

Excerpts printed from:

FastWeb!
COLLEGE
GOLD **The Step-by-Step**
Guide to Paying
for College

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FINANCIAL AID

MONEY SOURCE #1: FAMILY

According to Jim Sumner, Dean of Admission and Financial Aid at Grinnell College, “There are three ways to pay for college: You can pay ahead by planning and saving. You can pay at the time . . . if you’ve got the required cash flow. Or you can borrow during college and, therefore, pay for it afterward.”

As Sumner states, you can marshal your past, present and future resources over the long term to make an investment in college. For most families, it’s a combination of all three—savings from the past, income from the present and loans for the future. Because the family is the primary source of college money for most students, you need to understand how colleges, state and federal governments, and others view the family’s ability to pay for college. If you’re currently an undergraduate student, family matters. If you are a graduate or independent student, “family” means you and possibly a spouse.

There is actually a dollar amount that guides the view of colleges, governments, et al. and it’s called the **Expected Family Contribution (EFC)**.³

The EFC is a calculation of how much a family can afford to pay for college. The EFC is based on a federal government formula⁴ and is used to allocate the money available for financial aid in any particular year. It is not a perfect assessment (a common first reaction among families is that their EFC is set too high), and it’s not even the final word on what you will pay (see chapter 15, “How to request a professional judgment review” page 238) but it is a widely used number: The need analysis system assumes that the family has the primary responsibility for paying for college, and provides help only where family finances fall short.

You’ll find a worksheet for estimating your EFC in chapter 3 (and on this book’s companion web site).

Even if you are personally self-sufficient, keep in mind that the government will still consider the income and assets of your parents until you meet criteria set by the federal government for independence.

Family-based resources start with your family’s current assets—including savings accounts, investments and special funds devoted to college, such as

so-called 529 plans. (For simplicity, we'll use the term "family" inclusive of any number of relatives, from doing it on your own, to students and parents, to spouses, to grandparents, to having your rich great-aunt Agatha help foot the bill.)

These days, the typical family has not saved enough to pay for college, nor has it taken advantage of every savings opportunity. Studies of college savings habits show big gaps between what families have set aside, what they think they need and what they actually need.

Another big consideration will be your family's ability to pay for college out of current income . . . a tall order when the bill runs into tens of thousands of dollars! To help you pay out of pocket, you might need to take a cool-headed look at all of your spending, cutting back on other expenses to make room in the budget for tuition.

MONEY SOURCE #2: FINANCIAL AID

Financial aid is the second source of college money for most families. It's also the most complex, but for a good reason: Many people, institutions, companies and government agencies see the value of higher education and support it, but with different objectives, priorities and programs.

The two broad categories of institutional financial aid (that is, aid from the college you attend) are *need-based*, which is aid awarded because of a family's inability to pay college costs, and *merit-based*, which means aid that is won without regard to the family's financial strength, such as aid awarded based on academic, artistic or athletic talent.

In 2005, institutional need-based grants were awarded to more than 10% of undergraduate students (almost 2 million individuals), with awards averaging \$3,330. Tuition and fee waivers, another form of grant, go to 2.1% of students.

Institutional merit-based grants in 2005 were awarded to 7.9% of students (1.5 million), with an average award of \$4,269.

Federal Pell Grants—which we'll talk about in chapter 6—are received by 26.8% of undergraduate students (5.1 million), with an average amount of \$2,492 (\$12.7 billion). State grants are received by 14.7% (2.8 million), with an average grant of \$1,956 (\$5.5 billion).

Federally guaranteed loans include several types of programs, amounting to about \$60 billion a year. More on those programs, which make up the largest source of higher education funding, in chapter 7.

If you're typical, some college money will depend on your family's ability, willingness and wisdom to borrow for your education. While some borrowing is unavoidable for most students, there are better (and much worse) ways to take on debt, especially if you already have a lot. We'll look at those in chapters 7–8.



I Wish I Had Known . . .

"You'll find out early that each school has different criteria for grants, scholarships and other financial aid. If your student has high grades or high SAT scores, she'll have more choices. Also, as you start the process, think long-term. If your student is going to need an advanced degree, you might consider less expensive state schools for undergraduate work with the goal of attending a prestige school for a graduate degree."

—P.M., a student's mother

MONEY SOURCE #3: PRIVATE SCHOLARSHIPS

Scholarships probably inspire more myths and misconceptions than any other topic in college finance, so let's start with some facts: More than 1 million students receive private (not from government or colleges) scholarships each year, and the average amount received is about \$2,000. The raw odds of receiving a scholarship—about 1 in 15 students receives a private scholarship—reflect many factors, including a student's grades, extracurricular interests, leadership abilities, other talents and the sheer number of scholarships for which the student applies.

There are rare cases in which a student pays his or her way through school entirely on scholarships, but for most families, scholarships are just one part of the total plan.

Scholarships are the part of the total plan that is more under the control of the student than his or her parents, because scholarships don't represent "free" money at all: A student earns scholarship awards through an application process that evaluates qualifications and hard work.

Contrary to a common misconception, scholarships aren't restricted to highly specialized circumstances. Even if you're not a vegetarian twin who

speaks English, French, German and Klingon, you can find scholarships for which you're qualified.

Scholarships are very competitive—there are many applicants for a limited number of awards. There are also a lot of them, but again, the likelihood of paying your entire college bill with private scholarship money is small. (There are “full ride” awards made by individual colleges, however; we'll discuss those in chapter 11).

Scholarships have an effect on the other components of your college financing plan, and families are surprised to learn that outside scholarship money and some resources can reduce the size of need-based financial aid awards . . . but you should still make them part of your plan (see chapters 11–13).

The good news is that money is available in the form of financial aid. More than \$142 billion in financial aid was awarded to students in 2004–2005,⁵ and millions of students qualified for aid. The simple truth behind the statistics is: If you're willing to work for it, you can get it.



I Wish I Had Known . . .

It really is not that hard to find financial aid if you have the right people helping you through the process.

—J. Kachelski, freshman
University of Wisconsin-Waukesha

WHAT YOU NEED TO KNOW TO GET STARTED

There are a few background facts to understand as you get your practical program of paying for college underway.

First, a typical financial aid package combines aid from several sources. It usually has several components, including reduced tuition pricing, work-study pay, grants and scholarships, and loans. The federal government, for example, has at least nine student aid programs, and you might qualify for several.⁶

Second, the process of paying for college tracks closely with the admissions process. This means that many deadlines occur close to one another, and also

that you must begin the process of applying to college before you know how much the institution will cost you

Third, financial aid decisions are based on four factors: The total cost of attending a year at the school; how much your family can pay; how much aid is available; and how much the institution wants you to attend (and vice versa). These factors vary a lot and are interconnected, so your goal is not just “to get the most money” or “to get the lowest out-of-pocket cost” but to get the best outcome—attending the right college at the right price for the right reasons.

Finally, you must learn a few basic terms that will be used over and over during the process. Here they are:

Cost of Attendance (COA): Also known as the student budget, it includes tuition and fees, room and board, allowances for books and supplies, transportation, and personal and incidental expenses.

Expected Family Contribution (EFC): The annual dollar amount that a family is expected to pay toward a student's educational costs. EFC is based on family income (students and parents are accounted separately), net value of assets, the number of children in college and family size.

Financial aid package: The financial aid package is a combination of various forms of student aid (grants, scholarship, loans and employment) offered by a college and other sources to meet a student's financial need.

Free Application for Federal Student Aid (FAFSA): A single, free application form designed by the federal government that most students must complete to apply for most forms of financial aid. It is the basis of awards by the federal and state governments and (often) colleges as well. It is available online at www.fafsa.ed.gov. Hundreds of private colleges use a similar form called the CSS/Financial Aid PROFILE, available online at profileonline.collegeboard.com.⁷

Merit-based aid: Financial aid based on academic, artistic, athletic or other merit-oriented criteria (not financial need).

Need-based aid: Financial aid based on the student/family's financial need, the difference between the cost of attendance and the expected family contribution. This is the gap between total college costs and your ability to pay.

Need analysis: The process used by government and colleges to determine a student's financial need.

Student Aid Report (SAR): A report that summarizes the information included in the FAFSA, states your EFC and must be provided to your school's office of financial aid.

A FAMILY AFFAIR

Most families treat the college selection and financial aid process as a project involving as many members of the family as can participate, so “all hands on deck.” It's a big job, and while it is all about the future of the student, parents, spouses and even siblings can become deeply involved in the process.

The financial aid process is stressful: It's the biggest project most students have undertaken to date; their future is at stake; and the task is complicated and unfamiliar. Between locating colleges, gathering information, taking college entrance exams like the SAT and ACT, and understanding of all kinds of financial aid, there's plenty of work to go around. What's more, the big project of choosing a college and arranging to pay for it comes at a time when the relationship between parents and their children ranges from gently evolving to tumultuous.

Accepting the differences in the parent and student points of view is healthy for the process and the family.

Parents might have a positive, protective attitude, such as:

- I'm totally responsible for educating my child and that continues right through college.
- My child doesn't know what I know.
- I have to protect her/him from the “system”—debt, scams and disappointments.
- This is part of the big picture—siblings, retirement, my aging parents, my whole life.

... and they might have more negative feelings, such as:

- This kid isn't performing up to his/her potential; then things would be easy.
- This should be the kid's responsibility; it's his/her future.
- I have to do everything.

- If I made (or saved) more money, this wouldn't be so stressful.
- Are we doing this right? Are we missing anything important?

Students might experience similar mixed emotions—positive ones like:

- This is incredibly exciting; I'm designing my future.
- I'm an achiever and have a world of choices in front of me.
- My friends and I are going through this at the same time.

... and negative feelings like:

- Just getting into college is stressful; the financial aid process is excruciating.
- My future is on the line; if I make a mistake now, it will affect me for the rest of my life.
- Why can't my parents just pay for it all?
- Why are my parents on my case to do this? Do I have to work with them on this?
- If I were a better student, this would be easy (Ivy League schools would be offering me lots of free money just to attend).
- Why is everybody looking at me?
- This is overwhelming; how can anyone expect me to do all this plus all my senior year courses?

You're moving from a parent-child relationship to an adult-adult relationship, and this takes a lot of work on both sides. Issues as basic as privacy will come up, such as whether a student has a right to know his/her parent's stock holdings. College can be the beginning of the student's transition from a sheltered existence to the real world. They will choose a major field of study (with or without parental approval). Most students get their first credit card in college. It's an opportunity for parents to support their children without dominating the project.

Parents might be confused about their role versus the role of the student—should they make the student do everything? Should they do everything? Should it be a hand-in-hand process? Should they let the student make mistakes? When should they step in to move the process along?

FINANCIAL AID MYTHS

One afternoon just before summer break, Matt met with his guidance counselor, Sally Becker. Sally started the conversation with a review of the college application process, then asked Matt where he wanted to apply.

“I’m just starting to look,” said Matt. “I’d like to check out Ohio University, and I’ll probably look at Mansfield State too.”

“Any interest in smaller colleges?” asked Sally.

“Oberlin’s cool but I don’t know if I’m good enough to get there on a music scholarship. That’s the only way we could afford it.”

“Why do you say that?” asked Sally.

“Well, my family is kind of caught in the middle,” Matt replied uncertainly. “We don’t have enough money to pay for places like Oberlin ourselves, and we aren’t poor enough to qualify for lots of help.”

Sally asked, “How do you know?”

“I’m not sure,” said Matt. “I heard it or read it somewhere.”

Sally sketched several notes on a small writing pad. “I hear that from a lot of students,” she said, “But it’s more a myth than reality.”

“Why would people say it, then?” asked Matt.

“The formulas that determine financial aid are complicated, and it’s difficult to know how much aid you’ll get until after you’ve applied. Did you know that a more expensive college will give you more financial aid to compensate?”

“No.” Matt said. He realized that there was a lot to learn in the next few months, and some doors he’d assumed were closed might be open after all.

“That’s often the case, so don’t rule out any college in advance based on the sticker price,” continued Sally. She concluded, “There are many, many sources of money for college, and the sooner you get to know what they are, the better. . . . Don’t worry, when you get past the myths, there’s a lot of good news.”

• • •

At this early stage, Matt is not only unclear about how to pay for college; he’s also confused by the myths, misinformation and “urban legends” about financial aid and scholarships that get passed around. Before you know the facts about a process like paying for college, it’s tempting to listen to these myths.

David Levy, Assistant Dean and Director of Financial Aid at the California Institute of Technology (Caltech), says these myths about financial aid are rampant among families who haven’t been through the process, and their net effect is usually to discourage students and families from even trying. (David provided some of the most common myths in this chapter.)

More insidiously, some misconceptions are based on resentment (usually of some other class of people who “automatically” get financial aid, but don’t “really” deserve it) or the false assertion that there are piles of unclaimed money just waiting to be found (usually this comes in the form of a sales pitch for the person who’s going to find the money . . . for a fee).

Do not let any of the following myths prevent you from applying for the student aid for which you qualify.

My family makes too much money to qualify for financial aid.

This myth is a showstopper for many families. In the 2006 *College Gold* survey, 55% of respondents who did not apply for financial aid used this reason. Don’t assume that because you’re a member of the middle class, you can’t get financial aid. Many factors beyond annual income, such as family size, number of children in college, age of the older parent and the market value of your family’s net assets are considered. You may also qualify for education tax benefits. The unsubsidized Federal Stafford loan and the Federal PLUS loan are also available without regard to financial need. Even families earning more than \$100,000 a year have qualified for need-based grants, depending on their financial circumstances. Unusual circumstances such as unreimbursed medical expenses, providing support to an elderly grandparent, impending job loss and private elementary or secondary school tuition might increase your eligibility.

We have lots of equity in our home and retirement accounts so we can't get aid.

Federal and state financial aid guidelines do not consider home equity, and most private financial institutions adjust the value of your home relative to your income. Families with home equity have a resource not available to those without home equity, but they cannot be forced to use it. Most retirement funds are not counted as assets in the need analysis formula.⁸

We will get more aid if we don't save for college.

Financial aid calculations are much more heavily weighted toward income than assets (including savings). Money in retirement funds and the net worth of the family's primary residence are ignored, and the first \$45,000 to \$50,000 in parent assets are sheltered from the need analysis process, depending on the age of the older parent. Any assets above that threshold are assessed using a bracketed system (similar to income tax returns), with a maximum rate of 5.64%. Overall, only about 10% of families have any contribution from parent assets. So there is only a slight penalty for savings (and significant tax advantages), meaning that you always have more options if you have saved for college. Moreover, if you don't save for college, you will have to take out more loans to help pay for your education, and it costs more to borrow than to save.

I'm a straight-A student; I can do it all on scholarships.

Statistically, few students earn enough scholarship money to cover *all* college costs. Make scholarships one part of your overall plan to pay for college. Having good grades does help.

I'm not an A student, so I won't get any aid.

Although there are many academic scholarships, there are also many grant, employment and loan programs that depend on financial need, not grades. Also, there are many private scholarships that look for students who excel in other ways, such as community service, artistic or writing ability, math and/or science skills, or leadership and extracurricular activities.

Scholarships and financial aid are only available for underrepresented minority students.

Although a few scholarships do take race, gender, disability and/or other factors into account, the overwhelming majority of scholarships are awarded without regard to these factors. The most common criteria qualifying a person for aid in-

clude academic, artistic or athletic talent, financial need and community service. Very few financial aid applications even ask questions about race or ethnicity, and the percentage of all aid received by minority students is similar to their representation in the student population.

I'm not an athlete, so I won't get any financial aid.

Only about 1% of college students receive athletic scholarships. Most scholarships are awarded based on other criteria, and the majority of financial aid is awarded based on financial need or academic merit, not physical prowess.

We're not poor, so it is inappropriate for us to apply for financial aid.

College costs have increased enough that more than two-thirds of all families will qualify for some form of financial aid. There is no shame in applying for student financial aid. Your financial aid application will not deprive a needier or more deserving student of the money they need to pay for school.

Loans are not a form of financial aid.

Everybody prefers to get grants and scholarships. But few families can afford to pay out of pocket for college without some help. So, to the extent that education loans provide cash flow assistance, allowing you to spread the cost over a longer period of time, they represent a form of financial aid. Plus, federal education loans have lower interest rates and fees than most other forms of consumer credit, so they help make a college education more affordable. Federal education loans also offer a variety of flexible repayment terms.

For most students, financial aid means loans and a job, so why bother?

More than half of all students receive some grant aid. Besides federal and state grants, there are also institutional grants and private sector scholarships. It is always worth applying for financial aid, since the more financial aid you receive, the more options you'll have. It would be a shame if you got into the school of your choice, but couldn't afford to go because you didn't apply for financial aid. About 85% of undergraduate student aid recipients receive more than just loans and work.

If my parents don't claim me on their income tax returns, I will get more aid.

This has not been the case since 1992, when the criteria for independent student status changed. To be considered independent, you must satisfy the criteria listed in chapter 5. Even if you are independent, this doesn't necessarily mean you will get more aid.

The big, prestigious colleges will award more financial aid.

Every college makes its own decisions about how much aid to offer, and in what forms. Big colleges have big expenses, and some colleges with relatively small endowments have significant financial aid resources. Working directly with the colleges that interest you is the best way to learn what they can offer.

If you borrow more for other expenses, you'll get more aid.

This is a classic “my neighbor told me . . .” myth. Debt is debt, and unwise borrowing in the hope of gaining more financial aid (especially in the form of loans) makes no sense in terms of a family budget, priorities and peace of mind. The need analysis formulas do not consider most forms of consumer debt as an offsetting factor. So families who borrow more will find it more difficult to pay for college, not less.

I will have to go deeply into debt in order to pay for my college education.

Most students graduate with less cumulative debt for all four years than the cost of a single year of college. A good rule of thumb is to not borrow more than your expected starting salary when you graduate. If you do this, you will be able to afford to repay the debt within ten years of graduation. See chapter 15, “All those other expenses.”

We can't afford the high price of college.

Although newspapers and magazines often report the high cost of education at Ivy League schools and there's a lot of hysteria about faster-than-inflation increases in tuition rates, college is still affordable. Most students attend colleges that charge tuition that is less than a quarter of that of the most expensive institutions, and there is financial aid available to help defray college costs. Only the wealthiest of families pay the full cost of college. Moreover, the highest priced institutions tend to provide bigger aid packages, so your net cost will be about the same, regardless of which college you choose to attend.

Student employment during the academic year will hurt grades.

Studies have shown that a modest amount of work-study during college, no more than ten to fifteen hours per week, actually improves grades. See more about work-study in chapter 9.

Last year, millions and billions of dollars in aid went unclaimed.

The only aid that has ever gone unclaimed is aid that can't be claimed. This myth is based on a thirty-year-old estimate that has never been substantiated and

has nothing to do with scholarships. The unclaimed aid myth is based on a 1976–77 academic year study that estimated that \$7 billion of employer tuition assistance was potentially available to employees (i.e., if every eligible employee were to go to college), but that only about \$300 to \$400 million was being used each year. Subtract one from the other and misreport it, and you get the infamous “\$6.6 billion in scholarships went unclaimed last year.” If you want information about employer tuition assistance, visit your employer's human resources office.

You need to have good grades to win scholarships.

Every scholarship sponsor selects winners based on some criteria, such as academic, artistic or athletic talent, leadership, creativity or community service. Although there are some scholarships that depend on your GPA and some that depend on athletic prowess, you do have to distinguish yourself in some way from the other applicants in order to win a scholarship.



I Wish I Had Known . . .

The more scholarships you apply for, the more likely you will get money, even if your grades are not perfect.

—Kristina Salinas, sophomore
South Texas College

There is less aid available each year for needy students.

The total amount of aid has been increasing each year, faster than even tuition inflation. For example, in 2004–2005 total aid increased by 10% compared with the previous year. The ratio of grant aid to total aid has been dropping, in part due to cuts in government funding on a per-student basis, but even so, grant aid increased by 3%. If you need help paying for college, you can get it, and you won't be taking money away from a student with greater financial need.

If you apply for financial aid, the government will take your home.

Nobody is going to require you to sell your home to pay for college. Federal need analysis ignores the net equity in your home. Even at colleges that consider net

home equity, most of the eligibility determination will be based on income, not the net value (the market value minus outstanding mortgages) of your home.

Colleges cut the amount of support during the junior and senior years.

Although some colleges practice front-loading of grants⁹, which yields a higher proportion of grants to loans during the first year in college, most do not. Even among the colleges that do, the family's net cost remains about the same throughout the student's college career, assuming that the family's financial circumstances don't change significantly. (The origin of this myth is the typical scenario in which two children overlap in college for a while, and when one child graduates, the amount of aid granted to the other decreases because they are no longer splitting the parent contribution.)

My neighbor's children did not qualify for financial aid, so neither will mine.

The only way to find out whether you will qualify for financial aid is to apply, and the big step—filling out a FAFSA form—is free (see chapter 5). Your neighbor might have significantly different financial circumstances than your own, all appearances to the contrary. Moreover, the rules governing the federal aid programs change every year, so what was true a decade ago or even last year might not be true this year. If you don't apply for aid, you definitely won't get any.

I shouldn't apply for aid this year because I didn't get anything last year (or my brother or sister didn't get anything last year).

Eligibility for financial aid can sometimes change significantly from year to year. If the student had significant savings, but exhausted them on college bills, this can yield a big change in eligibility for financial aid. Similarly, having more than one child in college at the same time can lead to a dramatic increase in eligibility for financial aid. Federal legislation can significantly alter financial aid eligibility from one year to the next.

You should wait until you've filed your tax returns to apply for student aid.

Families should file the FAFSA as soon as possible after January 1, and not wait until their income taxes are done. There are state deadlines as early as mid-February, so it is best to file the FAFSA in January or February. Some schools use the FAFSA to allocate institutional aid, and may have early "priority" deadlines for the school's own funds. It is okay to estimate your income and taxes when fill-

ing out the FAFSA, so long as the figures are close to the real numbers. You will have an opportunity to provide the correct numbers when you receive your Student Aid Report (SAR).

Prenuptial agreements and trust funds are good tools for sheltering money from need analysis.

A prenuptial agreement is an agreement between husband and wife before they are married. It cannot be binding on a third party who was not party to the agreement (e.g., a college or the federal government). In other words, two people can't agree to change the rules set by a college or government. Likewise, voluntary restrictions established by a trust fund, such as restricted access to income or principal, will have no effect.

Applying for financial aid will hurt my chances of admission.

Most colleges practice need-blind admission, which means they decide who they will admit without regard to ability to pay. They then try to meet the full demonstrated financial need of the students they admitted. From a practical perspective, financial aid packages are determined only after the student is admitted, as the financial aid office wants to avoid the work involved in packaging aid for students who will not be admitted.

If I win a scholarship, they will reduce my financial aid package.

This can be true to some extent, but not entirely. Federal rules called "overaward regulations" prevent you from receiving more total financial aid than the cost of education. So if your outside scholarship pushes you over the top, the school will be forced to reduce your need-based aid package. This assumes that the college was able to meet all of your need. Most colleges apply outside scholarships first toward reducing the gap (unmet need), and second toward reducing loans and/or work-study. To the extent that you are substituting a scholarship for loans, you are benefiting, since the scholarships won't need to be repaid and the loan will.

FINANCIAL AID MYTHS

Federal Student Aid
AN OFFICE OF THE U.S. DEPARTMENT OF EDUCATION

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Free Application for Federal Student Aid

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Get help paying for college

Submit a Free Application for Federal Student Aid (FAFSA)

New to the FAFSA?

Start A New FAFSA

Returning User?

- Make a correction
- Add a school
- View your Student Aid Report (SAR), and more...

Login

COMPLETING THE FAFSA

Following the timetable in chapter 3, submit the FAFSA as soon as possible after January 1 of the year you will enter college. You can complete much of the information before January, so get a head start if you can (see the calendar in chapter 3; the FAFSA pre-application worksheet is available in November).

The FAFSA is available in paper and electronic formats. You can get the paper version from your high school, the financial aid office at any college or university, the public library or by calling 1-800-4-FED-AID (1-800-433-3243).

We recommend completing the web-based version of the FAFSA at

www.fafsa.ed.gov. Please note that there are other web addresses similar to this address that do not lead to the federal forms. Be sure to apply at www.fafsa.ed.gov. This site provides step-by-step instructions for completing the form. FAFSA on the Web offers several benefits, including:

- You will get your Student Aid Report (SAR) a few weeks sooner than with the paper form.
- Your FAFSA will be more accurate than a paper application, since the FAFSA on the web has built-in “edit checks” to catch simple errors and help you avoid common processing errors such as OCR errors.
- It is easier to file a Renewal FAFSA after you have completed your first FAFSA. (Remember that you have to fill out a new FAFSA every year you would like to receive aid.)
- You will save the federal government money by reducing their processing and printing costs.

To fill out the FAFSA on the Department of Education’s web site, you should get a Personal Identification Number (PIN).²¹ Follow the instructions at www.pin.ed.gov (it might take a day or two to get your PIN). If you have technical questions about using FAFSA on the Web, call 1-800-4-FED-AID. In addition, the National Association of Student Financial Aid Administrators holds free seminars about completing the FAFSA. Find a seminar near you at www.collegegoalsundayusa.org.

The www.fafsa.ed.gov site also offers an invaluable pre-application worksheet. The worksheet, which you can print out and fill in by hand, helps you organize all the information you will need to complete the FAFSA quickly. (Click on the link labeled “Before Beginning a FAFSA.”)

BOOK TO WEB

The FAFSA calculates your official Estimated Family Contribution (EFC), which you estimated in chapter 3. In fact, a government-estimated EFC will appear on a confirmation page as soon as you complete the FAFSA on the Web. Even though this isn’t the “official” number (which comes with the SAR), it will give you another bit of valuable information for your planning.

BOOK TO WEB

You need the Federal School Code (also known as a Title IV Institution Code) for each school to which you are applying in order to complete the FAFSA. Find it at www.collegegold.com. You can get this code from the school or 1-800-4-FED-AID, or you can use the school code database at www.fafsa.ed.gov/fotw0607/fslookup.

CODE: 1052

sign with a PIN, or you can print out a signature page online, sign and mail it to the address provided. Offline, you can sign your Student Aid Report (SAR) when it arrives (see below). Signing online with a PIN is quickest, and your PIN can be used to file Renewal FAFSA forms for all the years you're in school. Also note that if you are a dependent student (by the federal government's definition) both the parents and the students will need their own PIN. Each individual who would sign the paper form needs an individual PIN.

If you prefer to fill in a paper copy of the FAFSA, we recommend you send it in via certified mail, so you have proof of the date of mailing.

Whether you file electronically or by mail, make or print a copy of the completed FAFSA, including the worksheets, before mailing it. Keep it in a safe place with copies of all the records you used to complete the form. Not only will this be useful as a reference for subsequent years, but it might also be required for verification.

You should submit the FAFSA as soon as possible after January 1. You cannot submit the form before January 1, because the FAFSA uses your financial information from the prior tax year when calculating eligibility for the upcoming award year.²³ You *can* complete the pre-application worksheet before January 1, which will give you a head start.

For example, if it is now November 1, 2006, and you are applying for financial aid for the academic year running from September 2007 through June 2008, you must wait until January 1, 2007 to submit the FAFSA. To meet the deadlines for most states you should submit the form no later than March 1, with February 15 being ideal. (State deadlines are listed at www.fafsa.ed.gov/before003a.htm.) Some states and colleges require the FAFSA to be filed as early as February 1—some even earlier!

Do not wait until you've filed your income tax returns with the IRS. You

should either estimate your income—you'll have a chance to correct it with exact figures later—or complete your tax returns early. (Your December pay stubs and bank account statements should contain information about your total income for the year. You'll find this helpful in estimating your income.)

MAXIMIZING ELIGIBILITY FOR STUDENT AID

You can maximize your eligibility for financial aid with a few strategies that take advantage of the way the federal methodology works. As with the tax code, it's up to individual families to work within the current law to maximize their family's eligibility for financial aid.

This is a cause of some controversy among financial aid professionals, who fear that these strategies are, in effect, advising people to rearrange their finances to unfairly qualify for more aid. However, financial aid administrators are themselves in the business of helping people afford college in the best way possible, and until Congress comes up with a "perfect" methodology, we think the fairest situation is one in which all families learn as much as possible and take the actions that seem most sensible in the context of their entire financial lives, their values and the importance they put on education. Plus, many of the strategies for maximizing aid eligibility also make sense as good financial planning tips.

A word about honesty: We strongly discourage any family from trying to break the rules. The penalties for lying on financial aid applications are severe and can include a fine of up to \$20,000 and up to five years in jail. The federal government requires that every school verify the FAFSA applications of at least 30% of its students, and many verify 100%. Verification is a process where students are required to provide supporting documentation to prove that the information they have provided the financial aid office is accurate. (One reason the government bases FAFSA data on the prior tax year is that it's verifiable.)

Remember, too, that if you succeed in making yourself look less affluent than you really are, you're making it harder for the financial aid administrators to distribute limited financial aid funds fairly. Do you really want to be reducing the amount of aid available to lower income families? A good rule of thumb to follow is: *If a reasonable person would feel uncomfortable telling a financial aid administrator about using a strategy, don't use it.* Ask your school's financial aid administrator if you have questions about the appropriateness of using any strategy. Remember that their job is to help people attend college and they are not your enemy.

The following tactics are intended mostly to help you avoid unintended mistakes. For example, a parent who conscientiously saves for her children's college education in her child's name qualifies for less aid than a parent who saves the money in her own name, all other factors being equal.

As in good financial planning, one piece of advice doesn't fit all. For example, it's common advice to reduce parent assets by paying off the mortgage early. Too often, however, families focus all their attention on that strategy even though only 10% of families have any contribution from parent assets, and those that do, often have a very small contribution resulting from those assets.

A more successful method than pursuing one or two tactics is to test strategies against your unique financial situation. Before you try to minimize parent assets, for example, first compare your qualifying assets (by adding up your non-retirement; non-home-equity assets, such as savings and investments) against the "asset protection allowance." (The typical family has an asset protection allowance of \$40,000–\$50,000, so the family savings and investments might not be counted at all.) You might have little reason or no reason to reduce your assets.²⁴

Furthermore, some financial moves which appear sensible for one reason, such as raising money for college by selling stock, can negatively impact eligibility for financial aid in other ways . . . all depending on when the action is taken.

Many of the following strategies are just good, sound financial practices. For example, using cash in the bank to pay off credit card debt will benefit the family financially by reducing the amount of interest they are paying, in addition to improving the family's eligibility for student financial aid.

Overall, it's a good approach to focus on those strategies that have the biggest impact. Below you will find the basic principles of maximizing eligibility, followed by the ten strategies that have the biggest impact on the greatest number of families.

The basic principles for maximizing eligibility are:

1. Reducing income during the year(s) upon which the financial aid need analysis is based. (This can be a tricky choice, because the natural assumption is that you need more income, not less, during college years. However, there are cases in which this makes sense. For example, if a parent decides to take a sabbatical from work or accept a severance package from an employer, moving the unemployment period to the year upon which the income is based can result in a larger aid package.)

2. Reducing "included" assets. There are two types of assets, those that are included in the need analysis formulas and those that aren't. Converting included assets into non-included assets will increase eligibility by sheltering them from the need analysis process. However, most financial planners recommend that parents maintain a contingency fund equal to six months' salary in relatively liquid form for emergencies and other unforeseeable circumstances.
3. Increasing the number of children enrolled in college and pursuing a degree or certificate at the same time. The parent contribution is split among all children who will be simultaneously enrolled in college.²⁵
4. Taking advantage of the differences in the way the need analysis process assesses the assets and income of the student and his or her parents.

With these principles in mind, here are our top ten tactics for maximizing your family's eligibility for student aid:

1. Save money in the parent's names, not the child's name.
2. Pay off consumer debt, such as credit card and auto loan balances (and resist the temptation to run up a new balance).
3. Spend down the student's assets first, before touching the parents' money—it's counted at a higher rate when calculating the EFC.
4. Accelerate *necessary* expenses to reduce available cash. For example, if you need a new car or computer, buy it before you file the FAFSA. If the parents intend to give their student a computer or car as a graduation present, they should buy it before they file the FAFSA, using the student's money.
5. Minimize capital gains.
6. Maximize contributions to your retirement fund. (Note: The current year's contributions get added back in as untaxed income on the worksheets, but are not counted as assets.)
7. Do not withdraw money from your retirement fund to pay for school, as distributions count as taxable income, reducing next year's financial aid eligibility. If you must use money from your retirement funds, borrow the money from the retirement fund instead of getting a distribution.
8. Prepay your mortgage.
9. Use section 529 College Savings Plans, Prepaid Tuition Plans or

BOOK TO WEB

The federal laws and regulations concerning eligibility for financial aid can change at the will of Congress. To accommodate this changing information and give you more detail, we maintain an up-to-date supplement to this section at www.collegegold.com. Please refer to it for the latest information, as well as many additional tactics regarding student and parent income, home equity, retirement and other exempt assets, number of family members in college and dependency status.

CODE: 1010

Coverdell Education Savings Accounts. A plan owned by a parent has minimal impact on financial aid²⁶, and one owned by a grandparent has no impact at all.

10. Choose the date to submit the FAFSA carefully, as assets and marital status are specified as of the application date. Applicant marital status cannot be updated.

Keep in mind that the federal regulations governing financial aid change frequently. There is no guarantee that any of these strategies will work in the long run, since the federal need analysis methodology is amended annually by Congress and undergoes a major overhaul every four to six years (see “Book to Web” note above).

THE STUDENT AID REPORT (SAR)—THE NEXT STEP

Four to six weeks after you file the FAFSA (two to four weeks if you file electronically), you should receive a copy of your Student Aid Report (SAR) from the U.S. Department of Education. The SAR summarizes the information you submitted on the FAFSA and presents the Expected Family Contribution (EFC) which tells you the amount your family is expected to contribute to your education for the next academic year. Review the SAR carefully for errors of fact. Corrections must relate to the accuracy of the information as of the date the original FAFSA was submitted, not subsequent updates.²⁷ If necessary, make any corrections on Part 2 of the SAR and return it promptly to the address listed on the SAR. You will then receive a new SAR. Your timing may affect the aid packages that you are of-

FEELING INDEPENDENT?



Many families have heard that “independent” students receive more financial aid. The question of who is an independent student is the source of much confusion and some questionable FAFSA filings. Independent students might qualify for more financial aid (sometimes they qualify for less aid), but you can’t just declare yourself to be independent. For the FAFSA, the federal government says you’re an independent student if you meet at least one of the following criteria:

- You will be twenty-four years old by December 31 of the financial aid award year.
- You are a graduate student or attending a professional school.
- You are married as of the date you submitted the FAFSA.
- You are a U.S. armed forces veteran (or on active duty as of July 1, 2006).
- You have one more more legal dependents other than a spouse, such as children who receive more than half their support from you and will continue receiving more than half their support from you during the award year. Other people may also qualify as dependents, provided that they live with you in addition to satisfying the 50% support test.
- You are an orphan or ward of the court, or were a ward of the court until age eighteen.

Financial aid professionals might declare you independent under additional criteria, such as both parents being incarcerated, hospitalized or institutionalized. Note that parent refusal to contribute to the student’s education or to complete the FAFSA or provide verification documents are insufficient grounds for a dependency status override.

ferred. Remember that this is not an “appeals” process asking for a smaller EFC—just a confirmation of facts.

If you do not receive the SAR within a reasonable amount of time, call the federal processor at 1-319-337-5665 (or 1-800-4-FED-AID). You can also write to

Federal Student Aid Programs
 PO Box 4038
 Washington, DC 52243-4038

The SAR report is eight pages long, including instructions and correction forms. Your government-calculated EFC is found at the bottom of page two of the (current) form, and looks like the information below. We've highlighted the place on the form where you'll find the EFC (note that this government sample uses zeros in place of real numbers, and is expressed in monthly amounts).

Study your SAR carefully; it will recap all the information you supplied. If ANY of your information is inaccurate, immediately correct the mistake. You can do this online at www.fafsa.ed.gov (click the link labeled "Make Corrections to a Processed FAFSA") or report the correct information in writing to the address above.

Your Expected Family Contribution is determined by a complex federal needs analysis formula. Financial aid administrators cannot directly change the EFC or the amount of financial aid. But the financial aid administrator may use "professional judgment" to adjust the inputs to the need analysis formula, when justified by documented unusual circumstances. The federal need analysis methodology then calculates a new EFC using the same formula based on the new information. This usually results in a different financial aid package. If you believe that you cannot meet the EFC, tell the financial aid administrators at colleges you plan to attend, and ask for a "professional judgment review." It helps if

For Financial Aid Office Use Only												
This information will be used by your Financial Aid Administrator to determine your eligibility for student aid.												
SAR C Flag: Y	Dependency Status: I	Rejects Met: 01 02 03 04 05 07										
Application Source: 2A	Dependency Override: X	Application Receipt Date: 06/19/2005										
Transaction Source: 4C	FAA Adjustment: X	Transaction Receipt Date: 06/20/2005										
Processed Record Type: X	Reprocessing Code: X	Verification Flag: X										
Duplicate SSN Flag: X												
MONTHS:	1	2	3	4	5	6	7	8	9	10	11	12
PRIMARY EFC:	00000	00000	00000	00000	00000	00000	00000	00000	00000	00000	00000	00000
SECONDARY EFC:	00000	00000	00000	00000	00000	00000	00000	00000	00000	00000	00000	00000
PC: 99999												
SIC: 99999												
Auto Zero EFC Flag: Y	SNT Flag: N	Pell Eligible Flag: Y										
MATCH FLAGS:												
SSN Match Flag: 4	Selective Service Registration Flag: 4	Selective Service Match: X										
DHS Match Flag: X	DHS Verification #: 123456789012345	SSA Citizenship Code: X										
DHS Sec. Conf. Flag: X	VA Match Flag: 1	FSSN Match Flag: 4										
NSLDS Match Flag: 2	NSLDS Database Results Flag: 1	MSSN Match Flag: 4										
	NSLDS Transaction Number: 01											
COMMENTS: 001 002 003 004 005 006 007 008 009 010 011 012 013 014 015 016 017 018 019 020												

THE CSS/FINANCIAL AID PROFILE

Another form called the CSS/Financial Aid PROFILE is required by a few hundred private colleges for financial aid applications. The form is administered by the College Board and differs somewhat from the FAFSA in that it contains questions specific to the school or program you're applying to, whereas the FAFSA asks the same questions of everyone.

The CSS/Financial Aid PROFILE asks for more detailed financial information than the FAFSA. For example, it takes into account such factors as whether your family owns a home. It tracks three years of income data, not one. It makes allowances for certain expenses not covered on the FAFSA, as well as elementary/secondary school tuition payments. With a more in-depth picture of the family's finances the CSS/Financial Aid PROFILE allows the colleges to fine-tune their financial aid packages.

The PROFILE can also require a fee to complete, and can be completed earlier than the FAFSA. Ask the colleges that interest you if they use the CSS/Financial Aid PROFILE and, if so, go to profileonline.collegeboard.com to complete the form.

you supply them with independent third-party documentation of the unusual circumstances and their financial impact on your family.

Changes in your EFC will not necessarily result in more gift aid. As a general rule, unless the family has a very low income, a decrease in the EFC will yield an increase in eligibility for student loans and work-study, not grants. Just because you demonstrate increased financial need doesn't mean that the school and government will throw more grants and scholarships your way.

DO YOU NEED HELP?

The FAFSA is a lengthy form, and somewhat complicated . . . but as we've mentioned, if you can do your taxes, you can complete the FAFSA. Most questions can be answered just by reading the instructions carefully.

Some families use paid preparers to help them complete the form. They want the assurance of someone saying, "Yes, you've done it right; you're not mak-

WHAT HAPPENS NEXT?

When you submitted your FAFSA, you were able to specify the names and school codes of up to six colleges. These colleges will automatically receive a copy of your Student Aid Report. If you decide to attend a college that was not listed, you should either go online to add the college²⁹ or provide the college with a copy of your SAR. You may also need to provide a copy of your SAR to other institutions that require it, such as some scholarship providers. Do this as soon as you confirm its accuracy, and before their deadlines.

Send all financial aid forms to the financial aid office together, as early as you can. When all your paperwork is received at a financial aid office, financial aid administrators combine the SAR data with other information they requested of you. Their goal is to create a package of financial aid grants, loans, tuition discounts, work-study and other opportunities that, combined with your family's contribution, meets the cost of attending their school. The next four chapters will examine the components of that package in detail.

Let's introduce a new term: After your EFC, federal grant and other aid is added up, your financial aid package is designed to cover your **remaining financial need (RFN)**. The RFN drives the subsidized Federal Stafford loan amount, and also plays into Federal Perkins loan eligibility. Here's how they come to that figure:

Starting with the Cost of Attendance (**COA**) for one year,
Subtract your Expected Family Contribution (**EFC**)
Subtract your Federal Pell Grant (if you're eligible)
Subtract aid from sources outside the school (grants, scholarships, etc.) and . . .
the remainder is your Remaining Financial Need (**RFN**).

Here's a simplified look at the RFN calculation for a student applying to a private college with a cost of attendance of \$25,000:

\$25,000	COA
-1,550	EFC
-2,500	PELL
-3,000	Scholarship
<hr/>	
\$17,950	RFN