to a list of common values, a deeper understanding of one another, and most importantly a path forward for what they hope to achieve together.

Additionally, Jerry provides research-based information for Wilmington Trust's clients on the many financial and nonfinancial choices and paths available during the education selection process. The educational roadmaps provided by Jerry to parents, grandparents, and students help to establish a sound educational foundation for young adults as they transition from scholarly students to productive members of the world of work and citizenry. Jerry has more than eighteen years of banking and finance experience.

Jerry is a Certified Financial Therapist-Level I™ Practitioner (CFT-I). As a CFT-I, he helps clients think, feel, and behave differently with money and improve overall well-being through evidence-based practices and interventions that aim to resolve underlying issues limiting self-growth, happiness, and financial wellness. He holds an Ed.D. in educational leadership and administration from D'Youville College; two master's degrees from SUNY Buffalo in urban policy and school counseling; and a bachelor's degree as a University Scholar from Xavier University.

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