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YOUR MONEY

Why It Makes Good Sense to Save for College Now

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Your Money

By RON LIEBER

You should save money for college expenses if you possibly can. And if you're worried about how that savings might hurt your child's financial aid eligibility, then you're thinking about it wrong.

That ought to go without saying, but there is a persistent and mostly mistaken belief that goes something like this: If we save, the colleges will just take it. And if we don't, we will qualify for more help.

While there is a tiny germ of truth to this supposed financial aid penalty, the consequences of upper-middle-class people not saving much are now splayed before us in the presidential campaign financial disclosures.

Martin O'Malley and Marco Rubio each have four children. Two of Mr. O'Malley's children have already finished college, and he and his wife now owe roughly $340,000 for their tuition bills. That last zero is not a typo. The Rubios, meanwhile, have put away tens of thousands of dollars, and their eldest is still three years from starting college.

Every family that is lucky enough to have some spare money and savings options does what it does for its own reasons. That's why we call it personal finance. But no one should choose not to save out of ignorance of how the system actually works.

So let's start here: The awarding of financial aid is a mix of science and art. It is enormously complicated, and it's not your fault if you don't understand it. While it's true that families with ever-higher incomes are qualifying for some financial aid purely on the basis of what they can afford to pay, those with healthy earnings probably won't qualify for a lot of need-based grants and scholarships — the free money that you don't have to pay back — unless they have more than one child in college at the same time.

The process begins with filling out the Free Application for Federal Student Aid, otherwise known as Fafsa. Once you do, the federal government determines your Expected Family Contribution, or E.F.C. The government gives away money in the form of Pell and other grants, but most people who have the ability to save a decent amount for college probably earn too much to qualify for those.

So that means you will be seeking grant money from the college itself, which may have its own additional forms for you to fill out and numbers it will run. It uses its own discretion in awarding its money.

The E.F.C. formula is intricate and requires 35 pages for the federal government to explain, but the things it emphasizes are clear. Your income matters much more than your savings. The E.F.C. will suggest that you should devote a sliding amount up to 47 percent of your income to college expenses in any given year, though it will count only up to 5.64 percent of parents' assets, like those in a 529 college savings plan.

(Retirement accounts don't count here, though some colleges may consider some of the equity in your home to be an asset.)

Why doesn't the formula just take all of your savings? Well, the people who wrote it know you have other priorities, which may include other children who are not yet in college. Ann Garcia, a financial planner at Beacon Rock Partners in Portland, Ore., suggests another likely explanation: Part of the point is to encourage families to save, not penalize them for doing so.

Ms. Garcia says she hears about the savings penalty myth all the time, so much so that she recently took to her blog, “The College Lady,” to try to explain it away with some numbers. By her calculations, the E.F.C. for a typical family with two children and $41,000 in college savings would rise by $1,322 because of that savings. That’s a nominal amount, given the considerable balance. “Not saving for college penalizes you a whole lot more,” she said.

But perhaps you just don’t have the money for any number of reasons that are not your fault. Or, in a country that has meekly accepted that everyone is responsible for seven figures of retirement savings, you are tempted to favor retirement saving over putting six figures aside for college. Can’t you count on all of these expensive colleges to help you out with grant money once your child is ready to enroll?

Don’t bet on it. Sure, you can assume that your numbers will make you needy enough to receive those grants — that your income and assets will never rise to the point where you will be able to pay the full amount. But that’s only the beginning.

Choosing not to save is also a big bet on the college — that it will admit students regardless of what their E.F.C. says they need, that it will meet every cent of that need, and that it will do so with grants and not by telling you to borrow it. According to 2013-14 estimates from the College Board, students and their families borrowed $106 billion during that period, compared with the $48 billion that schools gave away in grant money. (Lower-income students, veterans and others got another $49 billion in grants from the federal government.)

The financial aid rules could change, too. “We have no idea what the income thresholds will be five to 10 years from now when your son or daughter is ready to go to school,” said Pamela W. Fowler, executive director of the office of financial aid at the University of Michigan. “So you want to take a chance on that? I just don’t understand people’s thinking.”

Your child will then need to win admission to the college even to have a shot at getting grants, and this is where things start to get more interesting, and also more unpredictable. Many colleges award something called “merit aid,” which has nothing to do with a family’s financial need. Instead, they hand out discounts to students who raise the profile of the entering class — the better to improve the college rankings that determine where so many people apply in the first place.

And here's another factor: The private colleges (and public universities seeking out-of-state students) hope to sway families that wouldn't pay $30,000 or $40,000 more each year than what their flagship state university costs but might pay $10,000 or $20,000 more, especially if the college identifies the student as especially meritorious. Parents should make extra sacrifices for special kids, after all!

You, however, are trying to make financial plans right now. And when your child is 8 years old, you know very little about his or her aptitude for much beyond Minecraft and multiplication tables. Choosing not to save because you hope to win the merit lottery a decade hence seems like a big wager, not just on your offspring but on colleges that can be fickle in their choices.

"It's as if you submitted your tax return to five different countries," as Kalman A. Chany puts it in the 2016 edition of "Paying for College Without Going Broke."

In theory, not saving also puts your family at risk of picking the college that is the best financial choice and not the one that has the best shot at helping your child thrive. Or, you could be like the O'Malleys. They paid Catholic school tuition, too, and didn't have a lot of college savings. But they chose to borrow a lot of money anyway, banking on their own ability to earn more later (perhaps in the private sector) and pay it all back.

"For us, this is what the American dream is all about, working hard and making sacrifices so our kids can pursue bigger opportunities and do better than we did," Mr. O'Malley said through a campaign spokeswoman. He added, jokingly, that he and his wife continue to hope "against cruel experience" that their younger two children will attend a state school.

A campaign spokesman for Mr. Rubio, who has had his share of financial challenges, did not comment beyond noting that in the past, the senator has hoped aloud that his children would not have the kind of student loan debt that he did.

In most every instance, saving can only help in that regard. Kenneth F. Robinson, a financial planner in Cleveland, looks at the Fafsa and E.F.C. formulas and doesn't think it's a close call. "If you saved $1,000 less, you'd generally have $56 more in financial need," he said. "So would you rather have the extra $944? I know I would."

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