William Blair

Applying for College Financial Aid

Financial aid packages play an important role in funding the rapidly increasing costs of a college education. Learning about the application process can help you enhance your child's eligibility for student loans, grants, scholarships, and other forms of aid.

With college costs rising faster than inflation, planning for how you will finance your children's education is more critical than ever. In addition to personal savings, financial aid packages from the federal government and schools play a vital role in funding college expenses. This aid can come in the form of loans, grants, scholarships, or work-study jobs.

Most aid is based on the student's and family's financial need, so it is important for parents to become familiar with the application process for financial aid.

How Financial Aid Is Determined

The federal government is the largest source of need-based financial aid and provides about $130 billion[1] of aid each year. The Free Application for Federal Student Aid (FAFSA) is used by the federal government and most colleges to determine how much aid a student is eligible for. More than 400 schools, mostly private colleges, including all of the Ivy League schools, also use an application known as the College Scholarship Service, or the CSS PROFILE, which is much more thorough in its questions than the FAFSA.

The purpose of these applications is to determine the amount that the family is expected to contribute to the child's college expenses. The FAFSA looks at the income and assets of the parents and the student, the size of the family, how close parents are to retirement age, and the number of dependent children enrolled in college in a given year.

A formula is used to calculate the student's expected family contribution (EFC), which is the minimum amount the family is expected to pay regardless of which college the student attends. The EFC is then subtracted from the cost of attending the school to determine the amount of financial aid needed for that specific school. Most schools do not meet the student's financial aid with grants, so additional assets or loans beyond what is included in the financial aid package may be required.

When to Complete the Application

The FAFSA can be submitted as soon as October 1 in the year before the child will be attending college, typically senior year of high school. Some financial aid programs operate on a first-come, first-served basis, so it can be very advantageous to submit the application as soon as possible. A new application must be filed for each year financial aid is requested.

The application relies on income tax information from a base year, which is two calendar years before the start of the academic year that financial aid is applied for. Assets are evaluated when the application is filed.

For example, for the 2022/23 school year, the FAFSA can be filed beginning October 1, 2021, and it will use income information from the 2020 tax return, and asset valuations as of the date of the application. Because of this look-back period, income for the final two years of college will not be relevant to financial aid.

[1] www.naicu.edu

Cost of Attendance

— Expected Family Contribution

= Financial Need

The FAFSA determines the amount that a family is expected to contribute to the child's college costs based on the parents' and child's assets and income, as well as other factors. The expected family contribution is then subtracted from the cost of attending a specific school to determine the student's financial need.

How to Enhance Your Aid Eligibility

Assets and income negatively affect the FAFSA expected family contribution (EFC) calculation, which is weighted more heavily toward income than assets. Each year, parents are expected to contribute 5.6% of their assets and up to 47% of their income to the college costs, and children are expected to contribute 20% of their assets and 50% of their income.

For purposes of the FAFSA application, assets held in a 529 plan are considered to be those of the parents whether they are held in the parents' or child's name. Grandparent-owned 529 plan assets are not counted on the FAFSA. However, funds withdrawn from grandparent-owned 529 plans do get counted as untaxed income to the grandchild on the financial aid form and are assessed at 50%.

Strategies for Reducing Assets:

- Shift resources toward assets that are excluded from the FAFSA calculation, such as retirement accounts, equity in your home, annuities, and cash value life insurance
- Pay down mortgages and consumer debt, which are not factored into the calculation
- Accelerate any necessary expenses such as home repair or a vehicle purchase before filing the FAFSA
- Move money from an UGMA or UTMA account into a custodial 529 plan for more favorable financial aid treatment
- Save in the parent's name or in a 529 plan, not in the student's name
- Student assets devoted to college should be spent before parental assets since student assets are assessed at a higher rate for the EFC

Strategies for Reducing Income:

- Expedite discretionary income, such as exercising stock options, before the student's initial base year, which would be no later than December 31 of the student's sophomore high school year. Or, defer such income until after the student's final base year, which would be after December 31 of the student's sophomore of college if that student graduates in four years
- Be mindful of the timing of retirement plan distributions, including tax-free Roth distributions, as the FAFSA treats all distributions from retirement plans as income
- Realize any capital gains that are not offset by capital losses before the student's initial base year
- Consider the timing of withdrawals from grandparent-owned 529 plans. Since withdrawals are treated as the student's income, funds may be more advantageously used in the final two years of college, when there is no subsequent year's the FAFSA can be affected by the distribution

Inform the financial aid office about any the FAFSA excluded expenses or financial situation changes. Schools may increase aid for medical expenses, job loss, divorce, or a death in the family.

CSS Profile - The Other Financial Aid Application

If your child applies to a private school, you will probably have to fill out the CSS PROFILE application, as well as the FAFSA. While the FAFSA is used to determine the student's eligibility for federal aid, many private institutions (including all of the Ivy League schools) and some prestigious public universities use the PROFILE to determine financial aid from the school.

The major differences between the PROFILE and the FAFSA:

- *More extensive:* The PROFILE is much more thorough in its questions about the parents' finances than the FAFSA.
- *Different calculations:* Schools that use the PROFILE often take into account several types of assets that are not included in the FAFSA calculation, including retirement accounts and home equity. It also includes the income and assets of the non-primary parent if the parents are not married.
- As with the FAFSA, the PROFILE application process also begins on October 1 of high school in the senior year.

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