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Financial Aid for College

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. Without such knowledge, you may have trouble understanding the process of aid determination, filling out the proper aid applications, and comparing the financial aid awards that your child receives.

But let's face it. Financial aid information is probably not on anyone's top ten list of bedtime reading material. It can be an intimidating and confusing topic. There are different types, different sources, and different formulas for evaluating your child's eligibility. Here are some of the 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, or work-study jobs. A student can receive both federal and college aid.

Grants and scholarships are more favorable than loans because unlike loans, they don't have to be repaid—they're free money. In a work-study program, your child works for a certain number of hours per week (either on or off campus) to earn money for college expenses. Obviously, an ideal financial aid package will contain more grants and scholarships than loans.

Need-based aid vs. merit aid

Financial aid can be further broken down into two categories: need-based aid, which is based on your child's financial need, and merit aid, which is awarded according to your child's academic, athletic, musical, or artistic merit.

The majority of financial aid is need-based aid. However, in recent years, merit aid has been making a comeback as colleges (particularly private colleges) use favorable merit aid packages to lure the best and brightest students to their campuses, regardless of their financial need. However, the availability of merit aid tends to fluctuate from year to year as colleges decide how much of their endowments to spend, as

well as which specific academic and extracurricular programs they want to target.

Sources of merit aid

Ask the colleges your child is applying to about the availability of merit aid. Does the college offer any grants or scholarships for academic, athletic, musical, or other abilities? If so, what is the application procedure? College guidebooks can give you an idea of how much merit aid (as a percentage of a general student's overall aid package) each college had provided in past years.

Besides colleges, a wide variety of private and public companies, associations, and foundations offer merit scholarships and grants. Many have specific eligibility criteria and deadlines.



In the past, sifting through the possibilities could be a daunting task. Now, with the Internet, there are websites where your child can input his or her background, abilities, and interests and receive

(free of charge) a matching list of potential scholarships. Then it's up to your child to meet the various application deadlines. However, though this avenue is certainly worth exploring, such research and work to complete the applications shouldn't come at the expense of applying for the more common need-based financial aid.

Sources of need-based aid

As mentioned, the majority of financial aid is need-based aid, and the remainder of the discussion will focus on this type of aid, except where noted. The main provider of need-based financial aid is the federal government, followed by colleges. States come in at a distant third.

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, resulting in an uneven availability of funds. States, like the federal government, must appropriate the money in their budgets.

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).



When colleges distribute their own financial aid, they use one of two forms. The majority of colleges use the PROFILE application, created by the College Scholarship Service of Princeton, New Jersey. A minority of colleges use their own institutional applications.

States may either use the FAFSA or require their own application. Contact your state's higher education authority to learn about the state aid programs available and the applications you'll need to fill out.

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How is financial need determined?

The way your child's financial need is determined depends on which aid application you're filling out. The FAFSA uses a formula known as the federal methodology; the PROFILE (or a college's own application) uses a formula known as the institutional methodology. The general process of aid assessment is called needs analysis.



Under the FAFSA, your current income and assets and your child's current 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 assets from consideration, namely, your retirement plans, annuities, home equity, and cash value life insurance. Generally, parents are required to contribute 5.6% of their assets, while children are required to contribute 20% of their assets.

The result is a figure known as the 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.

An important point to remember 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 fluctuates with the cost of a particular college.

Example: You fill out the FAFSA, and your EFC is calculated to be \$5,000. Assuming that the cost of attendance at College A is \$18,000 per year and the cost at College B is \$25,000, your child's financial need is \$13,000 at College A and \$20,000 at College B.

The PROFILE application (or the college's own application) basically works the same way. However, the PROFILE generally takes a more thorough look at your income and assets to determine what you can really afford to pay (for example, the PROFILE looks at your home equity and retirement assets). In this way, colleges attempt to target those students with the greatest financial need.

What factors count the most in needs analysis? Your current income is the most important factor, but other criteria play a role, such as your total assets, how many family members are in college at the same time, and how close you are to retirement age.

Submitting aid applications

The FAFSA can be completed manually and mailed to the address listed on the form, or it can be completed and filed online at www.fafsa.ed.gov. The online route is probably better because mistakes are flagged immediately and electronic FAFSAs



take only one week to process (compared to four to six weeks for paper FAFSAs).

The FAFSA is filed as soon after January 1 as possible in the year your child will be attending college. You must wait until after January 1 because the FAFSA relies on your tax information from the previous year. (The official federal deadline for filing the FAFSA is June 30, but many colleges have an earlier deadline.)

You should try to submit the FAFSA as close to January 1 as possible because some financial aid programs operate on a first-come, first-served basis. Even if you haven't completed your federal income tax return, Uncle Sam lets you base your FAFSA answers on an estimated return, though you will have to provide a copy of your final income tax return later.

The PROFILE (or individual college application) can usually be filed earlier than the FAFSA. The specific deadline is left up to the individual college, so make sure you keep track of it.

After your FAFSA is processed, your child will receive a Student Aid Report in the mail highlighting your EFC (the colleges that you list on the FAFSA will also get a copy of the report). Then, the financial aid administrator at each school will try to craft an aid package to meet your child's financial need.

Comparing aid awards

When your child is accepted at a particular college, the college's financial aid administrator will attempt to create a financial aid package to meet your child's financial need. Sometime in early spring, your child will receive these financial aid award letters that detail



the specific amount and type of financial aid that each college is offering.

When comparing awards, first check to see if each college is meeting all of your child's fi-

nancial need. Colleges aren't obligated to meet all of it. 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. College guidebooks can give you an idea of how well individual colleges meet their students' financial need under the entry "average percentage of need met" or something similar.

Next, look at the loan component of each award and compare actual out-of-pocket costs. Remember, grants and scholarships don't have to be repaid and so don't count toward out-of-pocket costs. Again, you would like your child's need met with the highest percentage of grants, scholarships, and work-study jobs and the least amount of loans.

If you'd like to lobby a particular school for more aid, tread carefully. A polite letter to the financial aid administrator followed up by a telephone call is appropriate. Your chances for 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 unforeseen event. Also, your chances improve if your child has been offered more aid from a direct competitor college, because colleges generally don't like to lose a prospective student to a direct competitor.

How much should we 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 the college bills. But the reality is you shouldn't rely too heavily on financial aid. Although aid can certainly help cover your child's college costs, student loans make up the largest percentage of the typical aid package, not grants and scholarships.

As a general rule of thumb, plan on student loans covering up to 50% of college expenses, grants and

scholarships covering up to 15%, and work-study jobs covering a variable amount. But remember, parents and students who rely mainly on loans to finance college can end up with a considerable debt burden.

Positioning your income and assets to enhance financial aid eligibility

There are a number of strategies you can implement to try to enhance the amount of federal financial aid your child receives. These strategies take advantage of the federal methodology rules about which family income and assets are counted in determining your family's expected family contribution (EFC). Lowering your EFC raises your child's eligibility for federal financial aid. (But remember, any increased aid your child receives may consist entirely of loans, not grants or scholarships.)

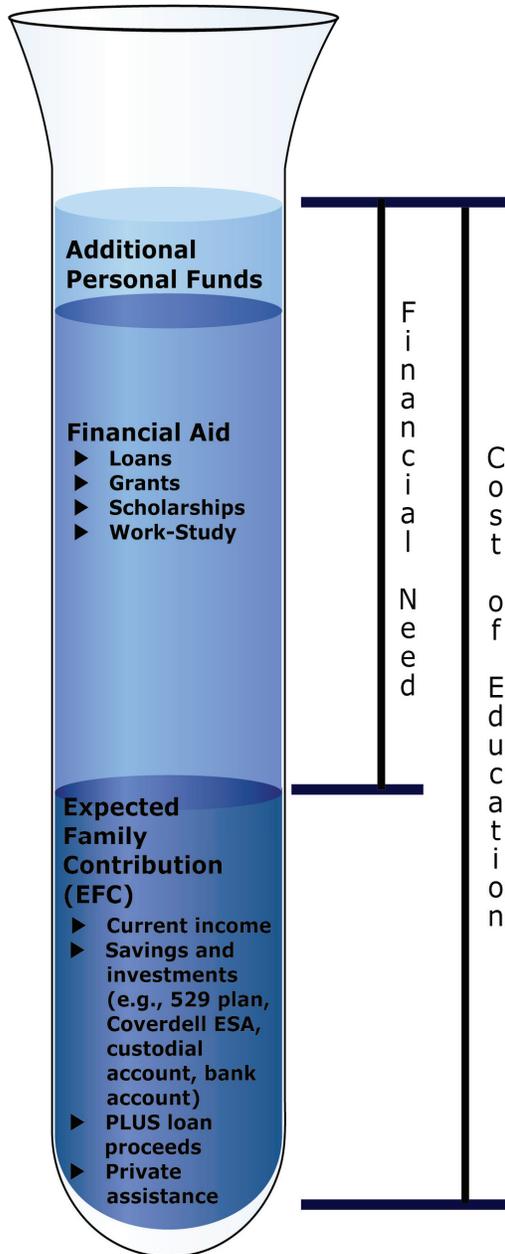
Strategies to reduce your income:

- Time the receipt of discretionary income to avoid the base year, which is the year prior to the year you fill out the FAFSA
- Pay all federal and state income taxes due during the base year, which will reduce assessable cash and increase your tax deduction on the FAFSA
- Have your child limit his or her income for the base year to the amount of the student income protection allowance

Strategies to reduce your 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 that the federal methodology factors into the EFC

Finding the Funds to Pay for a College Education



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

Major Federal Financial Aid Programs

Grants

There are several federal grant and scholarship programs. To be eligible, you must complete the FAFSA.

The two main federal grants are the Pell Grant and the Supplemental Educational Opportunity Grant (SEOG). The Pell Grant is for undergraduate students with financial need, and the grant is available



to all students who qualify. The SEOG is reserved for undergraduate students with the most 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.

There are also two other federal grant programs available to full-time undergraduate students who qualify for a Pell Grant and meet other requirements. For first- and second-year students, there are Academic Competitiveness Grants, and for third- and fourth-year students majoring in certain subjects, there are National Science and Mathematics Access to Retain Talent (SMART) Grants.

Scholarships

The two main federal scholarship programs are the Robert C. Byrd Scholarship Program and the AmeriCorps Program.

The Robert C. Byrd Program provides annual \$1,500 scholarships to students who have demonstrated outstanding academic achievement and the promise of continued academic excellence.

The AmeriCorps Program offers monetary awards in exchange for up to two years of community service work before, during, or after college or graduate school. The community service work is in one of four areas: education, the environment, human services, and public safety. The federal government provides the funding, while states and nonprofit agencies do the hiring.

Work-study

Work-study is a type of financial aid program that allows students to work and earn money as a way to supplement higher education costs. 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 encourages jobs that are related to your child's course of study and/or the community (employment may not involve political or religious activity). These jobs can be either on- or off-campus, and they pay at least minimum wage (but can pay higher). Money earned in a work-study job is paid directly to the student at least once per month (undergraduate students are paid by the hour; graduate students either by the hour or on a salary basis). The student can then spend the money in any way he or she wishes.

The federal work-study program is a campus-based program. This means that the financial aid administrator at each individual college administers it. Each school receives a certain amount of money for the federal work-study program, and once the money is awarded, there is no more until the following year.

Tip: Because federal work-study is a first-come, first-served program, it is in your child's best interest to apply as early as possible. In any case, make sure your child applies before the college's application deadline.

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.

Caution: You cannot earn more money than your award stipulates. For example, if you receive a \$2,000 work-study award, your employment lasts until you earn \$2,000, and then it is over for that academic year.

Also, you may decide to turn down a work-study position if you are able to get a job on your own that provides better pay and hours.

To apply for federal work-study, your child should contact the financial aid office of the college he or she will attend.

Loans

There are many types of federal financial aid loans for college. The main loans are the Stafford Loan, the Perkins Loan, and the PLUS Loan. These loan programs are summarized on the table in the next section.

Comparison of Federal Higher Education Loans

	Unsubsidized Stafford Loan	Subsidized Stafford Loan	Perkins Loan	PLUS Loan
Description	A low-interest, federal student loan	A low-interest, federal student loan	A low-interest, federal student loan available to students with the greatest financial need	A federal education loan made to borrowers with good credit histories; borrowers may borrow the full cost of higher education, less any financial aid received
Available to	Undergraduate and graduate students enrolled at least half-time	Undergraduate and graduate students 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 independent graduate and professional students
Lender	Federal government only beginning July 1, 2010 (prior to this date, loan could be obtained from federal government or private lender)	Federal government only beginning July 1, 2010 (prior to this date, loan could be obtained from federal government or private lender)	College	Federal government only beginning July 1, 2010 (prior to this date, loan could be obtained from federal government or private lender)
Borrower	Student	Student	Student	Parent or graduate/professional student
Based on financial need	No	Yes	Yes	No
Interest rate	6.8% fixed for loans disbursed after June 30, 2006 ¹	6.8% fixed for loans disbursed after June 30, 2006--this interest rate will gradually be reduced to 3.4% by 2012 ²	5%	8.5% fixed for loans disbursed after June 30, 2006 ¹
Interest subsidized	No	Yes ³	Yes ³	No
Grace period	6 months	6 months	Generally 9 months	6 months
Loan limits 2009/2010	<p>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</p> <p>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</p> <p>Graduate students: \$20,500 per year (\$8,500 subsidized), \$138,500 maximum including undergraduate loans (\$65,500 subsidized)</p>		<p>Undergraduates: \$4,000/year \$20,000 maximum</p> <p>Graduate students: \$6,000/year, \$40,000 limit (including undergraduate loans)</p>	Student's total cost of education, less any other financial aid received by either the student or parent

¹ The interest rate for Stafford and PLUS Loans disbursed on or after July 1, 1998 through June 30, 2006 is variable. For the period July 1, 2009 through June 30, 2010, the interest rate on Stafford Loans in repayment is 2.48% (down from 4.21%), the interest rate on in-school, grace, or deferment status Stafford Loans is 1.88% (down from 3.61%), and the interest rate on PLUS Loans is 3.28% (down from 5.01%).

² For subsidized Stafford Loans, the interest rate will be fixed at 6.0% for loans first disbursed on or after July 1, 2008 and before July 1, 2009; 5.6% for loans first disbursed on or after July 1, 2009 and before July 1, 2010; 4.5% for loans first disbursed on or after July 1, 2010 and before July 1, 2011; and 3.4% for loans first disbursed on or after July 1, 2011 and before July 1, 2012.

³ The federal government pays the interest on the loan when the student is in school at least half-time, in a grace period, or in a deferment period.

Financial Aid Calendar

If you're applying for financial aid for college, here's a calendar highlighting the important tasks to be done during the senior year of high school.

September	October	November
<p>Create a timetable of financial aid deadlines for both federal government and individual college programs</p>	<p>Explore potential private scholarship sources at the library or on-line</p> 	<p>Request application materials from private scholarship and grant sources</p>
December	January	February
<p>Obtain the federal government's Free Application for Federal Student Aid (FAFSA)</p> <p>Obtain any other financial aid forms required by selected colleges</p>	<p>Compile income tax information to help in completing the FAFSA</p> <p>Complete, photocopy, and submit the FAFSA as soon as possible after January 1</p> <p>Complete college and private source financial aid forms</p>	<p>Verify that all required financial aid forms have been submitted</p> 
March	April	May
<p>Watch mail for Student Aid Report from the federal government showing your family's expected family contribution (EFC) to college costs</p> <p>Watch for reports from college and private financial aid applications</p>	<p>Receive financial aid awards from various colleges</p> <p>Compare financial aid awards</p> <p>Sign and return financial aid forms</p>	<p>Contact financial aid office to check status of aid</p> <p>Notify financial aid administrator of changes in circumstances that affect family's ability to pay EFC (e.g., job loss, divorce, etc.)</p>
June	Summer	Off to College!
<p>High School Graduation</p> 	<p>Sign student loan promissory notes</p> <p>Receive federal student loan counseling</p>	

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