EDUCATIONAL BENEFITS GROUP

Providing solutions to make college an affordable reality

Navigating the Financial Aid System

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Chapter 1

INTRODUCTION

One of the most rewarding experiences in a parent's life is sending a child to college. However, college has changed in the last fifteen years. Dramatically!!

Today, the cost of a higher education has skyrocketed beyond the ability of most parents to pay. In 2006 the cost of a state university will average $16,500 per year and most private colleges start at $32,000 per year (Harvard, Stanford, & Duke, etc., are $48,000 per year and up).

Other than purchasing a home, paying for a college education will be a family's single largest expenditure. The cost of college becomes staggering for a family with two or three children, and if more than one child attends college simultaneously, the financial pressure becomes overwhelming.

Thus, parents today are saddled with a complex problem. They would like to provide their child with a good education, but they don't want to wipe out their family savings or go into overwhelming debt to accomplish this goal.

The good news is that a college education still pays good dividends. It affords the student the opportunity to:

1. Gain confidence in his chosen career

2. Develop verbal and mental skills; utilize critical thinking abilities

3. Learn to communicate with diverse groups of people; and,

4. Make contacts that can be important later in life.

College not only enriches one's life mentally, but greatly increases one's earning capacity in the future. Based on statistics provided by the U.S. Department of Labor, college graduates can expect to earn approximately $15,000 a year more than high school graduates.

Also, many companies look for a "name" college or university when reviewing an applicant's resume. Employers associate a particular school with quality students, which they equate with quality employees. Right or wrong, graduating from a "prestigious" school can command a higher salary.

And one positive aspect is that colleges and universities are more competitive than ever before in their quest for students. Even the "prestigious" schools will compete for students, from every socio-economic background. The baby-boomers left the halls of higher education long ago, and fewer students are attending college. Many schools have empty seats to fill.

Therefore, you should never assume a college is too expensive. Colleges do need paying customers; however, they ***do not*** expect every student and family to foot the entire bill for their education. This is especially true of private schools. All colleges have money... in the form of **financial aid**... and they'll pay for good students.

Actually, more than 80% of all students attending private colleges receive some sort of financial aid. Regretfully, many families who would qualify for financial aid *do not apply*. Why? Because they ***assume*** that "they make too much money to qualify for aid." The result? The student never attempts to apply to a private school and settles for a state university or a local community college.

Yes, there is a great deal of mystique and misinformation associated with the term *financial aid*. Many parents associate financial aid with various third-party scholarships offered by private institutions and organizations. Although this type of aid does exist, it makes up only 1% of the total monies available for education.

The Federal government and the colleges themselves hand out the “giant” share of money available for financial aid. This money is bestowed based on two factors... the student's talent (**merit**) and the family's income and assets (**need**). When you combine the merit based and need based systems, you can create a powerful case of reasons why ***your*** child should be given money for college.

If the college really wants the student, the Financial Aid Officer (FAO) can override the system to his advantage. Under a special condition known as *professional judgment*, every college FAO has the power to review each family's circumstances individually. If your child possesses the attributes the college is looking for, the rewards can be great! However, there are very specific procedures you must follow.

There are many books on the market about the subject of Financial Aid. Most leave parents as confused as they were, prior to reading those books. This book was written to give parents a *simple* understanding of this very complex, bureaucratic system.

Chapter 2

WHAT IS FINANCIAL AID?

WHAT IS FINANCIAL AID?

College financial aid is money given by the Federal and State governments and the colleges to help students pay for the cost of a college education. There are several types of aid available including grants and scholarships, work/study programs and educational loans.

College work/study and educational loans are considered ***self-help***. Grants and scholarships are considered ***gift aid*** and do not have to be paid back. Some of these grants and scholarships are based on merit, and some are based on need.

Merit-based scholarships are tied to scholastic, athletic, or talent performance. Need-based grants from colleges are usually in the form of tuition discounts or waivers meant to attract the student.

To qualify for financial aid the student must attend class on at least a half-time basis. Half-time consists of six (6) semester or quarter hours per academic term. The student must also maintain satisfactory academic progress (at least a "C" average by the end of his sophomore year) to retain financial aid eligibility status.

TOTAL COLLEGE COSTS

The Total Cost of Attendance (COA) is a predetermined number, the components of which are detailed in the college's catalogues and brochures. The Financial Aid Office labels this their ***budget***.

Before you apply for financial aid, it is very important that you know the exact costs for each college. Total costs can be increased by the FAO for special purposes, such as special medical or disability expenses.

The ***Financial Aid Budget*** used by most colleges includes the following:

TUITION AND FEES. This number will differ between private colleges and public universities. Tuition is the charge for instruction. Fees include items such as health insurance, library fees, lab fees and other student activities.

BOOKS AND SUPPLIES. The cost of books and supplies varies depending on the courses taken. Supplies for lab, computer, engineering and art programs may raise the cost significantly.

ROOM AND BOARD. The cost of housing depends on whether the student lives at home, in a student dorm, or off campus. Food costs vary in different areas of the country. A student may choose a school meal plan, eat at home, or cook for himself.

PERSONAL EXPENSES. Most colleges allow expenses for clothing, insurance, medical care, disability, child care, personal computer, handicapped provisions and other related items.

TRANSPORTATION. Includes daily commuting expenses (bus or cab fare, personal car maintenance, gas, etc.) and round-trip travel during school vacation periods. The Financial Aid Officer's idea of round-trip travel is usually by bus, not by air. The student must make up the difference.

THE CONCEPT OF FINANCIAL NEED

The financial aid system presumes that parents are able to contribute some money toward their children's educational expenses. How much the family is expected to pay is determined by the formula called the FEDERAL METHODOLOGY.

The difference between the amount the family is expected to contribute and the total cost of college represents the student's ***NEED***.

The process of determining a student's NEED is called ***NEEDS ANALYSIS***. It is calculated using the following three-line formula:

TOTAL COLLEGE COSTS
- <u>FAMILY CONTRIBUTION</u>
= TOTAL FINANCIAL NEED

This formula establishes the family's eligibility for financial assistance, by which the total amount of aid received by the student cannot exceed the **total financial need**.

When analyzing the student's need, some colleges will meet 100% of the student's total financial need, and others will meet only a percentage (gapping). This ***percentage of need met*** can be used to help the student select an ideal college and is discussed further in Chapter 7, College Selection. And yes, the student must go through this filing process each year if he wishes to receive aid.

Chapter 3

THE FEDERAL METHODOLOGY

The FEDERAL METHODOLOGY (FM) is a Federal formula that was adopted by Congress as part of the Higher Education Act of 1967. Every single accredited college and university in the United States uses it to evaluate the eligibility of every student who applies for financial aid. The FM determines how much your family is expected to contribute towards the student's college education, and your eligibility to receive financial aid for the balance of the cost.

This ***Expected Family Contribution (EFC)*** is computed using family financial data submitted on the ***Free Application for Federal Student Aid (FAFSA)*** application. This analysis estimates <u>how much</u> the family can be expected to contribute, but makes no assumptions about how they will finance that contribution.

WHAT IS THE EXPECTED FAMILY CONTRIBUTION?

The FM formula combines hundreds of computations to arrive at the Expected Family Contribution. The following is a simplistic version of this complex formula:

<u>Student's Contribution</u>

1. The student's income is assessed at 50% after the first $3,000 of earnings.
2. The student's assets are assessed at a straight 20%.

<u>Parents' Contribution</u>

1. The parents' income is assessed between 22%-47%, depending on the level of total income.
2. Nontaxable income and benefits, such as contributions made during the current year to retirement funds (401K/403B) and distributions from social security, are added back into income for assessment.
3. The parents' assets (***<u>home</u> & <u>farm</u> equity are not included***) minus an asset protection allowance based on the older parent's age are assessed at 5.6%.

All income from the student and parents is assessed using year-end tax data from the year preceding the year when the student enters college. Asset data is listed as of the date the financial aid forms are filed.

Some private colleges use an alternative formula called the ***Institutional Methodology,*** which <u>includes the home and farm as assessable assets</u>. This formula also takes into consideration extraordinary medical expenses and private elementary, middle and high school tuition charges.

Chapter 4

SOURCES OF FINANCIAL AID

There are two major sources of college financial aid: Federal-based programs and college-based programs. Most individual states also offer assistance.

FEDERAL-BASED PROGRAMS

Federal-based programs are monies which the student either receives directly, or which the school credits to the student's account. There are three programs in this section:

1. Pell Grants

The ***Pell Grant*** is an outright gift with no strings attached, courtesy of the Federal government. Individual awards range from $400 to $4,050, and the eligibility and size of the award is determined by the difference between $4,050 and the student's Expected Family Contribution.

2. Stafford Loans (Subsidized & Unsubsidized)

Subsidized Stafford Loans are need-based, low interest loans carried in the student's name. The interest is paid by the Federal government until 6 months after the student graduates or leaves college. These loans have fixed interest rates tied to the T-Bill and have a 6.8% cap, and can be repaid over a maximum period of 10 years.

The student unable to qualify for subsidized loans can borrow the ***Unsubsidized Stafford Loan***. These <u>do not</u> qualify for the government subsidy and must begin to be paid back immediately, unless deferred.

Limits on both the Subsidized and Unsubsidized Stafford Loans are $3,500 per year for 1st year students, $4,500 for 2nd year and $5,500 for the 3rd, 4th, and 5th year undergraduates. The accumulated total amount of loans for undergraduate students cannot exceed $23,000.

3. PLUS Loans

PLUS Loans (Parent Loans for Undergraduate Students) are loans to parents who want to borrow to help pay for their child's education. The PLUS loan provides additional funds for educational expenses, and similar to the Unsubsidized Stafford Loan, payments start immediately, unless deferred.

PLUS Loans for dependent, undergraduate students have annual and aggregate loan limits up to the total cost of college minus any financial aid awarded to the student. These loans have fixed interest rates tied to the T-Bill and have an 8.5% cap. Payments begin 60 days from loan disbursement and the repayment period can be stretched out for 10 years.

COLLEGE-BASED PROGRAMS

College-based programs are monies given by the U.S. Government to each college to distribute. When the money is gone, the awards are discontinued for that year.

1. Supplemental Educational Opportunity Grants (SEOG)

SEOG's are grants given to undergraduates with exceptional financial need. These grants do not have to be paid back and priority is usually given to Pell Grant recipients.

Awards are given in the range of $100 to $4,000 and are based entirely on need and availability of funds. The school will either credit a SEOG to the student's account or pay the student directly, or use a combination of these methods.

2. College Work-Study

These programs are awarded to undergraduate and graduate students based on need. Although these are not actually programs that award free money, they are more desirable than loans since there is no financial obligation for repayment.

Most students work between 8 and 15 hours a week in such on-campus jobs as library assistant, faculty aide, cafeteria worker, etc. Off-campus employers are public or private non-profit organizations subsidized by the U.S. Government. Students are paid at least the current Federal minimum wage.

3. Perkins Loans

The Perkins Loan is a low interest (5%) loan administered by the college and subsidized by the U.S. Government. The Perkins is awarded to undergraduate and graduate students based on need and other financial aid dispersed to the student. The Perkins Loan limit is $4,000, but the maximum amount disbursed is usually around $2,500 due to low availability. Payment begins 6 months after the student graduates and can be repaid over a 10-year period.

4. Endowments, Tuition Discounts & Waivers

These monies are given to colleges by various organizations and alumni. Private colleges rely almost entirely on these gifts for operating funds and to fill the "need" of a qualifying student. Most of these monies are given to students who qualify academically, or to students with special qualifications that happen to fill a college's needs.

Chapter 5

FINANCIAL PLANNING STRATEGIES

Grades 9-12

This chapter will explain a few basic tax planning strategies that can be utilized when applying for financial aid. However, you should consult a professional advisor who understands the financial aid system, as well as the tax code.

THEY TELL ME I'M NOT ELIGIBLE FOR FINANCIAL AID!

Each year, millions of middle-income families are told that they are not eligible to receive financial aid. Parents pack into the high school auditorium on Financial Aid Night with the hopes of learning how to pay for college, only to leave dazed and more confused than ever about the system.

At the very best, parents learn some terminology and perhaps, how to fill out the financial aid form. In most cases, students and parents leave with no answer to their question, "How can I pay for college?"

INCOME & ASSET PLANNING

The Federal Methodology assesses a family's income on a scale similar to the tax code. In order to calculate the student's Expected Family Contribution, the formulas take into consideration both ***taxable and nontaxable income and benefits***. And, unlike the IRS, the colleges want a picture of your ***assets***, too!

Although each family's personal and financial circumstances are unique, here are some possible strategies to consider. Please remember to always seek professional advice before implementing any of the following strategies:

1. Keep all assets out of the student's name. Accumulating assets in the student's name for tax purposes will be a major disadvantage (20% assessment) when filing for financial aid. One of the more common vehicles used in gifting assets to children is the UGMA (Uniform Gift to Minors Act) Trust. Avoid this trust!

Furthermore, avoid any state-run prepaid tuition plans. Withdrawals from these plans reduce the student's financial aid eligibility on a dollar-for-dollar basis.

Grandma & Grandpa should postpone any gift to a college-bound student until after his graduation, then use the money to pay off any student loans accumulated. If they must gift monies to their grandchild for tax purposes, have them fund an **annuity** or **life insurance policy**. This will ***exempt*** the gift from the college's scrutiny since neither is reportable on the financial aid form.

2. Cap the student's earnings at around $3,000. Any income over this mark is assessed at 50% to the college. Unfortunately, this penalizes the hard worker.

3. Current year contributions to a 401K/403B are added back to the Adjusted Gross Income and included in the assessment. Therefore, it may be beneficial to discontinue contributions and use the cash flow to pay the Expected Family Contribution.

4. Although there are some stipulations regarding capital gains, if you need to sell investments to help fund college costs, consider selling the investment two years before college or postpone the sale until after graduation. This will avoid the assessment for both the capital gains income during the base year, in addition to the asset.

5. Insurance products such as life insurance and annuities are exempt from being assessed by the Federal Methodology. Investing part of your liquid assets into one of these products may reduce your Expected Family Contribution; however, you should consult a professional advisor prior to implementing this strategy.

6. Home equity usually represents the majority of any family's total net worth. The home ***will*** be assessed by most private colleges, however unfair it is to the poor divorcee who has two kids, a $20,000 income, a $200,000 house... and the bank won't loan her money because of her low income. Reducing the equity in a home can be accomplished by increasing the debt to pay off installment loans and charge cards. If you've ever considered starting a small business, converting a portion of your home equity into start up capital for your business could be very beneficial. Again, consult a professional advisor.

7. If you are divorced or legally separated, the Federal Methodology only assesses the income and assets of the parent with whom the student will live the majority of the time during the academic year. When planning for college, you may want to consider having the child live with the parent who has the lower income and assets. If the custodial parent is remarried, the stepparent's income and assets are automatically added to the formula.

8. The Federal Methodology uses a simplified formula to calculate the EFC of parents who file an IRS Form 1040A or 1040EZ and have Adjusted Gross Incomes under $50,000. Your assets will not be assessed under this formula. Please consult a professional advisor who understands the financial aid system and the tax code, prior to implementing this strategy.

WHEN AN ADDITIONAL STUDENT GOES TO COLLEGE

To calculate the Expected Family Contribution, the Federal Methodology divides the Total Parents' Contribution by the number of family members (excluding the parents) if applicable) who will be enrolled in post-secondary institutions at least half-time for one term. The net result is added to the Student Contribution to obtain the "EFC".

Any family member (excluding the parents) who has completed the high school level (or equivalent) is eligible to become an additional student. This student must be enrolled in an accredited college at least half-time (6 credit hours) for one term, and must be working towards a degree or certification.

If there are two students in school, the EFC for each student will be:

STUDENT #1 = 1/2 Parents' Contribution + Student #1's Contribution

STUDENT #2 = 1/2 Parents' Contribution + Student #2's Contribution

If there are three (3) students in college, the Parental Contribution will be divided by 1/3, etc. The concept of dividing the Parents' Contribution by the number of students remains constant regardless of the total cost of each college.

Remember, since the college operates under specific guidelines, they can recognize any special circumstance as <u>need</u>, and award money to the student accordingly. The purest tactic in appealing is functioning within these guidelines, and allowing the college the opportunity to give you money. More on this extremely advantageous strategy will be explained in Chapter 9, "Appealing the Financial Aid Package".

Combining an understanding of how the financial aid system works with the dynamics of financial (tax) planning, is <u>the</u> most worthwhile approach to reducing college costs.

Chapter 6

FINANCIAL PLANNING STRATEGIES
Grades K-8

You've just learned some interesting facts about the college financial aid system, and the costs involved in 2000. But what if your child won't be thinking about college for another five years, or more? If that's the case, then you're probably interested in having the following three questions answered:

1. Given inflation, will I still be able to afford college when my kid goes to school?

2. Eliminating the investment hype, is there truly a ***correct*** way to save for college?

3. Will I still be able to use the financial aid system to appeal a good deal?

The answer to these three questions is.... **YES!** And the rationale is:

1. Given the high cost of college, it's *extremely important* to develop a predetermined game plan using the financial aid system as the foundation for building a powerful college savings program. Understanding how the financial aid system operates in advance will allow you to develop a blueprint for paying your Expected Family Contribution, and using financial aid to pay the balance of the cost of college. This will assure the family's ability to afford college regardless of when the children go to school.

2. Over the years there has been an assortment of college investment plans offered to the public. Financial institutions are constantly introducing "hot" products specifically designed for college funding. Most of this is "marketing hype" aimed at arousing an emotional response from parents (and grandparents), using the two single most important things in their life... *their children and their wallet*s.

Using the financial aid system, you can maximize your ability to educate your children by utilizing three investment vehicles: **Annuities**, **Life Insurance** and **Retirement Programs**. And here's why....

Let's say that in 12 years your two children, Matt and Natalie, will attend college and your college cost will be $25,000 per year per child, or $200,000. Most planners will suggest you save toward that $200,000 level which, for the average person, won't be done. No one I know of is going to sacrifice a normal lifestyle to put two kids in college at that cost. It just doesn't happen!

So what does happen? Nothing! And therein lies the problem most parents of college-bound students face today. They assume they can't afford to send their kids to the college of their choice, so naturally they send them to a state university or local community college. This action could well change the destiny of these kids forever.

This will not happen to you! You know about the Expected Family Contribution. You know that as long as Matt and Natalie keep their grades up, you'll find a college that will cover any cost above your EFC... *with financial aid*. You merely save up to the level of your Expected Family Contribution. That ***can*** be done!

Armed with this knowledge, you need to find the best investment vehicle to fund your Expected Family Contribution. That would be Annuities, Life Insurance or your Corporate Benefit Program. Why? There are two great reasons:

A. These investments are tax deferred. This means you don't pay taxes on any money earned until you use it. Your money builds faster toward your goal.

But you <u>must</u> consult a professional advisor who understands how these investments integrate with the financial aid system timetable. This will allow you to maximize your investment and avoid possible tax problems, which could result from the poor guidance of an "unknowledgeable" salesperson.

B. These investments are not counted in (are exempt from) the financial aid formulas. Why? They are considered "retirement funds" and are *<u>excluded by law</u>*.

All other investments are assessed at 5.6%. In other words, if you have $100,000 in stocks, the college expects you to contribute $5,600 of those stocks *each year* for tuition. The assessment for $100,000 in annuities is.... $0. Plus you're building your college fund... tax deferred.

3. The ability to appeal the cost of college will always be available to families. Why? Colleges will always be in competition (and will pay dearly) for scholars, athletes and students with unique special interests. Why? Colleges receive money through gifts (endowments) from institutions, companies and individuals. Each college relies on these contributions to help pay their operating expenses and keep their doors open. And the better students are more likely to graduate... become alumni... and make (or be directly involved with) significant contributions to their alma mater.

Therefore, colleges ***will never*** expect every student and family to foot the whole bill for their education. Especially private schools! They love the good students, and they'll use financial aid to attract them because of the long-range benefits to the school.

Armed with this powerful knowledge, parents can be assured they can provide their children with the best possible education, at the least possible cost.

Chapter 7

COLLEGE SELECTION

College selection is a very important piece of the college financing puzzle. Selecting the right school can make a private college education affordable, regardless of the *sticker price*. There are a multitude of reasons for proper college selection other than money, but from a pure financial perspective, the major reason is:

JUST LOOK AT THESE FIGURES!

You'd be surprised at the amount of aid being handed out today. Here are three examples of what schools are expected to contribute in the upcoming year:

1. **Ohio State University** - Total Cost - $18,825 per year for a state resident and $30,250 for a non-state resident. 66% of the freshmen were judged to have financial need; average aid received per student - $11,420 (76% self-help, 24% gift-aid).

2. **Syracuse University** - Total Cost - $42,000 per year. 77% of the freshmen were judged to have financial need; average aid received per student - $26,000 (30% self-help, 70% gift-aid); average need met is 79%.

3. **Harvard University** - Total Cost - $50,850 per year. 79% of the freshmen judged to have need were given aid; average aid received per student - $30,455 (15% self-help), 85% gift-aid); average need met is 100%.

These are current figures, taken from ***Peterson's Paying Less For College***, the Bible of the financial aid industry. This represents *actual* statistics direct from the colleges.

So what does all this have to do with college selection? Let's take a closer look at the details:

How the Need is Filled - This is a good indicator of the college's ability to help the student. Private colleges usually provide a greater percentage of gift-aid.

Average Percentage of Need Met - Of all the gauges used in college selection, this is the most important. Any number less than ***100%*** represents "gapping." Gapping occurs when the college determines your "ability to pay" and request that you pay monies in addition to your Expected Family Contribution. Most private colleges meet a high percentage of the need and do not gap as readily as state universities, thus making them more competitive.

College vs. External Sources - This is also a very good indicator of the colleges' ability to help the student. The more funds that come from college administered programs, the better your chances are to appeal a good financial aid package with the Financial Aid Officer.

College selection is extremely important when applying for financial aid. Applying to schools that have a history of providing good aid packages will increase your chances of appealing an ideal package.

ADMISSIONS DEADLINES

The family should also be aware of the various admissions filing deadlines. A student ***must*** be accepted at a college, before that college will issue a financial aid award letter. NO package will be given without acceptance.

Early Entrance - Allows the good student to be accepted, admitted and enrolled prior to high school graduation.

Early Action - Allows the student to qualify for admissions prior to an early deadline ***without obligating*** himself to the college.

Early Decision - Allows the student to qualify for admissions prior to an early deadline**,** but ***obligates*** the student to attend the college through a **binding contract**.

Regular Admission - This traditional option allows the student to qualify for admissions under normal deadlines.

Rolling Admission - Allows the student to qualify for admissions at various times during the year. Although there are no deadlines, a late filer will probably miss out on most of the financial aid given by the college.

Deferred Admission - Allows the student with financial, personal or work-related concerns to defer or postpone his enrollment for up to one year.

Make sure you contact each college that the student applies to for its individual policy on admissions. Knowledge of these specific deadlines will assist the student in preparing a college plan.

Chapter 8

APPLYING FOR FINANCIAL AID

THE FIRST STEP

The first step in filing for financial aid is to write, phone or visit the school and obtain all the necessary information from each school about their programs and admissions requirements. Also, request the appropriate filing requirements for financial aid and the filing deadlines.

Be sure to apply to ***at least six (6) schools*** when filling out the (FAFSA & FAO) forms. This is important for appealing purposes. The Financial Aid Officer will see the colleges he must compete against.

THE FINANCIAL AID FORM

The Expected Family Contribution (EFC) is computed by submitting a Free Application for Federal Student Aid (FAFSA) to the need analysis service, Federal Student Aid Programs, located in Iowa City, IA.

Some colleges may request a closer look at the family's finances by requesting the **Financial Aid Profile (PROFILE),** or the colleges own **Institutional Form**. These additional forms are used to calculate the ***Institutional Methodology***, which includes the equity in the home of the family and any extraordinary expenses. Yes, the college wants to assess your home!

Unless absolutely necessary, do not send these <u>institutional financial aid forms</u> to the college until you have completed the FAFSA. Some of these institutional forms are tricky, and you will need the information from the FAFSA to insure the numbers are the same.

There are four major elements to the financial aid form:
1) Income 2) Assets 3) Expenses and 4) General:

1. <u>**Income**</u> - Based on taxable and non-taxable income and benefits, including Veteran's Educational Benefits, and any <u>*current year*</u> contributions to pension or retirement programs ***as of December 31 of the (base) year before admissions***. Do not include any student financial aid, food stamps, "Rollover" pension plans and loan proceeds.

2. <u>**Assets**</u> - Based on assets less related debts, liens or encumbrances including any percentage of jointly held assets and debts ***at the time of filing***. Do not include any student financial aid, personal assets such as cars, boats, RV's, jewelry, etc., or any personal debt such as consumer loans, credit card debt, etc. Also, do not include the value of any pension/retirement plans or business goodwill as assets.

3. <u>**Expenses**</u> - Based on U.S. Income Tax Paid, State and Other Tax Allowances, Social Security (FICA) Taxes, Income Allowance, and Employment Allowance.

4. <u>**General**</u> - Based on all necessary information needed for the government and college to properly evaluate your eligibility for aid.

Some other important points to remember when filling out the financial aid form are:

1. Send only the original financial aid form. Do not send a photocopy and do not send any other forms, such as letters, tax forms or any other materials!

2. The form must be postmarked after January 1; but in order to receive maximum benefits, the form should be submitted as soon as possible before February 15th. Some schools have deadlines as early as February 1. Be sure you know the deadlines of each school to which you apply.

3. You should use estimates for income and taxes in order to file the form early. If your estimates are off by more than $400, you will be allowed to make the necessary adjustments on the Student Aid Report sent by the need analysis service.

4. If there has been a significant change in your status after you submit the form (death, divorce/separation, bankruptcy, unemployment, etc.), notify the Financial Aid Officer of the college as soon as possible.

5. Don't forget to sign the forms (student and parents) and make copies for your file. Also, include the processing fee that is charged to send the **PROFILE** information to the various colleges.

The moral of the story is: ***File early, file accurately, and apply to several colleges***. Do this and you will position yourself for the maximum financial aid due you.

THE STUDENT AID REPORT (SAR)

Once the FAFSA is sent to the need analysis service, your Expected Family Contribution (EFC) is calculated and the results are sent to you in a form called the Student Aid Report (SAR). This information is also sent to the colleges) you listed in the FAFSA.

When you receive the SAR, check it to make sure the information you sent is exactly the information recorded by the need analysis service. **The EFC amount will be located in the right hand corner under the date**. The EFC amount will be omitted If the need analysis service requires additional information, or if you incorrectly recorded or omitted strategic information (social security number). You must immediately correct the error and return the SAR to the need analysis service.

An asterisk (*) located next to the EFC amount indicates that your application has been selected for ***Verification***. This will require you to send a standard Federal Verification report and a copy of your tax forms to the college the student finally chooses.

Once the college receives completed information from the need analysis service, the Financial Aid Officer (FAO) will put together a financial aid package. Unless a college dictates otherwise, do not sign and send the original SAR to your final college choice until each college sends the student an Award Letter for your review.

THE AWARD PACKAGE

Any financial aid the student receives from the college will be presented in an Award Letter. The first monies available are the Pell Grant and any state assistance, if you are eligible. Next will be the Stafford Loan. Then the FAO will draw on monies from Perkins Loans, Supplemental Educational Opportunity Grants, and College Work Study.

Finally, if there is remaining need to be met, the college will fill it with their own resources (tuition discounts and waivers). This is where the private colleges pour on the free money to attract the better students.

A final decision can be made on acceptance of a school after you've received Award Letters from each college. Do not delay responding to an Award Letter because you are waiting for other colleges to commit. Responding to an Award Letter merely safeguards your award.

You may accept, deny or appeal any portion, or all, of the award package. Even if you sign the Award Letter you are not committed to attend that college. When you make your final choice, sign the original Student Aid Report (SAR) and send it in with the signed Award Letter and any applicable verification report, and tax forms.

CHAPTER 9

APPEALING THE FINANCIAL AID PACKAGE

This chapter provides the most important piece of the puzzle, "How do I pay for college?" The answer is... appeal it to an affordable level.

Before I go into details, I need to explain the basic theory of why appealing college costs is no different than appealing a better price on any other purchase.

College is a marvelous experience. It allows the student an opportunity to develop his attributes and properly prepare for the future. But in its purest sense, ***the student is merely purchasing a degree***. A piece of paper that validates the educational preparation for the job the student wishes to pursue.

That piece of paper is no different than any other commodity. And with all due respect, neither is your child... from the perspective of the college.

College is all about money. The quicker you accept this philosophy, the better equipped you'll be to develop your own college plan. College money is basically obtained through gifts (endowments) from institutions, companies and individuals. Colleges rely on these contributions to help pay their operating expenses and keep their doors open.

In the vast majority of cases, this money is tied to... alumni. Take for instance Harvard University. Harvard's reputation affords it the ability to recruit the very best students. Because of student quality, on an average, 98% of any Harvard freshman class will graduate from college. An excerpt from Harvard's literature reads, "There is no formula for admission to Harvard, and applicants are considered carefully...with an accent on future promise."

The point is, the better students are more likely to graduate...become alumni...and make (or be directly involved with) significant contributions to their alma mater. Yes, colleges will pay dearly for scholars, athletes and students with unique special interests.

There are over 2700 four-year colleges, which compete for students. Finding the college that fits the student's personality and provides the best education for the least cost can only be accomplished with hard work and a good plan. The plan is to find the college that happens to be looking for students of your child's caliber.

So, let's discuss how ***you*** can appeal the cost of ***your*** child's college education to an affordable level. After reading the previous chapters, you should have a clear understanding of what the college SYSTEM is really all about. Now it's time to position your kids to take advantage of any rewards available for their hard work in high school.

Colleges are more aggressive than ever. Schools will use a flood of advertising, direct mail and phone solicitation to actively recruit students with good grades and other talents. Understanding the fine points of marketing your kids to the colleges will allow you to take advantage of this situation and receive better financial aid packages, both from the standpoint of the total package and a higher percentage of grants vs. loans and work-study.

THE "EMPTY SEAT" THEORY

Colleges are businesses. Financial Aid Officers are business people, plain and simple. They are in the business to make money. They have fixed costs (salaries, utilities, supplies, etc.) like any other business. Therefore, if a college or university has an empty seat, it makes good sense to fill that seat to help pay those fixed costs.

Since the FAO has the power to grant or deny financial aid, regardless of the demonstrated need, the real question then becomes...how much financial aid will he provide before it becomes more beneficial to recruit another student with a higher Expected Family Contribution? In order to answer this question, you must first look at the college.

PUBLIC UNIVERSITY vs. PRIVATE COLLEGE

At one time, almost all colleges were in a position to support a "need blind" admission program. If a student was academically accepted to a college, his need was filled 100%. Today, some of the most expensive and wealthiest of colleges are running current deficits, and must review their applications on a cost vs. benefit basis.

In general, the private colleges are in a more favorable position to offer lucrative aid packages. They also have more flexibility to change or rearrange aid packages to fit the needs of the student. ***They must use this advantage to compete with the state funded public universities.***

Public colleges rely on funding from the federal and state governments and must adhere to the regulations supporting those funds. They are somewhat limited in their freedom to manage their own financial destiny.

POSITIONING THE STUDENT

In order to achieve a win-win situation you must first put yourself in a position of power. To market the student to the colleges, he/she must meet the following four qualifications:

1. Good grades;
2. Good SAT/ACT test scores;
3. A solid resume of achievement; and,
4. Applications to 6-8 colleges.

Good grades are self-explanatory. The presumption is that good grades in high school will mean good grades in college, ultimate graduation from college and alumni donations. Colleges will also look heavily at grade improvement over the final two years of high school. The bottom line is.... never quit!

The SAT/ACT college prep test scores are merely ***qualifiers***. But, the colleges have no other way to compare the academic abilities of a student from Ohio vs. a student from California. The excuse, "I don't test well," will usually fall on deaf ears. The problem is usually associated with 1) not knowing the procedures of testing and/or 2) not being prepared to take the test. There are inexpensive software programs and prep courses that can genuinely improve a student's scores. Also, take the test at least twice, once as a junior and then in the senior year. ***Don't treat this qualification lightly!***

During the junior and senior year, the student should build a solid resume of achievements that will imply to the colleges that this is an all-around good student, active in affairs other than studies. Treat this exactly the same as preparing a resume for a job! Send a resume with the application to each school. Remember: *you want the school drooling!*

Applying to 6-8 colleges is the last qualification, but by no means the least. Actually, this is an art form. To begin, you must be realistic and pick a school in which the student will fall into the top 25% of the freshman class. Applying to Harvard with a 3.5 high school grade point average, and 1850 SAT scores, is not realistic by today's standards and allows little room to appeal.

Second, you must pick top financial aid colleges by considering the percentage of need met. Other figures to look for are the percentage of gift-aid vs. the percentage of self-help, and the average dollar amount of aid given per student. Consult the ***Peterson's College Money Handbook*** for current statistics.

Finally, be sure the colleges you apply to have studies that match the student's vocational (career) track. This is an important, yet sometimes ignored factor. Your high school guidance counselor can help you here.

Remember: the idea is to locate private colleges that will provide enough financial aid to make the out-of-pocket cost the same as a public university. However, apply to at least one less expensive (public) school, just in case the private colleges do not meet your needs.

OBTAINING A WIN/WIN PACKAGE

You've done your homework. You've positioned the student. The colleges are interested. Now it's time to market the student!

The student knows the college he would really like to attend. The Financial Aid Officer does not. What the FAO does know is that you've applied to several schools because this information is on the Student Aid Report. This tactic will yield 6-8 different financial aid packages from the colleges to which you've made application.

Now the FAO must make a decision. He must bid for the student, and some of your money, or risk losing to a competitor. As a general rule of thumb, if the FAO can get the family to fork out 50% of the student's total cost, he will not recruit another candidate with a higher Expected Family Contribution.

The result: at least one of these private colleges should offer the student an excellent package. If not, you always have a less expensive (public) school to fall back on. If you've done your homework correctly, you'll have several options available to make an intelligent decision.

PROFESSIONAL JUDGMENT

Every Financial Aid Officer has the power to review a family's financial needs individually, and override the system to the family's advantage! If the student has attributes the college happens to be looking for... ***the rewards can be great!***

The object is to find the college that wants your kid, and give that college the opportunity to prove it. That's why you should always apply to 6-8 colleges where your child is in the top 25% of the freshman class, or has other special talents those colleges desire. If you want magic to happen.... this is where you begin.

FINAL TIPS ON APPEALING

When appealing your aid package, please keep in mind that the Total Cost of College is also a negotiable item. Many colleges offer multiple Student Expense Budgets, and what looks like a better package on the outside may actually be less favorable under further scrutiny. When comparing colleges, make sure you ask to see the Financial Aid Budget.

Also, some colleges will add merit scholarships to the need package to recruit the better students. The school will then take away those monies in the student's second year and use them to recruit new students. Beware of strangers bearing gifts. Make sure you know whether those scholarships are for one year or four years!

In summary, if you want to be successful in appealing the best possible Financial Aid Package; you must first:

- **Position the student in the right schools.**
- **Apply for financial aid as early as possible after January 1.**
- **Apply for financial aid from at least 6-8 colleges.**
- **Apply to schools that fill the highest percentage 100%) of the NEED.**

CHAPTER 10

CONCLUSION

College is big business! The quicker you accept this philosophy, the better equipped you'll be to conquer the college process, before it conquers you.

Every year colleges spend over $1,000 per student in recruiting expenses, using incredibly fancy (and expensive!) brochures. And if you believe that college is not big business, then try not paying your bill just one semester.

Understanding that college is big business allows you to accept the fact that ***you must*** treat the college planning process like any other "business to customer" relationship. In other words, you need to do your homework to ensure that your child gets the best college education, for the lowest cost (and least amount of debt) possible.

To accomplish this, there are a few things you need to remember:

1. Be sure your child's grades are on track. It's never too late to start. Colleges observe grade improvement, as well as the four-year average.

2. Be sure your child is properly prepared to take the ACT/SAT college entrance exams. Not only do these tests figure heavily in college admissions, they also determine which student will be first in line when the college hands out money.

3. Never assume a college is too expensive, or you that can't find money. Colleges have money, especially private schools.

4. Get a reputable and knowledgeable financial planner, preferably one who understands both tax and college rules and regulations.

5. For parents with younger children... plan early! Regardless of what the advertised cost is, you only need to save toward the Expected Family Contribution (EFC).

6. Most important of all, do your homework! It's every parent's responsibility.