
COLLEGE FUNDING & FINANCIAL AID:

**Presenter: Kalman A. Chany
President, Campus Consultants Inc.**

PLEASE SILENCE YOUR CELL PHONES

Campus Consultants Inc.

TYPES OF FINANCIAL AID

There are two types of financial aid offered:

- Merit-based
- Need-based

MYTHS REGARDING NEED-BASED AID

It is NOT true that....

- There is an income cutoff for aid
- You are ineligible if you own a home
- Parents need to have a job to qualify for aid
- The amount of aid one receives is the same at any school
- The college will show one how to get the most money

FINANCIAL AID LEVERAGING & ENROLLMENT MANAGEMENT

- Higher education is big business in the USA
- Do not assume that schools will put the student's best interests ahead of their own
- Be aware that many schools are trying to determine the least amount of aid they need to give a student to get the student to enroll
- Moral of the story: An uneducated consumer is a college's best customer

FINANCIAL AID JARGON

There are two key items that affect eligibility:

- Cost of Attendance
- Expected Family Contribution (EFC)

ITEMS IN THE COST OF ATTENDANCE

The Cost of Attendance represents the sum of:

- Tuition and fees
- Housing and meals
- Allowance for books and supplies
- Allowance for transportation
- Allowance for personal expenses

FACTORS AFFECTING THE EFC

- Student's status (Dependent, Independent)
- Parents' marital status (Dependent Students Only)

THE EXPECTED FAMILY CONTRIBUTION (EFC)

- For a dependent student:
 - Parents' Contribution + Student Contribution = Expected Family Contribution (EFC)
- Income and assets are currently assessed
- There are two main formulas for the EFC
 - Federal Methodology (FM)
 - Institutional Methodology (IM)

INCOME AND FINANCIAL AID

- All taxable income and some types of untaxed income are subject to assessment.
- Beginning 2017-2018: The base income year represents the calendar year two years prior to the academic year the student is seeking assistance – so begins as early as Jan. 1st of 10th grade. For 2016-2017: prior year used.
- College aid officers can use “professional judgment” in certain situations.

(continued)

INCOME AND FINANCIAL AID

(continued)

- Untaxed social security benefits for any family member, the earned income credit, the foreign income exclusion, and the additional child credit are not considered untaxed income in the FM.
- Social security benefits paid for the benefit of the student will not be considered untaxed income in the IM. Benefits for others are assessed in the IM.

INCOME AND FINANCIAL AID

(continued)

- Income from work as well as income from other sources is considered.
- Voluntary pre-tax contributions to retirement plans and Health Savings Accounts (HSA) are considered untaxed income in the FM and IM.
- Amounts withheld from wages for dependent care and medical spending accounts are considered untaxed income only in the IM.
- Taxes paid and other items are deducted from total income.
- Parental income after deductions may be assessed from 22% up to 47%.

STUDENT INCOME & FINANCIAL AID

- A dependent student will be expected to contribute 50% of their after-tax income once the base-year after-tax income exceeds \$6,400 for the 2016-2017 FM - and up to 46% after \$4,130 after-tax for the IM.
- There is no minimum expected contribution in the FM.
- In the IM for 2016-2017, there is a minimum expected contribution for most dependent students:
 - \$1,900 for the freshman year
 - \$2,600 for any subsequent year

HOW IS THE HOME TREATED?

- Home is defined as one's primary residence
- Not considered an asset in the FM
- Considered an asset in the IM, but some schools will cap the value or the equity at a percentage of income or ignore it

OTHER ASSETS

- Any real estate other than one's primary residence is considered
- Cash as well as the value of any bank accounts and other investments are considered, though any qualified retirement accounts, insurance products, and annuities are excluded in the FM and IM

WHAT ABOUT MY DEBTS, MY BUSINESS, OR MY FARM?

- Only debts secured by assets that are assessed in the formula are recognized
- Unsecured debts (credit card balances, personal loans, etc.) do not reduce one's "net assets"
- The net worth of any business or farm may need to be reported. However in the FM, the net worth of any "family business" or "family farm" is not considered as an asset
- Asset value = the current market value on the day the aid form is completed

THE CONTRIBUTION FROM ASSETS

- Certain asset protection allowances are deducted from a parent's net assets
- For parent(s): Any remaining assets are assessed at a maximum rate of 5.65% in the FM and 5% in the IM
- No asset protection allowance for the student
- Student net assets assessed at 20% in the FM and 25% in the IM

WHAT ABOUT 529 PLANS AND COVERDELLS?

- Any parent-owned 529 plan or Coverdell account is considered a parental asset
- A student-owned 529 or Coverdell will be considered a parental asset for a dependent student in the FM, but a student asset in the IM.

WHAT ABOUT 529 PLANS AND COVERDELLS?

- Any 529 or Coverdell owned by an individual other than the student or a custodial parent need not be reported as an asset, unless there is a specific question on an aid form about these accounts owned by others. However, the value of the funds withdrawn in a given year from such an account will be considered untaxed income to the student - which can affect future aid eligibility.
-

OTHER FACTORS THAT INFLUENCE THE EFC

- Number of family members in the household
- For the FM: The age of the older parent (step-parent) in the household
- Number of family members in the household in college on at least a half-time basis (excluding any parent/stepparent)

HOW ELIGIBILITY IS DETERMINED

- Cost of Attendance – EFC = “Need”
- Consider reducing any discretionary income during a base income year
- Certain adjustments to assets can also lower your EFC in the aid formulas
- Most schools engage in preferential packaging

KEY STEPS TO FOLLOW

1. Determine the forms you need to complete
2. Determine your deadlines
3. Register for the PROFILE if required
4. Determine if you can get tax forms completed before your earliest filing deadline
5. Gather together your records

THE ASSERTIVE APPROACH

1. Be an “educated” consumer
2. Calculate financial “need” and aid eligibility
3. Plan ahead to increase “need”
4. File forms by the deadlines

TYPES OF NEED-BASED FINANCIAL AID

- Grants
- Work-study
- Student loans

SAMPLE AWARD PACKAGE

- Pell Grant \$2,300
- SEOG Grant \$750
- University Grant \$12,500
- State Grant \$3,200
- Work-study job \$1,750
- Perkins Loan \$1,000
- Stafford Loan \$3,500

BORROWING SOURCES

- Federally-sponsored loans
- Alternative loans

FEDERAL LOANS: FACTORS TO CONSIDER

- Stafford: Subsidized or Unsubsidized
- As of July 1, 2010, Stafford, PLUS and GradPLUS loans are offered only through the William D. Ford Direct Loan Program.
(Private lenders such as banks will no longer be able to offer federal loans.)

ALTERNATIVE LOANS: FACTORS TO CONSIDER

- Interest rate: Fixed or variable? How determined? Any cap?
- Who is the borrower?
- Is a co-signer permitted or required?
- Fees
- Repayment Options
- Is the loan secured or unsecured?
- Is the interest tax-deductible?

LESS TAXING MATTERS

- Education Tax Credits
 - American Opportunity Credit (Extended through 2017)
 - Lifetime Learning Credit
 - Hope Credit
 - Interaction with 529s & Coverdells.

- Student Loan Interest Deduction
(Despite name, parent may also be eligible)

- Tuition and Fees Deduction (May or may not be extended for 2015 or beyond)

MERIT-BASED SCHOLARSHIPS

- Most schools award scholarships for academic ability
- May be necessary to file aid forms to qualify
- Many schools also offer scholarships to students with:
 - Creative / performing art talent
 - Athletic ability
 - Students with a record of special achievement or who possess special characteristics

OTHER OPTIONS

- Cooperative education
- Payment Plans
- Tuition freezes
- Alumni discounts
- Other discounts
- “Financial Safety” schools
- Outside Scholarships

PLANNING SUMMARY

1. Be an “educated” consumer
2. Calculate financial “need” and aid eligibility
3. Plan ahead to increase “need”
4. File forms by the deadlines
5. Review aid packages
6. Investigate:
 - Merit-based scholarships
 - Payment plans and money saving options
 - Tax benefits
 - Borrowing sources