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Financial Aid for College

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What is financial aid?

Financial aid is money distributed primarily by the federal government and colleges in the form of loans, grants, scholarships, and work-study jobs. A student can receive both federal and college aid, and the aid can be either need-based or merit-based.

ABCs of Financial Aid

These days, it's hard to talk about college without mentioning financial aid. Yet this pairing isn't a marriage of love, but one of necessity. In many cases, financial aid may be the deciding factor in whether your child attends the college of his or her choice, or even attends college at all.

That's why it's important to develop a basic understanding of financial aid before your child applies to college. Here are some basics to help you get started.

What is financial aid?

Financial aid is money distributed primarily by the federal government and colleges in the form of loans, grants, scholarships, and work-study jobs. A student can receive both federal and college aid. An ideal financial aid package will contain more grants and scholarships (which don't need to be repaid) and fewer loans.

Financial aid can be further broken down into two categories: need-based aid, which is based on a student's financial need, and merit aid, which is based on a student's academic, athletic, musical, or artistic talent.

Need-based aid vs. merit aid

Both the federal government and colleges provide need-based aid. The amount of federal aid available in any given year depends on the amount appropriated in the federal budget, and this aid is spread over different financial aid programs. For colleges, need-based aid comes from a college's endowment, and policies may differ from year to year and from college to college, which may result in an uneven availability of funds. Colleges are the main source of merit aid, and they often use favorable merit aid packages to attract the best and brightest students to their campuses, regardless of their financial need.

The availability of college grant and scholarship aid tends to fluctuate from year to year and from college to college as schools decide how much of their endowments to spend, as well as the specific academic and extracurricular programs they want to target. As a family researching college options, one of the best things you can do to help your bottom line is to target colleges that offer significant grant and scholarship aid.

Every college offers a tool on its website called a "net price calculator" that you can

complete to get an estimate of how much financial aid (need-based and merit) your child might be eligible for at that college based on your family's financial picture and your child's academic credentials. Net price calculators ask for parent and student income and asset information, and they take anywhere from 10 to 15 minutes to complete. It's a great idea to try out the net price calculator from several colleges to get an idea of what your out-of-pocket costs might be at different schools.

In addition to colleges, many businesses, foundations, and associations offer smaller merit scholarships. Many have specific eligibility criteria and deadlines. To find them, start with local scholarships (have your child check with his or her high school guidance office) and branch outward. Various scholarship websites allow your child to input his or her background, abilities, and interests and receive (free of charge) a matching list of potential scholarships.

How is need determined?

Financial need is generally determined by looking at a family's income, assets, and household information. The federal government and colleges have slightly different formulas for determining a student's financial need. The general process of aid assessment is called "needs analysis." Your current income is generally the most important factor in determining need.

The federal government's aid application is called the FAFSA, which stands for Free Application for Federal Student Aid. The federal government and colleges use the FAFSA when federal funds are being distributed (colleges are responsible for administering certain federal financial aid programs). The FAFSA uses a formula known as the federal methodology.

Colleges use one of two forms to determine how to distribute their own institutional aid. Most colleges use the CSS PROFILE application, while others use their own specific form. The PROFILE (or a college's own application) uses a formula known as the institutional methodology.

Under the FAFSA, your income and assets and your child's income and assets are run through a formula. You are allowed certain deductions and allowances against your income, and you're able to exclude certain



What counts the most?

Your current income is the most important factor in the determining financial need.

assets from consideration, including retirement plans, home equity, annuities, and cash value life insurance. A full breakdown of the federal aid formula is beyond the scope of this discussion, but it generally works this way:

- Parent income is counted up to 47% (income equals adjusted gross income or AGI plus untaxed income/benefits minus certain deductions)
- Student income is counted at 50% over a certain amount (\$7,600 for the 2023-2024 school year)
- Parent assets are counted at 5.6% (home equity, retirement assets, cash value life insurance, and annuities are excluded)
- Student assets are counted at 20%

The result is a figure known as your expected family contribution, or EFC. It's the amount of money that you'll be expected to contribute to college costs to be eligible for aid. Your EFC remains constant, no matter which college your child applies to. You can get an advance estimate of your EFC by using the federal government's online tool called the "FAFSA4caster."

Note: Starting with the 2024-2025 FAFSA, the term "student aid index" or SAI, will replace the term "expected family contribution," or EFC. The change attempts to clarify what this figure actually is: an eligibility index for student aid, not an exact dollar amount of what a family can or will pay for college.

An important point is that your EFC is not the same as your child's financial need. To calculate your child's financial need, subtract your EFC from the cost of attendance at your child's college. Because colleges aren't all the same price, your child's financial need will fluctuate with the cost of a particular college.

Example: You fill out the FAFSA, and your EFC is calculated to be \$25,000. Assuming that the cost of attendance at College A is \$65,000 per year and the cost at College B is \$45,000, your child's financial need is \$40,000 at College A and \$20,000 at College B.

The PROFILE application basically works the same way. However, the PROFILE generally takes a more thorough look at your income and assets to determine what your family can afford to pay; for example, the PROFILE might look at your home equity or amounts you've contributed to medical and dependent care flexible spending accounts. In this way, colleges attempt to target those students with the greatest financial need.

Submitting aid applications

The best way to complete the FAFSA is to fill it out and submit it online at fafsa.ed.gov (it can also be completed manually and mailed to the address listed on the form). The online route is best because mistakes are flagged immediately and electronic FAFSAs take only one week to process (compared to two to four weeks for paper FAFSAs). To submit the FAFSA online, you and your child will each need to obtain an FSA ID, which you can also do online.

The FAFSA relies on income tax information from two years prior and current asset information. The FAFSA has the ability to directly import your tax information using the IRS Retrieval Tool, which is built into the form, though you will also need to answer additional questions. The FAFSA can be filed as early as October 1 in the year prior to the year your child will be attending school. For example, for the 2023-2024 school year, the FAFSA can be filed beginning October 1, 2022, and it will use income information from your 2021 tax return.

Private colleges typically require both the FAFSA and the standard PROFILE form or their own aid form, which you'll need to submit by each individual college deadline. The PROFILE form is generally submitted in late fall or winter, but is often required earlier if your child is applying early decision or early action. In addition to the form itself, the PROFILE will typically require you to submit tax returns, and possibly other financial documents, at a later date. If so, you'll receive instructions on how to do this.

After your FAFSA is processed, your child will receive a Student Aid Report highlighting your EFC; colleges listed on the FAFSA will also receive a copy of the report. Then, once your child is accepted at a particular college, the financial aid administrator at that school will try to craft an aid package to meet your child's financial need.

Comparing aid awards

Sometime in late winter or early spring, your child will receive financial aid award letters that detail the specific amount and type of financial aid that each college is offering. Colleges aren't obligated to meet all of your child's need. In fact, it's not uncommon for colleges to meet only a portion of a student's need, a phenomenon known as getting "gapped." If this happens to you, you'll have to make up the shortfall, in addition to paying your EFC. On the flip side, if a college says it is meeting "100% of your demonstrated need,"



remember that the college is the one who determines your need, not you, and that you'll still have to pay your EFC.

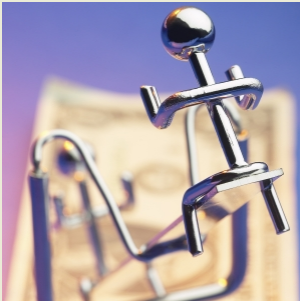
Read each award letter carefully and make sure you understand exactly what the college is offering. When comparing aid packages, the goal is to compare your out-of-pocket cost at each college. To do this, look at the total cost of attendance for each college and subtract any grant or scholarship aid the college is offering. If the grant or scholarship is merit-based, find out if it's guaranteed for all four years and what requirements must be met in order to qualify for it each year. If the grant or scholarship is need-based, ask whether you can expect a similar amount each year if your income and assets stay roughly the same (and you have the same number of children in college), and ask whether it will increase to keep up with annual increases in tuition, fees, and room and board.

The difference between the total cost and any grant or scholarship aid is your out-of-pocket cost or "net price." Compare this figure across all colleges. Once you determine your out-of-pocket cost at each college, determine how much, if anything, you or your child will need to borrow. Then multiply this figure by four to get an idea of what your total borrowing costs might be. Armed with this information, you'll be in a position to make the best financial decision for your family.

If you'd like to lobby a particular school for more aid, a polite email or letter to the financial aid administrator followed up by a telephone call is appropriate. Your chances of getting more aid are best if you can document a change in circumstances that affects your ability to pay, such as a recent job loss, unusually high medical bills, or some other event that impacts your finances. Your chances of getting more aid by asking one college if they'll match a favorable aid offer from another college is a less reliable strategy, but may be worth a shot if the colleges are direct competitors.

How much should I rely on financial aid?

With all this talk of financial aid, it's easy to assume that it will do most of the heavy lifting when it comes time to paying for college. But remember that all financial aid isn't created equal. Grants and scholarships are great because they are essentially free money. But loans are quite different. Parents and students who rely mainly on loans to finance college can end up with a considerable debt burden that can have significant negative implications for years after graduation. So aim to borrow wisely.



Positioning Your Income and Assets to Enhance Financial Aid Eligibility

There are a number of strategies you can implement to try to enhance your child's federal aid eligibility. These strategies take advantage of the rules regarding which income and assets are counted in determining financial need.

Note: The FAFSA relies on current asset information but income information from two years prior, which is referred to as the "prior-prior year" or the "base year" (e.g., the 2023-2024 FAFSA relies on your 2021 tax return, so 2021 is the prior-prior year).

Strategies to reduce income

- Time the receipt of discretionary income to avoid the base year
- Have your child limit his or her income for the base year to the amount of the student income protection allowance

Strategies to reduce assets

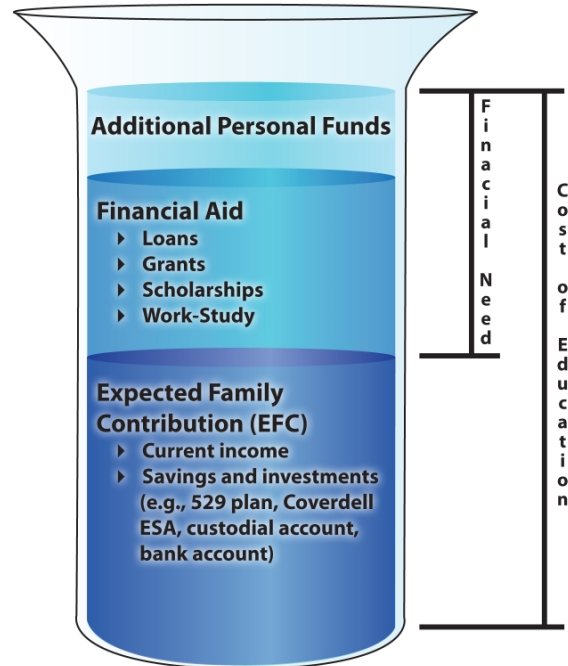
- Use cash (an assessable asset) to pay down consumer debt, which is not counted in the federal methodology
- Use cash to make large planned purchases the year before your child starts college
- Use counted assets to pay down your mortgage, which increases your home equity (an excludable asset)
- Shift counted assets above your asset protection allowance (a sum automatically excluded from consideration) to assets excluded by the federal methodology (e.g., home equity, retirement plans, cash value life insurance, annuities)
- Use your child's assets to pay for the first year of college, which reduces (for subsequent years) the student asset contribution factored into your EFC

Finding the Funds to Pay for a College Education



Paying for college with a combination of strategies

Families typically fund college with a combination of strategies including savings, financial aid, and current income. Outside scholarships and gifts are a bonus.



Finding the funds to pay for your child's college education is like filling a test tube. The length of the tube represents the cost of education at any one school--tuition, fees, books, room and board, transportation, and personal expenses.

The first ingredient is what you'll have to contribute from your own pocket: the expected family contribution (EFC), which is determined by the federal government's financial aid formula. This can come from savings and/or loans.

Your EFC is the same regardless of the college your child chooses. The difference between your EFC and the cost of a particular college equals your child's financial need, which is a variable.

To meet this financial need, your child might be eligible for financial aid in the form of loans, grants, scholarships, and/or work-study funds from the federal government, college, and/or independent organizations. Your child may not receive all the financial aid he or she needs. If so, you'll have to top off the tube with more of your own funds, which are in addition to the EFC.

Note: Starting with the 2024-2025 FAFSA, the term "student aid index" or SAI, will replace the term "expected family contribution," or EFC.

This illustration represents one possible financial situation. Actual percentages may vary from student to student.



Major Federal Financial Aid Programs

There are several federal financial aid programs that can help students and their families pay for college and graduate school. These include federal loans, grants, and work-study. To be considered for any these programs, you must fill out the government's Free Application for Federal Student Aid form, or FAFSA.

Loans

The main federal education loans are the Direct Subsidized Loan, the Direct Unsubsidized Loan, the Direct PLUS Loan, and the Perkins Loan. Federal education loans generally offer more generous repayment options than private student loans.

Direct Loans

Direct Loans are low-interest, federal student loans that can be either subsidized or unsubsidized. Subsidized loans are only available to undergraduate students with financial need; unsubsidized loans are available to undergraduate and graduate students and are not based on financial need. With a subsidized loan, the federal government pays the interest that accrues while the student is in school, during the six-month grace period after graduation, and during any deferment periods. With an unsubsidized loan, the borrower is responsible for paying the interest that accrues during these periods.

Direct PLUS Loans

Direct PLUS Loans are unsubsidized loans made to parents with good credit histories who want to help pay for their dependent child's undergraduate education (Parent PLUS Loans) or to graduate and professional students (Grad PLUS Loans). Like unsubsidized Direct Loans, PLUS Loans are not based on financial need, but borrowers must pass a credit check.

PLUS Loans have no dollar borrowing limits per year; graduate students and parents are able to borrow up to the full cost of attendance. Graduate borrowers who obtain Grad PLUS Loans have a six-month grace period before they must start repaying their loans. However, parents who obtain a Parent PLUS Loan have no grace period; once the funds are dispersed, parents must begin to repay the loan within 60 days of the last disbursement for that academic year.

Perkins Loan

A Perkins Loan is low-interest federal loan available to undergraduate and graduate students with the greatest financial need (i.e. the lowest expected family contributions, or EFCs). The Perkins Loan program is a campus-based program, which means the loan is available only from individual colleges, not the federal government. The Perkins Loan program is a first-come, first-served program. Each college receives a certain amount of money for this program, and once the funds are awarded, there are no more until the following year.

Grants

There are two main federal education grants: the Pell Grant and the Supplemental Educational Opportunity Grant (SEOG).

Pell Grants are reserved for undergraduate students with the greatest financial need, and the grant is available to all students who qualify. The SEOG is also reserved for undergraduate students with the with the greatest financial need. The SEOG is administered on campus, which means that each college receives a limited amount of money for this program, and the financial aid administrator at each college decides which students will receive this grant based on their level of financial need.

Work-study

The federal work-study program is a federally-sponsored financial aid program that subsidizes jobs for both undergraduate and graduate students. It is based on a student's financial need.

The federal work-study program is a campus-based program. This means that each college receives a certain amount of money for the program, and once the money is awarded, there is no more until the following year. If your child qualifies for a work-study job, the amount of the total work-study award will depend on your child's level of financial need, the time your child applies, and the total funds available at your child's college or university. Jobs can be either on- or off-campus, and they pay at least minimum wage. Money earned in a work-study job is paid directly to the student at least once per month.



Comparison of Federal Higher Education Loans

	Direct Unsubsidized Loan	Direct Subsidized Loan	Perkins Loan	Direct PLUS Loan
Description	A federal student loan available to students regardless of financial need	A federal student loan available to students with financial need	A federal student loan available to students with the greatest financial need	A federal loan available to parents and students with good credit histories regardless of financial need
Available to	Undergraduate and graduate students enrolled at least half-time	Undergraduate students only enrolled at least half-time	Undergraduate and graduate students (can be less than half-time)	Parents of undergraduate students enrolled at least half-time, and graduate and professional students
Lender	Federal government only	Federal government only	College	Federal government only
Borrower	Student	Student	Student	Parent or graduate/professional student
Based on financial need	No	Yes	Yes	No
Interest rate for 2022-2023	4.99% for undergraduates; 6.54% for graduate students	4.99%	5%	7.54%
Interest subsidized	No	Yes ¹	Yes ¹	No
Grace period	6 months	6 months	Generally 9 months	6 months
Loan limits for 2022-2023	Dependent undergraduates: 1st year - \$5,500 (\$3,500 subsidized), 2nd year - \$6,500 (\$4,500 subsidized), 3rd to 5th year - \$7,500/year (\$5,500 subsidized), \$31,000 maximum Independent undergraduates and dependent undergraduates whose parents don't qualify for PLUS loans: 1st year - \$9,500 (\$3,500 subsidized), 2nd year - \$10,500 (\$4,500 subsidized), 3rd to 5th year - \$12,500/year (\$5,500/year subsidized), \$57,500 maximum Graduate students: \$20,500 per year, \$138,500 maximum including undergraduate loans		Undergraduate students: \$5,500/year \$27,500 limit Graduate students: \$8,000/year \$60,000 limit (including undergraduate loans)	Student's total cost of education, minus any other financial aid received

¹ The federal government pays the interest on the loan while the student is in school at least half-time, in a grace period, or in a deferment period.



Financial Aid Calendar

If your child is applying for financial aid for college, here is a calendar highlighting the important tasks to be done during senior year of high school. The dates are generally relevant for students applying regular decision.

<p>September</p> <ul style="list-style-type: none"> • Create a timetable of financial aid deadlines for each college • Obtain an FSA ID at fafsa.ed.gov as a prerequisite for submitting the FAFSA online (only need to do this once) • Obtain a username and password at collegeboard.org as a prerequisite for submitting the CSS Profile online 	<p>October</p> <ul style="list-style-type: none"> • Gather last two years of tax returns for parent and student • Complete and submit the FAFSA as soon as possible after October 1 • Complete and submit the CSS Profile if student is applying to college early action or early decision 	<p>November</p> <ul style="list-style-type: none"> • Research college and private scholarships and gather supporting materials (students may be considered for college scholarships automatically when they apply)
<p>December</p> <ul style="list-style-type: none"> • Complete and submit the CSS Profile if student is applying regular decision • Complete additional college-specific aid forms, if any 	<p>January</p> <ul style="list-style-type: none"> • Complete and submit private scholarship applications • Review Student Aid Report (SAR) from FAFSA showing your expected family contribution (EFC) 	<p>February</p> <ul style="list-style-type: none"> • Verify that all required federal and college financial aid forms have been submitted, and submit any additional documents as requested • Continue to complete and submit private scholarship applications
<p>March</p> <ul style="list-style-type: none"> • Watch for college acceptances; if acceptance contains offer of merit aid, make sure to understand requirements of any merit scholarships • Receive financial aid award letters from colleges detailing financial aid package; read each award letter carefully • Watch for notifications from private scholarship sources 	<p>April</p> <ul style="list-style-type: none"> • Compare financial aid awards by comparing out-of-pocket costs at each college as well as total overall costs • Decide on a single college! • Sign and return financial aid award letter 	<p>May</p> <ul style="list-style-type: none"> • Contact financial aid office to confirm all paperwork is in • Notify financial aid administrator of any changes in circumstances that may affect your family's ability to pay EFC
<p>June</p> <ul style="list-style-type: none"> • High school graduation! 	<p>July</p> <ul style="list-style-type: none"> • Student signs student loan promissory notes, if applicable • Student receives federal student loan counseling, if applicable 	<p>August</p> <ul style="list-style-type: none"> • Congratulations! Off to college!

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