

INVESTING IN YOUR CHILDREN
UNDERSTANDING COLLEGE AID

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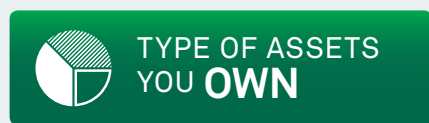


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As college prices continue to rise, students and parents are considering their options for covering costs. Each year, millions of students are eligible for grants, scholarships and financial aid. However not all of them receive assistance because of misunderstandings about who qualifies and what is required to capture these dollars.

You shouldn't automatically assume that your income and assets will disqualify you from receiving financial aid. Many other factors influence aid decisions, including:



The following pages highlight what you need to know to assess whether your family may qualify for financial aid. You'll also learn how to interpret a financial aid award — they can be confusing — and discover the best ways to request a better package if the offer is disappointing.

Grants & Scholarships

You and your child can apply to receive help with the cost of college from grants and scholarships. How you attain the most amount of money from grants and scholarships depends on the criteria that are followed when giving these.

A student's GPA and test scores are often the most important factor. Colleges will also look at gender, geography and income level of the family. Private schools often base their decision on a more holistic picture — such as recruiting students from different geographies. Public universities, with many applicants, usually rely more heavily on GPA and test scores. The bottom line is that grades are crucial in getting accepted into a school and also obtaining grants and scholarships.

STATE GRANTS & SCHOLARSHIPS

Many are under the assumption that state grants are only good for students attending public universities when, in fact, many states give scholarship money to students attending private schools within their borders. In many states, students are awarded state scholarships even if their parents are wealthy. To learn more about the grant programs in your state, go to the US Department of Education's website, at www.ed.gov. From here you can find the contact information for your state's higher education agency and contact them for more information about their state grant programs.

PRIVATE SCHOLARSHIPS

Another misconception is that private scholarships will pay for a majority of the cost of college if your student can attain them. Private scholarships, though available, tend to be much smaller — averaging around \$2,500.

To find private scholarships check with your library, guidance department and/or your town. Another resource for finding scholarships is online scholarship sites.

A few you may want to explore are:

- ▶ Collegeboard.com
- ▶ FastWeb.com
- ▶ Scholarships.com

However, do not overlook how private scholarships affect financial aid. If your child wins a private scholarship their financial aid package could be reduced by the amount of the award. The reason for this is because federal rules state that a college calculates financial aid outside of scholarships received.

Make sure you check with your schools about their policies regarding financial aid and private scholarships.

Financial Aid Timeline

JUNIOR YEAR OF HIGH SCHOOL



This is the start of the tax year that will be used to determine if household income will qualify your child for **financial aid**.



Start using net price calculators located on college websites, such as collegedata.com, which will provide you with a personalized estimate of your family's costs after subtracting any applicable grants/scholarships.

SENIOR YEAR OF HIGH SCHOOL



Check aid deadlines for colleges on your child's list and state aid programs at fafsa.ed.gov/deadlines.htm. Start collecting investment records and most recent income tax returns.



The latest CSS/Financial Aid PROFILE is available October 1. **Register for the PROFILE** on the College Board website. If your child is applying to schools through early decision and early action programs, complete the PROFILE using estimated income figures.

The latest **FAFSA** is available on October 1. Complete the FAFSA as soon as possible. At pin.ed.gov, obtain a FAFSA PIN for you and your student, which is necessary to electronically sign the FAFSA and access your financial aid records.



Compare **financial aid awards**. If necessary, appeal awards.



This is the **deposit deadline** for many schools to reserve a place in the freshman class. Ask your child's intended college about its payment-plan options.



If necessary, **apply for college loans**. Federal student loans are typically the best first choice.

Applying for Financial Aid

COMPLETING THE FAFSA

To be eligible for financial aid, you must complete the Free Application for Federal Student Aid (FAFSA), which millions of Americans file each year. You can find the latest application, which is released annually on October 1, at [FAFSA.ed.gov](https://fafsa.ed.gov).

The financial and household information that you provide on the FAFSA determines if you will qualify for financial aid from the federal and state governments. Most colleges also use this application to determine if your child will qualify for their own in-house aid.

Even if your income is too high for need-based aid, you should complete the FAFSA if you or your child expects to borrow through federal college loans. Also, without a FAFSA on file, your child won't qualify for a campus work-study job.

COMPLETING THE CSS/FINANCIAL AID PROFILE

The vast majority of schools require only the completed FAFSA, but roughly 250 institutions will also expect you to fill out the CSS/Financial Aid PROFILE. Nearly all the schools that require this additional aid application are private. The PROFILE, which can be found on the College Board's website, collegeboard.org, is released annually on October 1.

While the PROFILE and the FAFSA ask many of the same questions, the PROFILE dives deeper into a family's finances.

Complete a FAFSA regardless of your family's income and assets.



How Assets Impact Aid

It's only natural that many families worry about how their hard-earned savings will impact their chances for financial aid. Most of the time parent assets will not hurt a child's aid eligibility. This is because parents' wealth is often invested in assets that most schools don't consider.

As shown in the table below, colleges using the FAFSA and PROFILE formulas ignore qualified retirement accounts such as Individual Retirement Accounts and 401(k) plans in their calculations.

The FAFSA also ignores home equity (the form doesn't even ask if you own a primary home) and the assets of a business with less than 100 full-time employees. Schools using the PROFILE usually consider the value of homes and businesses, but how they treat these assets will vary.

ASSET	FEDERAL AID FORMULA (FAFSA)	CSS PROFILE
Home Equity	Ignores	✓
Family owned businesses/farms	Ignores (with less than 100 full-time employees)	✓
Qualified retirement assets	Ignores	Ignores

EXPECTED FAMILY CONTRIBUTION

To assess your expected aid eligibility, it is necessary to determine your family's Expected Family Contribution (EFC). The EFC is what colleges expect a family to pay for one school year and determines what aid you will need to pay for your child's education. The smaller your EFC, the better your odds of receiving need-based aid. **Work with your advisor to determine your EFC.**

Aid Formulas

Only your non-retirement assets — such as taxable brokerage accounts, checking and savings accounts, certificates of deposit and 529 college savings plans — influence your financial aid eligibility. The aid formulas factor in these parental assets at no more than 5.64%. In comparison, your child's assets are assessed at 20% to 25%. The table below shows how assets and income affect aid eligibility.

Not all of your college accounts and other savings, however, will hurt your aid chances. The FAFSA provides parents with an asset protection allowance that will automatically shelter some of this money. The age of the oldest parent determines how much you can shelter.

The PROFILE formula also includes an asset allowance, but is not based on the age of the oldest parent. It is more heavily weighted toward the number of children in the household.

	STUDENT	PARENT
Income	50% (in excess of \$6,130)	47% (up to) ▶ Gifts to students counted here
Assets	20% FAFSA 25% CSS	5.64% ▶ Qualifies for Education Savings & Asset Protection Allowance ▶ Number of students in college taken into account

FINANCIAL AID EXAMPLE

Let's see how the FAFSA allowance works by using an example of a married couple where the oldest parent is 52. This hypothetical couple has \$100,000 saved in non-retirement assets with the bulk of it in a 529 plan.

ACCORDING TO THE FEDERAL TABLE, THESE PARENTS COULD SHIELD \$30,700.

$$\begin{array}{r}
 \$100,000 \text{ (savings)} \\
 - \$30,700 \text{ (asset allowance)} \\
 \hline
 \$69,300
 \end{array}$$

When you subtract the couple's allowance of \$30,700, the family would have \$69,300 subject to financial aid calculations. **This amount would be assessed at the parents' rate of 5.64%.**

Bottom Line: Despite a potential loss in financial aid, families who have saved will usually be in a better position to pay for college than those who have not.

$$\begin{array}{r}
 \$69,300 \\
 \times 5.64\% \\
 \hline
 \$3,908 \text{ (reduction in aid eligibility)}
 \end{array}$$

While the family saved \$100,000, they only had their potential aid reduced by \$3,908. **It's important to note that there is no guarantee that the potential aid that they lost would have been in the form of grants rather than loans.**

How Filing Status Impact Aid

CHILD STATUS

Independent Student

Many parents wonder if a child, who is living on his or her own, can be considered an independent student. These students usually qualify for more financial assistance. The federal government, however, has made it extremely difficult for undergraduates to qualify even if parents are providing no financial support.

A student has to be able to answer yes to one of 11 questions to be considered independent. Some of the key questions are:

- ▶ Will you be 24 in the year you file for financial aid?
- ▶ Are you married?
- ▶ Are you working on an advanced degree?
- ▶ Are you in a legal guardianship?
- ▶ Are you a U.S. military veteran?

You can find all the dependency questions at:

studentaid.ed.gov/fafsa/filling-out/dependency/

PARENTS' MARITAL STATUS

Married and Unmarried Couples

If your parents are married to each other or living together, the rules for filing are fairly straightforward, both must include their income and assets on the financial aid documents. This applies to biological and/or adoptive parents, or parents as determined by the state. The same rules apply whether your parents are of the same sex or opposite sex.

Divorced and Legally Separated Parents

The primary custodial parent will be responsible for completing the FAFSA. For purposes of financial aid, the primary custodial parent is the one who has taken care of the child for the majority of the 12-month period ending on the day the aid application is filed. So if one parent took care of the child for 6½ months, he or she would be the primary custodial parent regardless of who claims the child on tax returns or who pays child support. The FAFSA will not inquire about the other parent's income and assets.

Legal Guardians

Students who have legal guardians are considered independent students. The PROFILE schools can have different rules about applying for aid in non-traditional living arrangements, so it's best to contact individual schools for clarification.

Your filing status may qualify you for more aid.

Maximizing Financial Aid

THE FOLLOWING ARE WAYS TO BOOST YOUR CHILD'S CHANCES OF RECEIVING A BETTER AID PACKAGE:

Find Schools That Are Solid Academic Fits.

Students near the top of the applicant pools are more likely to receive greater aid and merit scholarships.

Apply to Generous Colleges.

The most generous schools will meet 100% of your child's demonstrated financial need or close to it. Use net price calculators, such as collegeabacus.com, to see the average aid award given at the college.

Move Money Out of Your Child's Name.

Child assets, most notably in custodial UGMA/UTMA accounts, are assessed for financial aid at rates up to 25%. Consider paying any applicable tax and moving the child's money into a custodial 529 plan where it will be treated more favorably as a parent asset.

Apply For Aid Early.

Some states impose FAFSA deadlines as early as February of junior year of high school to qualify for state aid.

Pay Attention to School Deadlines.

Miss a college's aid deadline and your child's application may not be considered.

Provide the Right Home Equity Value.

When calculating your home equity, subtract not only your mortgage, but also any outstanding home equity line balance and money you might have borrowed from family or other sources to buy your house.

Avoid Tapping Into Retirement Accounts.

Retirement distributions are treated as parental income. If you must tap into your retirement nest egg as a one-time event, ask the college to disregard the withdrawal.

Talk to Grandparents.

To avoid jeopardizing aid chances, grandparents should ideally help with college costs after the final financial aid applications are submitted, which will often be in the late winter of a child's junior year in college.

Interpreting Financial Aid Awards

Make sure you and your child understand the type of aid you are receiving.

Many financial aid letters are confusing. Some award letters don't clearly differentiate between grants (free money) and loans, leading to uncertainty as to what a school will cost.

When you receive an award letter, here is what you will ideally find:

- ▶ Full cost of attendance, broken down into such expenses as tuition, room/board, books and travel.
- ▶ Grants and scholarships.
- ▶ Types and amounts of loans.
- ▶ Net price student will pay after financial aid is deducted.
- ▶ Parents' and student's Expected Family Contribution.

Many aid awards don't include the Expected Family Contribution. Make sure you understand what types of aid you are receiving from the school before enrolling. Unless you know what your EFC is, it will be difficult to know whether the award is generous or not. If the EFC is missing from the award letter, ask the school for the figure.

If you find it difficult to interpret an award letter, contact the school's financial aid office for clarification.

Renegotiating the Offer

Families should consider seeking more aid if any of the following circumstances have occurred since they submitted their aid application:

- ▶ Divorce
- ▶ Separation
- ▶ Loss of Job
- ▶ Large Medical Bills
- ▶ Death
- ▶ Birth

Even if your family hasn't experienced any of the above circumstances, don't assume an award letter is a school's final offer. Some colleges will offer students packages based on what they have concluded it will take to win over the applicants. In other words, a school could give your child a lowball offer if it believes he or she is eager to attend.

Schools are increasingly worried about filling their freshman slots, so don't feel hesitant about asking for more help. Here are steps to take if you appeal an award:

1 UNDERSTAND THE SCHOOL'S APPEAL PROCESS.

Make sure you reach out to the right person.

2 DON'T WAIT.

Contact the school immediately since money can run out.

3 PROVIDE A NUMBER.

Be specific and realistic about how much extra aid you need.

4 SHOW COMPETING OFFERS.

If your child received a better aid package offer, share it with the school your child wishes to attend.

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