

Guide to College Financial Aid

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GREETING

Welcome to the *Guide to College Financial Aid*. Congratulations on your foresight in taking the time and making the effort to think ahead and plan for college!

It's clear that a college* education is a strong investment for the student's future. Studies show that college graduates earn significantly more than those who don't attend college. In addition to its monetary value, higher education can improve the quality of life.

Click through this book for answers to your questions about college financial aid. Look and click through the Contents. Use the Search function. What aspects of college aid are relevant to your situation? What would happen if your financial picture changed? Why would saving for college be worthwhile? Is there anything you can do to make college more affordable? How do new Congressional student aid regulations and tax laws affect your family? Will new private-college aid formulas for 2000-2001 make a difference to you?

Our aim is to provide you with information to clarify the college financial aid system, so that you can make effective plans for the college years. Using this book should help you become informed about your individual aid situation.

We wish you the best!

*In this book, we use the word "colleges" to refer to any school attended beyond high school, including universities, graduate schools, community colleges and vocational and technical schools.

BASICS OF FINANCIAL AID

- Shared cost--Because college is so expensive, the cost is shared--by family members, students, government aid programs, and sources of private aid funds. Parents of dependent students provide income and asset information on aid application forms; then aid formulas determine how much they are expected to pay for their child's education. Students are also expected to contribute from income and assets. Parents' and student contributions are added together to form the Expected Family Contribution (EFC).
- Meeting the need--What is your family's aid eligibility? Your eligibility for aid is the same amount as what the formulas have calculated as your "need" for aid. It is the difference

between the college's total Cost of Attendance and your Expected Family Contribution (EFC). It varies depending on the cost of each college. Even though your family may be "eligible" for the amount of aid needed, not all colleges are able to provide the full amount. If full aid is not awarded, there is an aid "gap" (unmet need). Parents of dependent students may borrow through the [PLUS](#) loan program to help pay EFC and to cover any aid gap.

- Self-help--Aid packages may contain grants and scholarships. They also contain student loans and jobs! The portion of the package that consists of the student's loans and work-study job allotment is self-help. Every student is entitled to borrow under the [Stafford Loan](#) program, so a Stafford Loan will be part of almost every aid package.
- Need and merit--Federal aid and most private aid are based on financial need. The college's Cost of Attendance (COA) minus Expected Family Contribution equals "Need" (eligibility) for aid. Need-based financial assistance is sometimes available to families with relatively high incomes, depending on such variables as Cost of Attendance, asset values, and number of children in college. Aid that is *not* based on financial need is known as "merit" aid. It is used to attract students that college admissions officers hope to enroll. It may be based on academic ability, musical talent, home state or other special qualities of the student. Athletic scholarships are an example of merit aid. For students who aren't eligible for aid, merit awards are a bonus. When students are eligible for aid, merit awards will be included in the aid packages.
- FM and IM--There are two ways that a family's Expected Family Contribution (EFC) and aid eligibility is calculated. The first is **FM**, Federal Methodology, which is used to award federal (and often state) funds. The aid application form for FM is the FAFSA (Free Application for Federal Financial Aid). Federal aid is available at both public and private colleges. At many public colleges, government funds provide the only aid money available. The second method for calculating EFC and aid eligibility is **IM**, Institutional Methodology, which is used to award private college aid dollars. Schools that make aid awards from their own private institutional (IM) aid money want more family financial information than FM requires. Most important, they count home equity, which is not considered by the federal aid formulas. Many colleges that use IM require the PROFILE aid application form and/or may require their own institutional aid application form.
- Time considerations--When families fill out aid forms, they are required to report income and assets. Aid formulas look at income from the calendar year prior to the year for which aid is requested. Each income year is a base year for the next year's aid. Under some circumstances (illness, death, retirement, unemployment, etc.) income from the current calendar year may be substituted. Assets are reported as of the date that the application form is filed.

TOP TEN TERMS

Top Ten College Financial Aid Terms

Base Year--Each time that you apply for aid, income from the preceding calendar year will be used in calculations of your aid eligibility. These are your "Base Years" for financial aid. The first base year is most important because it sets the stage for following years.

Cost of Attendance (COA)--Each college uses a standard COA figure to calculate aid packages. It includes tuition, fees, room and board (housing and food), books and supplies, transportation, and personal expenses.

Eligibility for Aid ("Need")--The Cost of Attendance minus the Expected Family Contribution is the amount of Eligibility for Aid ("Need"). If an aid package doesn't meet the entire amount of Eligibility for Aid, there is an aid Gap. At some colleges, financial aid is based only on "Need." Other colleges offer both merit aid and need-based aid.

Expected Family Contribution (EFC)--Aid formulas analyze income and assets to determine how many dollars each family must contribute towards college costs. If the student is dependent, the EFC includes the Parents' Contribution and the Student Contribution.

Federal Methodology (FM)--Congressional aid formulas, known as FM, determine EFC for the purpose of allocating federal aid funds at public and private colleges. At most public colleges, federal and state funds are the major source of aid. Applicants must fill out the FAFSA (Free Application for Federal Student Aid) form.

Gap--When an aid award does not meet the full amount of calculated Eligibility for Aid, there is an aid Gap. Educational expenses will be at least as high as Expected Family Contribution (EFC) plus any Gap. Student and parent loans are available to cover EFC and any Gap.

Institutional Methodology (IM)--IM formulas determine EFC for awarding private institutional aid funds at private (and some public) colleges. Different schools may use different IM formulas. Applicants fill out a college form and/or the PROFILE form, as well as the FAFSA.

Merit Aid--Merit aid is based on the student's attributes, not on financial need. Another name for merit aid is "non-need" aid.

Professional Judgment (PJ)--Aid administrators have the ability to make decisions based on special circumstances.

Self-Help--Aid packages enable students to "help themselves" through student loans and work-study jobs.

QUALIFYING FOR AID

ELIGIBILITY FOR AID DEPENDENCY STATUS

ELIGIBILITY FOR AID

- Eligibility basics--To be eligible for federal aid programs, a student must meet all of the following qualifications:
 - be a U.S. citizen, U.S. national, or eligible noncitizen,
 - be registered with the Selective Service if required,
 - be enrolled as a regular student studying toward a degree or certificate in an eligible program,
 - have a high school diploma or equivalent (may be granted by state-approved home school),
 - have a Social Security number,
 - make satisfactory academic progress,
 - have financial need,
 - not be in default on a federal education loan or owe a refund on a federal grant, and
 - sign a certification statement on the FAFSA form.

The Department of Education's *Student Guide* provides details on the above and other federal aid regulations.

Immigration status and social security numbers are verified.

Conviction on a drug charge may suspend or cancel federal student aid eligibility.

States or individual colleges may offer aid to foreign students or others who may not qualify for federal programs.

- Noncitizens--To qualify for federal aid, a noncitizen should be one of the following:
 - a U.S. permanent resident with an Alien Registration Receipt Card (I-151, I-551, or I-551C), or
 - other eligible noncitizen with an Arrival-Departure Record (I-94) showing certain designations such as: Refugee / Asylum Granted / Indefinite Parole and/or Humanitarian Parole / Cuban-Haitian Entrant.
- Full-time / half-time--When aid is awarded on the basis of a student being full time, she or he must be sure to continue to take a course load that the college defines as a full-time load. If a course is dropped, it can affect eligibility for federal and state aid. Students must attend at least half time for federal Stafford or PLUS loans. They may be less than half time and still receive Pell Grants. Although government regulations don't require half-time attendance for campus-based federal programs (Perkins Loans, SEOGs, and Work-Study), it is the colleges that make the awards. Money for the FSEOG (Federal Supplemental Educational Opportunity Grant) program and for Perkins loans is limited. Schools may give some degree of preference to full-time students. When awarding their own nongovernment funds, private colleges set their own rules for aiding full-time and part-time students.

DEPENDENCY STATUS

- Dependents--Most college students are considered to be dependent on their parents, even if they live on their own and file separate tax returns. Unless students meet formal requirements for independence, parents are expected to contribute to college costs. Parents, as well as students, must report income and assets on aid application forms.

Aid administrators will not just accept a statement that parents are unwilling to help, because many would take that route and because guidelines are strict. If parents actually do refuse to help, the student may receive no aid at all. Parents should, at an absolute minimum, fill out the FAFSA form, so that their child may qualify for whatever aid he/she is eligible to receive.

- Unusual circumstances--Unusual circumstances may be taken into account, so students should ask questions if they feel that their situation truly warrants being considered independent. Documentation will be necessary. Talk with an aid administrator if you believe that you deserve independent status.
- Federal definition of "Independent"--Guidelines for *federal* aid specify that to be considered independent a student must meet at least one of the following criteria:
 - is at least 24 years old (born before January 1, 1977 for 2000-2001 school year aid),
 - will be working on a degree beyond a bachelor's degree,
 - is married on the date that the FAFSA form is filled out (if separated but not divorced, student is considered married for the purposes of this item),
 - has legal dependents (other than a spouse) who receive more than half of their support from the student,
 - is an orphan or ward of the court (or was until age 18), or
 - is a veteran of the U.S. Armed Forces (or will be one by June 30, 2001 for the 2000-2001 aid year).
- Independents--When **FM** methodology is used, students who are judged to be independent report only their own income and assets and, if they are married, those of their husband or wife. If they have dependents other than a spouse, independent students are given more favorable treatment by aid formulas. A legal dependent is defined as the student's dependent child, or a person who lives with the student at the time of filing the aid application and

receives more than half of his or her support from the student and will continue to receive that support during the aid year.

- Private colleges and universities--Students who meet the *federal* definition of "independent student" may not be considered "independent" by schools that use IM methodology to award private aid funds. Parents are generally expected to provide income and asset data. (Some schools choose to consider students "independent" if they are 30 or over by December 31 of the year of enrollment.) Schools may apply an alternate formula when students would meet the federal definition of "independent," so that the parents' contribution rate will be somewhat lower.

FAMILY CONTRIBUTION

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CONTRIBUTION OVERVIEW

The amount that a family is expected to provide for a student's education before aid is awarded is called the Expected Family Contribution (EFC). If the student is dependent, the EFC is the combination of the Parents' Contribution and the Student Contribution. "Need Analysis" is the process of calculating EFC and aid eligibility. Parents and/or students submit asset and income data on aid forms. Formulas are used to analyze the data and determine the contribution.

PUBLIC & PRIVATE METHODOLOGIES

- Public financial aid (FM)--Two basic methods are used to determine the amount of Expected Family Contribution (EFC) and aid eligibility. The first is Federal Methodology (FM), a set of formulas that are set by Congress and used to allocate government aid funds at public and private colleges. The form required is the FAFSA (Free Application for Federal Student Aid). States rely on the FAFSA to award state aid, though they may also require additional forms. At public colleges, government aid is usually the major source of funds.
- Private financial aid (IM)--The second method of deciding how much the family is expected to contribute is called Institutional Methodology (IM). It is used by private colleges (and some public colleges) that have their own private aid funds to award. When supplementing public funds with private money from their own resources, most colleges want more information than the FAFSA provides. So, in addition to the FAFSA form, private colleges and those public colleges that have private money generally ask for information on their own forms and/or the PROFILE form. IM formulas are applied to the data.
- How FM and IM are alike--There are similarities between the two ways of judging the family's ability to pay college costs. Both Federal Methodology (FM) and Institutional Methodology (IM) formulas consider the assets and income of parents, stepparents, and students. Allowances are made to protect assets and income. Aid formulas look at the age of parents or independent students, number of family members, and how many dependent students are attending college at the same time. Aid administrators make professional judgment decisions when considering special circumstances.

- How **FM** and **IM** differ--One major difference between the two approaches is that FM does not count the value of the family's home equity. IM does count it. Private colleges are spending their own institutional funds to help students. They want a larger contribution from families with high home equity. Other differences include:
 - FM doesn't count **family farms** (neither the farmhouse nor the farm business are counted).
 - FM doesn't count assets when independent student or parents' income is under \$50,000 and all *qualify* to file certain short IRS tax forms. This is called the **Simplified Needs Test**.
 - FM requires no contribution if the parents' income is \$12,000 or less and the family *qualifies* to file the short tax forms. This is termed **Zero EFC**.
 - IM counts the business portion and the home equity on family farms.
 - IM schools usually inquire into the finances of noncustodial parents.
 - IM requires a minimum contribution from students.
 - IM gives more special allowances.
 - IM schools that use the PROFILE form instituted new formula concepts for the 2000-2001 aid year. These include Annual Education Savings Allowances for each pre-college child, an Emergency Reserve Allowance, and higher assessment of the income of Independent Students.
 - Aid administrators have more latitude to make professional judgment decisions when awarding private college funds (IM).
- Ask questions at private colleges--Schools which use Institutional Methodology share broad guidelines, but each school has policies of its own. This means that the EFC at two or more schools using IM may be different. Look at the printed information provided by schools to find out as much as possible about which income and asset items they count when awarding financial aid. Then ask any questions the brochures leave unanswered.
- Checking your EFC--How do you confirm the amount of your family's EFC (Expected Family Contribution)? Filing the FAFSA (FM) form generates a Student Aid Report (SAR) which is sent to you within four weeks of application. *The FAFSA form can not be filed before the first day of January.* The SAR tells whether a Pell Grant was awarded and gives an EFC number. The number will be at the top right of the form. For example, if you see "EFC: 11065" the family contribution according to Federal Methodology (FM) is \$11,065. Your EFC at schools that use Institutional Methodology (IM) will be different. To find out the EFC computed by PROFILE (IM) process, you must contact the financial aid office of a college entered on the form. Or, your expected contribution may be shown on your aid offer. Aid administrators at IM colleges can use and interpret the institutional EFC number according to the school's guidelines.
- Would a private college really cost more?--Most public colleges rely mainly on government aid. If the government aid available doesn't meet the difference between college costs and your **EFC**, the difference is an aid Gap that you must pay for out-of-pocket. Private colleges generally have higher costs than public colleges, but they have private funds to supplement government aid. Not every private college can meet full "Need"---there may still be an aid Gap.

COST OF ATTENDANCE

- COA--Your college's official Cost of Attendance (COA) is important, because your aid eligibility is the difference between the COA and your Expected Family Contribution (EFC). In other words, COA minus EFC equals your "Need" (eligibility) for aid. A high figure for family contribution means that you are eligible for less aid and your aid package will be smaller. The total Cost of Attendance (COA) is different at each school. Colleges prepare a standard COA or Educational Budget. It includes tuition, fees, room and board (housing and food), books and supplies, transportation, and personal expenses. For students who are not enrolled full time, Cost of Attendance is different--room and board and personal expenses may not be

included. In the fall of 1998, Congress revised the Higher Education Act to include in the COA a reasonable allowance for the documented rental or purchase of a personal computer. Colleges have their own requirements about the maximum cost of the computer.

- Included in COA--Many sources of information on the cost of individual colleges provide only tuition and fees. They may also include room and board. However, you'll want to compare Cost of Attendance and aid eligibility at different colleges, so you'll want to know the entire COA. Schools may call it "Educational Budget." It should include tuition, fees, room and board, books (and supplies), personal expenses, and transportation. The category "personal expenses" includes telephone, laundry, entertainment, clothing, etc. If you can't find the current official Cost of Attendance figures from college brochures or reference books, call the college. Figures for book allowances generally range between \$500 and \$800. Personal expenses allowed in COAs range between \$1,000 and \$2,000. Of course, your actual personal expenses will vary from the amount included in the official COA. Transportation allowances vary, usually between zero and \$1,400. They often cover the cost of two basic round-trips from your home to school.
- Can you afford a private college?--Depending on your financial situation and the loan/grant mix that you are offered in your aid package, it may cost less to attend a \$30,000-per-year college than a \$10,000-per-year college. Since your [EFC](#) remains the same no matter what the cost of the school, you have a larger "need" at an expensive school. The costly college may have a larger endowment and be better able to meet the full "need" of aid applicants. The same high tuition is set for everyone. Some families are judged able to pay a higher portion of the full amount. A family could be offered little aid at a school that offers only government aid programs and offered an excellent aid package at a college with private institutional funds and a high sticker price.
- Is your COA different?--Your own individual Cost of Attendance may be different from the basic amount used by the college. It's important because more "need" means more aid. Be sure to let the school know if you have special costs due to a disability or special expenses because you take care of a dependent child or dependent elder. If you are employed in a cooperative education program, your COA may take extra expenses into account.
- Additional considerations--Some costs may not be included in the Cost of Attendance, which means that your costs may be higher than the COA indicates. Ask whether "board" includes meals on weekends. Does the college require purchase of health insurance? Will the student travel home more often than the transportation figure allows? Is the allowance for on-campus room and board the same as the allowance for living off campus? If choosing to live off campus, remember extra costs, such as utilities, furniture, transportation and security deposits. Books are often more expensive than the amount of the book allowance. All of these can add up to expenses that the college does not cover in the COA.
- Study abroad--Students participating in approved exchange programs within the United States or in another country usually take their financial aid package along. If costs are lower, aid will be lower. If costs are higher, aid is not generally increased. Work-study jobs are not available outside the country, so loans may be available to cover the difference.

BASE YEAR

Income is usually the most important component of the financial picture families present to the aid administrator. Aid formulas base calculations on income from the calendar year prior to the school year for which the family is requesting aid. Your first base year sets the scene for following years. If the student begins college in the fall of 2000, the family's first base year began on

January 1, 1999. Low income during base years may increase aid eligibility, while high income may result in lower aid eligibility.

MORE THAN ONE IN COLLEGE

- Parents in college--As of the 2000-2001 aid year, the Federal aid formulas (**FM**) *no longer count* parents who attend college as part of the number in college. This now mirrors private (**IM**) formulas, which do *not* count parents in the number attending college. However, aid administrators may make professional judgment decisions if a family has special circumstances.
- More than one in college--When more than one dependent student attends college at the same time, the amount that each additional dependent student adds to the parents' contribution is likely to be less than \$1,000 at colleges that offer mainly federal aid (**FM**). It will be more at colleges that use the PROFILE aid form to award private aid (**IM**).

FM formulas divide the Parent Contribution by the number of family members in school. IM schools that use the PROFILE form departed from this concept for the 2000-2001 aid year. The new IM formulas add an additional 20% to the parents' contribution if two dependent students are in school at the same time, 30% if there are three, and 40% if there are 4 or more--then the contribution is divided equally among the number of children in college at the same time.

- Other considerations--Colleges may require certification of sibling enrollment. When children attend schools that are not similarly priced, the more expensive college may claim a higher percentage of the contribution.
- Graduate school--Parents' Expected Contribution for an undergraduate will be lower if the colleges count an older sibling who is a graduate student as both a family member and as part of the Number in College. Aid administrators may do this even though federal aid defines the graduate student as "independent." Parents must be paying more than half the support of their graduate student child. Schools often include the graduate student as a family member, but not as part of the Number in College. If your family has both an undergraduate and a graduate student, ask your aid administrator how your situation will be treated.
- Parents attending college or graduate school at the same time as their dependent student--**FM** schools no longer count the independent-student-parent as one of the "Number in College" when calculating the parent contribution for a dependent student. This causes parents to contribute more for the education of their dependent student. (IM schools did not and still do not count parents in the "Number in College.") FM schools do give special treatment to independent students who have dependents other than a spouse.

When the new (2000-2001 PROFILE) **IM** aid formulas calculate the contribution of independent-student-parents for their *own* education, there is a special formula that considers children of independent-student-parents attending college at the same time (thereby reducing the expected contribution).

BILLING

- The bill--A typical college bill looks quite different from your aid offer. It doesn't state the amount of the parent contribution or the student contribution. Work-study doesn't appear on the bill either. The bill lists charges for tuition and fees and for any room and board charges. It also lists credits for grants, "outside" scholarships, and any loans awarded by the college's

aid package. You are billed for the difference between the charges and credits, plus any items that the student may have charged to his or her college billing account (such as books from the campus bookstore).

- Beyond the bill--Your bill won't show expenses that are part of the official Cost of Attendance but that are not owed to the school itself. This means that your college bill isn't as high as your expected contribution, because it doesn't show all of your costs. You'll also be paying for transportation, books, personal expenses, any off-campus living expenses, and meals not provided by a dining plan.
- Who pays--Parents and students should talk in advance about the parents' and student contribution. Where will the money come from and how will the payment be handled? For instance, if the money the student earns at a summer job will be part of the student contribution, it can be set aside in a savings account for that purpose. Think ahead about who will pay for phone calls home and other such expenses. Staying on a budget will be easier if students and parents plan together.
- Work-study--Many families decide that the work-study portion of the aid package will go toward personal expenses and books. Will it cover those costs? Compare the work-study allotment to the amount that the official Cost of Attendance includes for personal expenses, books and transportation. Sometimes the estimates are low. If you ask, the aid office may tell you that students usually spend more than the estimated amount for books. Most students can handle 10 to 15 hours per week at a work-study job.
- Money management--Experience in paying bills and balancing a checkbook is a big plus for a new college student. As soon as students move in, they must make decisions about banking. They may want an ATM card. The campus bookstore may allow students to charge purchases. Banks offer credit cards to students. Parents may be solicited to send money to fund debit cards for local restaurants and purchases. If parents are paying for some personal expenses, they may choose to set a budget by sending the same amount each month to the student's checking account.
- Student educational loans--Students need to be aware of the amount of debt they are accumulating. If a student graduates with a loan of \$15,000 at 8.25% interest scheduled to be paid on the standard repayment plan over 10 years, she or he will owe \$184 per month during the repayment period.
- Payment plans--Many colleges offer budgeting arrangements that allow bills to be paid monthly, rather than twice a year. When tuition is paid early, some colleges will give a discount, or they may guarantee that the student's tuition will not increase. Check into special programs offered by colleges.

STEPPARENTS, DIVORCED PARENTS

- Who provides information?--If the student's parents are divorced, separated and/or remarried, federal and private aid forms ask income and asset data for the parent with whom the student lived most of the time during the past 12 months. If the student did not live with one parent more than the other, applicants provide information for the parent who provided the most financial support during the past 12 months (or the most recent year that the student was supported by a parent).

If the parent has remarried as of the day that aid forms are filed, information for the stepparent must also be provided. The stepparent's income and assets are counted even if

the parent and stepparent were not yet married during the base year for which income is being reported.

- Noncustodial parents--Colleges that award private aid funds (IM) usually go a step beyond asking for parent and stepparent information on the PROFILE or private college aid application form. They also ask for information from the noncustodial parent (even if the custodial parent has remarried). Questions on the PROFILE form include the name, address, and employer of the noncustodial parent. PROFILE also asks who last claimed the student as a tax exemption, how much the noncustodial parent plans to contribute to the student's education, and whether there is an agreement regarding the amount of the contribution. The PROFILE system provides a Divorced/Separated Parent's Statement for the noncustodial parent, who returns it directly to the school. Copies of tax returns may be required. The financial aid administrator considers all information, including child support, assets, and income, and decides which parents are expected to contribute and the amount of the contribution. When circumstances are unusual, divorced/separated parents should consult with the aid administrator about which parent or parents must file application forms and how the information will be treated.
- Tax deduction--The custodial parent should be the one that takes the income tax deduction for the student. If this has not been the case, an IRS form can be submitted for the noncustodial parent to give up the deduction. The figure given on aid forms for family size will affect how much income is counted and whether there's a break for families with more than one student in college at the same time. The amount of aid involved may be significantly higher than the value of the tax deduction.
- Tax credits--For the Hope and Lifetime Learning tax credits, the credit may be taken only by the parent who claims the student as a dependent in the same year. If that parent was not the one that paid college bills, the credit may not be taken.
- Legal separation--If parents are separated but not divorced, aid administrators, particularly at private colleges, may ask for documentation proving that parents are legally separated.

SAVING FOR COLLEGE, FAMILY RESOURCES

- Importance of saving--If parents of dependent students need to borrow to pay their portion of the Expected Family Contribution (EFC), interest on loans can make the total cost of college significantly higher. The earlier parents start saving, the more time there is for invested funds to multiply. Even if college is in the near future, it helps to save. Savings increase flexibility. In college years, there is less need to borrow and dip into current income. Students will be less pressured to earn money while attending college. They can take advantage of career-building unpaid internships and educational travel or volunteer opportunities.
- Asset protection--Some parents think that saving would cause them to qualify for less college financial aid. However, the formulas put more emphasis on income than on assets. The maximum that would be expected from parents' assets is 5.64% per year according to federal (FM) formulas and 5% according to new private (IM) formulas. In many cases, much less is expected because of the FM asset protection allowance and the new IM allowances (Education Savings, Emergency Reserve, and adjustments for negative Available Income).

Dependent students are expected to contribute a much larger percentage of assets than parents--35% each year according to federal (FM) formulas and 25% each year according to new private (IM) formulas. Therefore, most parents prefer to save in their own names for the contribution that is expected from them. New IM formulas provide Annual Education Savings

Allowances for parents to save for the education of each child who is under age 19 and who is neither a current college student nor currently applying for college financial aid.

- Grandparents and other relatives--If grandparents or others want to help fund a child's education, they can start a special account in the name of the parents or in their own names. Putting money in the student's name would, under current rules, subject it to a high asset assessment. There are many [options](#), including contributing to an [Education IRA](#) (\$500 total maximum per year), a [Roth IRA](#), or a [state plan](#). Grandparents or others can loan money to the student at very low interest or wait until college is finished and then help to repay student loans. They can give as much as \$10,000 per year to any number of individuals without incurring the gift tax. The [gift tax](#) rules allow an unlimited amount to be given directly to a qualifying college for another person's tuition costs. Be aware that the PROFILE ([IM](#) aid form) wants families to report expected assistance. It asks the family's "expected resources" for the upcoming aid year.
- Choices for saving--The earlier you begin saving, the more your money can grow. When college is a decade or more away, relatively aggressive mutual funds are an option. Parents with a child who is already in high school may prefer more conservative choices, such as money market accounts and certificates of deposit. Look into the new [Education IRAs](#) and [Roth IRAs](#). Many states have [prepaid plans and savings plans](#)--terms vary greatly. The state plans make the decisions for the investor.

SOURCES OF AID MONEY

[AID MONEY OVERVIEW](#)

[FEDERAL PROGRAMS](#)

[STATE AID](#)

[PRIVATE AID FROM COLLEGES](#)

[ALTERNATIVE LOANS](#)

[OUTSIDE SCHOLARSHIPS](#)

[EMPLOYER ASSISTANCE](#)

AID MONEY OVERVIEW

Financial aid is intended to meet the difference between what the family is judged "able to afford" and the actual cost of college. Aid comes from many sources. The sources include federal aid, state aid, loans from banks and other private lenders, college funds, private scholarships, and employer-provided assistance. Lenders provide government-backed education loans and alternative loans. State guaranty agencies process federally-guaranteed educational loans and provide lenders with the assurance (guaranty) that both loan principal and interest will be repaid, regardless of circumstances. Guaranty agencies are members of NCHELP (National Council of Higher Education Loan Programs).

FEDERAL PROGRAMS

[FEDERAL PROGRAMS OVERVIEW](#)

[PELL GRANTS](#)

[SEOGs](#)

[PERKINS LOANS](#)

[PLUS LOANS](#)

[STAFFORD LOANS](#)

[WORK-STUDY](#)

FEDERAL PROGRAMS OVERVIEW

The Higher Education Act (HEA) provides for federal student financial aid programs. The government's largest program is the Federal Pell Grant. The Federal Supplemental Educational Opportunity Grant (FSEOG) is the government's other *grant* program. The FSEOG is one of three federal programs that are administered on-campus. Colleges that participate in the three campus-based programs receive a certain amount for each program and make need-based award decisions, using federal guidelines. Some schools have more money for these programs than others. In addition to the FSEOG, the other two campus-based programs are the Federal Perkins Loan program and the Federal Work-Study (FWS) program. In addition to the Pell Grant and the three campus-based programs, the federal government also provides Federal Stafford Loans for students and Federal PLUS loans for parents. Keep in mind that federal funding is subject to legislative appropriations.

Federal Programs

Federal Pell Grant

FSEOG Grant

Federal Perkins Loan

Federal Work-Study

Administered By:

Federal Government

College (campus-based)

College (campus-based)

College (campus-based)

Additional Federal Programs

Federal Stafford Loan ([FFEL or Direct](#))

Federal PLUS Loan ([FFEL or Direct](#))

PELL GRANTS

The Federal Pell Grant program is for undergraduates, full-time or part-time, who have not yet earned a bachelor's or professional degree. Pell entitlement is determined by the FAFSA form, which generates a Student Aid Report (SAR). The SAR indicates a dollar amount for the Expected Family Contribution (EFC). Aid administrators begin work by checking whether a student's EFC is low enough to qualify for a Pell Grant. The lower the contribution expected, the more "need" the family is considered to have. The dollar amount of Pell Grants depends on yearly appropriations by Congress. For the 2000-2001 aid year for full-time students at most schools, an Expected Contribution of zero results in a maximum Pell award of \$3,300. A contribution of \$3,100 is the highest Expected Contribution that qualifies for a Pell Grant. Only a very small percentage of families that file a FAFSA actually qualify for a Pell Grant. Such families generally fall into the lowest income third in the nation.

SEOGs

The Federal Supplemental Educational Opportunity Grant is administered by colleges, using federal guidelines. It is a smaller program than the Pell. SEOGs are grants for undergraduate students with high need--primarily recipients of Pell Grants. The amount of the grant can be between \$100 and \$4,000 per year. Unlike Pell Grants, SEOGs aren't an entitlement promised to all students at a certain "need" level. When a school has used the money received from the government for SEOGs, no more grants from the program are available for the year.

PERKINS

Federal Perkins Loans are campus-based loans with award decisions made at the colleges. They are for students with exceptional financial need. Perkins Loans have an interest rate of 5% in repayment and favorable payback terms. Unlike other federal student loans, there is no initial fee for borrowing. No interest is charged while the student is in school at least half time. Students don't begin repayment until nine months after they graduate, leave school, or attend less than half time. The usual repayment period is ten years.

The maximum Perkins Loan is \$4,000 per year for undergraduate study and \$6,000 per year for graduate students. There are many circumstances which allow deferment (postponing repayment) or partial forgiveness of Perkins Loans. The conditions for full or partial forgiveness include: volunteer service in the Peace Corps, teaching in certain fields, and employment in law enforcement or nursing.

PLUS

- The PLUS program--PLUS (Parent Loans for Undergraduate Students) is a federally-sponsored loan program for parents of undergraduates who attend at least half time. The interest rate varies (7.72% as of July 1, 1999) with a maximum of 9%. There is a fee of up to 4% when proceeds are paid out. Unlike student [Stafford](#) loans, PLUS loans are not based on financial need. They can be used toward the Expected Family Contribution and toward any aid gap. PLUS loans cannot be higher than the Cost of Attendance minus any other financial aid for which the family is eligible. For instance, if the Cost of Attendance is \$10,000 and the family is eligible for \$7,500 in aid, the PLUS borrowing limit is \$2,500. Every borrower's immigration status and social security number is checked.

The government doesn't require filing a FAFSA form to qualify for a PLUS loan. However, filing a FAFSA is a requirement for any federal aid. It's also a requirement for most private aid from colleges. Even families that won't qualify for any financial aid should file a FAFSA. Why? It entitles the student to borrow a Stafford Loan and it's free insurance--if the unexpected occurs, you may qualify for assistance. If parents do not qualify for a PLUS Loan due to poor credit, a student can borrow higher amounts through the unsubsidized Stafford, as if she or he were an independent student.

- Credit-based--Obtaining a PLUS Loan depends on the parents' credit. Parents can only borrow up to the credit limit allowed by the lender. If looking ahead to a PLUS Loan, obtain a copy of your credit report in time to clear up any unexpected problems. There are three main agencies that provide credit reports. You can call: Experian (previously called TRW) at 800-682-7654, Equifax at 800-685-1111, or Trans Union Corporation at 800-888-4213.
- Repayment--There is a choice of repayment plans, with the standard period being ten years. Repayment of interest and principal on PLUS loans begins within 60 days of the time that money is first paid out. Delay of principal repayment can be requested on the basis of economic hardship or if the borrower is in postsecondary school at least half time. Remember that the borrower of a PLUS loan is the parent, rather than the student. With delay of repayment, interest continues to accrue.
- FFEL vs. Direct--As with Stafford loans, PLUS loans are administered in one of two ways. In the FFEL (Federal Family Education Loan) Program, the money is sent to the school by a private lender. If the college participates in the Direct Loan Program, the Department of Education sends the funds directly to the school.

STAFFORD

- The Stafford program--Staffords are *student* loans that are basic to the concept of "self help" and appear as part of most aid packages. The Stafford is an entitlement program. No credit check is necessary. Any student who has applied through the FAFSA form, is attending school at least half time, and has at least one full academic year of study remaining in an eligible program, has the right to borrow up to certain limits.

Interest is adjusted yearly, but never exceeds 8.25%. For the year beginning July 1, 1999, the interest rate for new Stafford Loans is 6.32% for in-school, [grace](#) and [deferment](#) periods and

6.92% for all other periods. When funds are paid out, a fee of up to 4% is deducted. Payment need not begin until six months after the student completes school or drops below half-time enrollment. There is a choice of repayment plans, with the standard plan being over a period of ten years. On the standard plan, a borrower would pay \$184 per month to repay a subsidized loan of \$15,000 with terms of 8.25% interest repaid over 10 years.

- Subsidized vs. Unsubsidized--If a student qualifies on the basis of financial need for a *subsidized* Stafford loan, the government pays interest on the Stafford loan while the student is in school at least half time and for six months thereafter. On *unsubsidized* Stafford Loans, interest accumulates from the time that the money is paid out. The student who borrows an *unsubsidized* Stafford Loan may choose to pay interest while in school or after she or he leaves school (or attends less than half time). Waiting to pay the interest means that the borrowed amount will be larger, as interest is "capitalized"--it is continually being added to the original principal amount of the loan. Students who qualify for only a portion of their loan eligibility to be subsidized may combine a subsidized with an unsubsidized loan up to the limit in any enrollment period.
- FFEL vs. Direct--If your school participates in the William D. Ford Federal Direct Loan Program, the funds are lent directly by the U.S. government. These are Direct Stafford loans. At schools that don't work through the Direct Program, the loans are of the FFEL (Federal Family Education Loan) type, made through banks, credit unions, and other private lenders. Stafford and PLUS loans fall in either the Direct or FFEL category.
- Deferment / Forbearance--Certain circumstances allow deferment (postponing repayment). These include economic hardship, inability to find full-time employment, graduate study in an approved program, and continued study at least half time in an eligible postsecondary program. During the deferment period, the government continues to pay the interest on subsidized Staffords, but on unsubsidized loans the interest continues to accrue. If you are not eligible for deferment but are temporarily unable to make payments due to hardship, you may apply for forbearance. With forbearance, payments are postponed or reduced for a specific period of time. However, even if the loan was subsidized, interest continues to be added during forbearance
- Consolidation--It's possible to combine several types of federal educational loans into a single loan with a single monthly payment. Before combining subsidized Stafford loans with unsubsidized loans, find out whether doing so would affect future subsidized borrowing. A Perkins loan may not be a good candidate for consolidation, because of its low 5% interest rate.

Stafford Maximum loan limits for *Dependent* undergraduate students for one full year of study (includes subsidized and unsubsidized):

\$2,625	First Year
\$3,500	Second Year
\$5,500	Third and Remaining Years
<u>\$17,125</u>	<u>Total for four years</u>
\$23,000	Maximum total debt for a dependent undergraduate

Students may not borrow more than the Cost of Attendance less other financial aid. If your COA for one year is \$8,000 and you're awarded \$6,000 in other aid, your borrowing limit for that year is \$2,000. If parents of a dependent student can't pass a credit check and therefore cannot obtain a PLUS loan, then the dependent student may borrow from the Stafford program up to the same limits as an independent student.

Stafford Maximum loan limits for *Independent* undergraduate students for one full year of study:

<u>Subsidized</u>	plus	<u>Unsubsidized</u>	<u>Total</u>	
\$2,625		\$4,000	\$6,625	First Year
\$3,500		\$4,000	\$7,500	Second Year
\$5,500		\$5,000	\$10,500	Third and Remaining Years
<u>\$17,125</u>	plus	<u>\$18,000</u>	<u>\$35,125</u>	<u>Total for four years</u>
\$46,000				Maximum total debt for an independent undergraduate

As with dependent students, the total amount borrowed cannot be more than the Cost of Attendance less other financial aid.

Stafford Maximum loan limits for *Graduate or Professional* students for one full year of study:

<u>Subsidized</u>	plus	<u>Unsubsidized</u>	<u>Total</u>	
<u>\$8,500</u>		<u>\$10,000</u>	<u>\$18,500</u>	per year

\$18,500 = maximum total debt for a graduate or professional student (including Stafford loans from all levels of study).

The total amount borrowed cannot be more than the Cost of Attendance less other financial aid. Graduate and professional students are, by definition, independent for purposes of federal aid.

WORK-STUDY

The Federal Work-Study (FWS) program provides the colleges with a lump sum of money to help students who have financial need. As with the SEOGs, it is campus-based--the colleges decide which students will qualify for job awards and the size of the awards. Aid packages include a dollar amount of wages that the student is allowed to earn under the program. Like Stafford loans, Work-Study is part of the "self-help" portion of aid packages. The government money is used to pay part of the student's wages. It's helpful to employers, as well as students. Colleges and nonprofit organizations that hire Work-Study employees are able to pay less for their work to be accomplished.

Your Work-Study job can help build work experience. When you apply for summer and after-college jobs, employers may provide references. With some effort, you may be able to find a job in your field of interest. You may be able to set up an off-campus job working with a nonprofit organization. Learn and develop a resume for the future. Current guidelines encourage Work-Study recipients to work to improve conditions in the communities where their schools are located. Many work as reading and family literacy tutors.

Work-Study wages are valuable, because in calculating a student's expected contribution from income, Work-Study earnings are not counted. By contrast, as much as 50% of a student's regular earnings may be assessed by aid formulas. Work-Study wages are subject to income tax. Students usually work on campus for 10 to 15 hours per week until they earn the Work-Study sum granted. Generally students use Work-Study money to pay for personal expenses and books. These are portions of the Cost of Attendance which are not billed directly by the school (unless charged to a school account).

STATE AID

- Policies vary--States use the [FAFSA](#) form to determine state aid, but they may also require a special state form. States make aid awards according to Federal Methodology or according to their own policies. Assistance may be based on merit or need. Many states offer merit awards to encourage their academically talented students to attend in-state colleges. In the fall of 1998, Congress revised the State Student Incentive Grant Program. Its new name is

the Leveraging Educational Assistance Partnership Program (LEAP). It is funded jointly by states and the federal government and can be used for current state grant programs and other activities to help students. States vary greatly in what is offered. Keep in mind that government programs and funding levels may change from year to year.

- Low tuition--The major benefit that states provide is subsidized tuition for residents at their own state colleges and universities. Tuition may be substantially higher for nonresidents. State residents may receive a higher percentage of aid in the form of grants. State tax dollars can provide need-based aid and sometimes merit-based aid. Every state has an agency to oversee grants and loans for higher education. To find up-to-date information that applies to you, contact your high school guidance office and your state agency. If the college that interests you is in another state, also check with that state agency.
- Help with tuition at out-of-state or private colleges--Regional agreements may allow students to pay low tuition at public colleges in neighboring states. There may be arrangements for students to pay adjusted tuition at an out-of-state school that has a program that is not available at home. Some states help students who attend private, as well as public, colleges. They equalize tuition costs between in-state private and public colleges or give residents money toward tuition at private colleges in certain other states. If a private college has fully met a student's "need" for aid, the state grant will replace part of the already-awarded aid package. So, at a college that doesn't meet full "need" a state grant can be more significant.
- Other benefits--States may offer benefits such as work-study. They may sell tax-exempt bonds for college savings. State grants and low-interest loans may be available to public and private college students and to students going elsewhere or coming in from another state.
- State plans for saving--Many states have new plans that help families to save money for college. Federal income tax can be deferred until the money is withdrawn, and it is then taxed at the beneficiary's tax rate. [State plans](#) got a boost in August of 1997 when legislation added room and board to the list of expenses that qualify for federal tax deferral. Previously, the list included only tuition, fees, books and supplies.
- Ask questions--If applying to state schools in states other than your own, find out the basics. What is the cost for out-of-state students? Are there any special agreements with your home state? Will the college give financial aid to residents of your state? How much? Grants or loans? Don't count on being able to establish residency in the other state if your purpose is to pay less for school. Check out the state's rules.

PRIVATE AID FROM COLLEGES

- College aid--Colleges award grants and scholarships from the private funds available to them. The source of money may be general endowment funds or scholarships that are named after the donor or in honor of another person. Grants and scholarships may be based on need, merit, or a combination of the two. A scholarship donor may specify that the money should go to a student who needs aid *and* who is outstanding in a certain field. The scholarship will become part of the student's aid package. Clearly, colleges with large endowments can afford to be more generous than schools with less money. It's not only private colleges that can give grants. Some state universities have substantial funds of their own for athletic and other merit-based scholarships.
- Athletic scholarships--One of the best-known types of merit aid is the athletic scholarship. State schools, as well as private schools, often have money to award to athletes. Check for information and lists of colleges that offer athletic scholarships. If you're an athlete, choose a

college that you would like to attend even if you were not involved in sports. Be sure to complete aid application forms.

High school coaches can provide ideas. They may have contacts at the colleges. Check out making a video that shows you playing at your best. Communicate with coaches at colleges of interest. If possible, plan to attend a game. Let the coach know ahead of time that you'll be there, then introduce yourself. You will be evaluating the coach at the same time that she or he is evaluating you. The college coach may want to come to one of your games to see you play. Coaches want the best players to come to their school. They may be able to help you win an athletic scholarship--let them know that you need financial aid.

ALTERNATIVE LOANS

To supplement or to replace federal Stafford Loans for students and federal PLUS Loans for parents, private lenders (such as banks and some states) offer "alternative loans" to parents and students. They help the borrower pay parent contribution, student contribution, or cover an aid gap. The amount of the loan should be no greater than the difference between the Cost of Attendance and aid that has been awarded. Some lenders will allow payment to begin six months after the student has completed school or is no longer enrolled full time. When the student is the borrower, a credit-worthy cosigner is usually required. If you need this type of loan, find out what is available and compare rates and terms.

OUTSIDE SCHOLARSHIPS

Scholarships from "outside"--Colleges differentiate between the grants and scholarships that they award and scholarships that are awarded from "outside" the school.

- Colleges may reduce your aid--Your school is likely to require you to report any "outside" scholarships to your school's aid office. If your school has met your full need for aid, the "outside" scholarship would make the combination of your Expected Contribution and your already-awarded aid exceed the Cost of Attendance. That's against the aid rules, so your "outside" scholarship will change your aid package. The college will use it to replace granted dollars or to reduce your loan or some of each. It's to your advantage to have your loan, rather than your grant, reduced. If your college hasn't met your full "need" (there is an aid gap), an "outside" scholarship can help you directly.
- Information sources--Organizations which award "outside" scholarships usually base their selection on merit or association rather than need. Start by brainstorming about family connections to organizations, religious groups, or professional associations that offer scholarships. Check with your guidance office, the local chamber of commerce, and with local service and fraternal organizations, veterans' posts, union locals, community clubs, and businesses. Go to the library and bookstore for up-to-date books on scholarships. Books with general information on colleges and costs often provide scholarship information. When you are in the library, take a look at Gale's *Encyclopedia of Associations* for additional ideas.

Find out the requirements, deadlines, dollar amounts, and competitiveness of awards. Request application forms. Ask whether the scholarship is for one year or every year of college. Put your efforts into competing for the ones that offer the most dollars, have the best odds, and make reasonable demands for application materials.

- Descent--National genealogical and ethnic organizations offer funds for college. Among these are scholarships for students who are of Hispanic, African-American, or Native American descent. To qualify as Native American, a student is usually required to be at least one-quarter Native American and to have documentation of membership in a tribe recognized by the U.S. government.

- Field of interest--A student who has already identified a field of interest can learn from guidance counselors and college aid administrators about organizations that give related scholarships. Look in Gale's *Encyclopedia of Associations* for addresses of professional organizations. If applying to a college that offers a special program, ask at the college how to apply for private aid for the special field. Funds are available in many areas of study, including teaching and the health professions.
- Scholarship Searches--Computerized college scholarship search programs are available. If you hear a statement that billions of dollars in scholarship money go unclaimed, be aware that the statistics refer mainly to benefits that could only be claimed by employees of specific companies. You don't need to pay a fee for this information. Schools, colleges, state agencies, and Internet sites offer computerized searches at no charge. The best scholarship searches are up-to-date. They have large databases and ask many questions to link your interests to groups that offer awards.

EMPLOYER ASSISTANCE

Many businesses, especially large corporations, have programs to help with the college costs of employees or their children. The assistance may take the form of loans, saving plans or tuition benefits. Find out whether the employer of parents or student has such programs, whether the aid must be job-related, and what the guidelines are. College aid offices want to be informed when students are being aided by employer benefits.

Congress extended until the end of May 2000 a provision allowing employees to deduct from taxable income up to \$5,250 of employer-provided educational benefits. The courses do not need to be job-related, but should be at the college, not graduate school, level.

INCOME AND ASSET TREATMENT

[INCOME](#) [ASSETS](#)

INCOME

[INCOME OVERVIEW](#) [PARENTS' INCOME](#) [DEPENDENT STUDENT INCOME](#) [INDEPENDENT STUDENT INCOME](#)

INCOME OVERVIEW

Income and Allowances--Aid formulas analyze both taxed and untaxed income. The income base year is the calendar year (1/1-12/31) prior to the academic year for which the student is applying for aid. A number of allowances are subtracted from total income, depending on whether calculating for a dependent student, a parent of a dependent student, an independent student with *no* dependents other than a spouse, or an independent student *with* dependent(s) other than a spouse. The allowances include an income protection allowance, an employment allowance, and tax allowances. Lower income during base years may mean more eligibility for financial aid.

In September 1998, Congress passed new student aid regulations. The Secretary of the Department of Education, in cooperation with the Secretary of the Treasury, is now authorized to verify with the IRS the following items from income tax returns of applicants for federal aid: adjusted gross income, federal income taxes paid, filing status, and exemptions.

PARENTS' INCOME

- When assessing Expected Contribution, *income*, generally, is counted more heavily than *assets* for most parents of dependent students. Depending on your numbers, **FM** income can be assessed at up to 47% (46% for **IM**) vs. a maximum of 5.64% for FM assets (5% for IM). However, the family home, a major asset for many families, isn't considered at all in the FM formulas.
- **Untaxed income**--Most income that isn't taxed by the IRS, *is* counted by college aid formulas. Among the items required by aid forms are the following:
 - Social Security payments that were not taxed,
 - untaxed retirement contributions,
 - untaxed IRA and pension income,
 - child support received because of divorce or separation,
 - welfare benefits including TANF,
 - Earned Income Credit,
 - tax-exempt interest income,
 - Workers Compensation,
 - housing and food allowances paid to members of the military or clergy and others,
 - veterans' noneducation benefits, and
 - VA Educational Work-Study allowances.Additional items are often counted by colleges that provide private aid (IM). These items include depreciation and losses on business and real estate.
- **Retirement contributions**--Aid formulas count retirement contributions as untaxed income. This pertains to deductible IRA and/or Keogh payments, as well as payments to tax-deferred pension and savings plans (paid directly or withheld from earnings) as reported on the W-2 form. Untaxed portions of 401(k) and 403(b) are included. The concept behind counting these contributions is that the money could be used for educational costs or for other expenses during college years.
- **Exclusions**--Aid formulas don't count income from: child support paid, Work-Study wages, AmeriCorps living allowances, or taxable or nontaxable grants and scholarships. Nor do they usually count Hope or Lifetime Learning Tax Credits.

Allowances permitted by both **FM** and **IM** (these are deductions against income before any contribution towards education is calculated) --

- **Federal and Social Security taxes**--The amounts paid for federal and social security taxes directly reduce your income dollar for dollar. The higher your taxes, the lower your income as viewed by aid formulas.
- **State and other taxes**--The formulas allow different amounts for each state, depending on each individual state's levels of state income taxes, sales taxes, property taxes and other taxes.
- **Employment allowance**--A single working parent or two working parents can benefit from the employment expense allowance, which takes into account the costs of going to work. FM allows the lesser of \$2,800 or 35% of income; IM is \$2,880 or 32%.
- **Income protection allowance**--The income protection allowance is based on the number of family members and the number of students in college. The idea is to leave a basic floor of

income for living expenses. For a family of four with one in college, parents' FM income protection allowance for the aid year 2000-2001 is \$19,140.

It's important to include all the allowable members of the household--the student, parents, and everyone who now lives in the household and is provided with more than half their support from the student's parents and will continue to be supported during the aid year.

FM Treatment --

- FM Simplified Needs--Federal formulas don't count assets when parents' income is under \$50,000 and all *qualify* to file certain short IRS tax forms (1040 A, EZ, etc.). This is called the Simplified Needs Test.
- FM Zero EFC--No family contribution is required by federal (FM) formulas if a family qualifies for Zero EFC treatment. If the student is dependent, parents' AGI (Adjusted Gross Income) must be \$12,000 or less and parents must *qualify* to file the short tax forms or not be required to file at all.

IM Treatment --

- IM / High medical expenses--Private college formulas always provide an allowance for the unreimbursed portion of medical and dental expenses that exceeds 4% of total income. (The medical expense allowance includes health insurance premiums, but not any amount that was deducted on IRS forms as a self-employment adjustment.) If your school uses FM only, bring high medical expenses to the attention of the aid administrator. He or she may be able to use "professional judgment" to assist you.
- IM / precollege tuition--Private colleges sometimes permit an elementary/secondary tuition allowance for the amount spent on the education of the student's sibling(s). The maximum in 2000-2001 is \$6,390 (per eligible child). Some schools have lower limits or don't permit this allowance. If your school provides only federal (FM) aid, consult with your aid administrator.
- IM / educational loan payments--Colleges that use IM formulas sometimes make an adjustment if parents with a child attending an IM college are making payments on educational loans. The payments must be for what parents owe for the education of a parent, student, or sibling, not for loans owed by the student or sibling, even if a parent is making the payments.
- Capital gains / capital losses--Most colleges that award private aid (IM) don't allow capital losses (or depreciation on real estate or other losses) to reduce income (as the IRS does). They add these losses back as untaxed income. Some colleges count a capital gain as both income and an asset. Or, they may consider the gain only as a redeployment of assets and not count the gains as income.
- Interest income--Aid administrators at private (IM) colleges often compare the interest income shown on tax forms with the amount of assets shown on aid forms. It's one way to check that assets are fully reported. If you are receiving income from an asset that pays interest at a higher-than-usual rate, explain this or any other unusual situation to your aid officer. Otherwise, the aid administrator may automatically add to your reported amount of assets.
- The 2000-2001 IM formulas have added a new Education Saving Allowance. This allowance is based on the number of pre-college children, excluding the student, and amounts to the lower of \$1,670 or 1.5% of a family's total income considered (which includes Untaxed Income).

DEPENDENT STUDENT INCOME

- Types of income--The income that is earned by dependent students falls into two categories. One is work-study, which is taxed, but not counted when aid formulas analyze income. The other is regular income for the calendar year (usually summer earnings), from which a contribution toward college costs may be expected. Regular income is treated differently by federal (FM) and private college (IM) aid formulas.
- Federal Work-Study--Dependent students benefit significantly from Federal Work-Study income. Work-Study is subject to state income tax and to federal income tax if it and other income earned exceeds the student's \$4,300 IRS 1040 Standard Deduction. However, Federal Work-Study is not counted as income by aid formulas and will not increase the student's expected contribution.
- FM treatment of regular (not work-study) income--Federal aid formulas (FM) allow dependent students a \$2,200 income protection allowance. If students earn a higher amount during the year, 50% of the additional student earnings (after tax allowances) is added to the student contribution.
- IM minimum contribution from regular (not work-study) income--Private college aid (IM) formulas provide *no* income protection allowance for dependent students. In fact, colleges that award private aid usually require a minimum contribution of at least \$1,150 for freshmen, \$1,400 for others. If students earn more than the minimum, they contribute 50% of earnings after an allowance for taxes. Some schools require higher minimum contributions, but may not expect any contribution from earnings above the expected minimum. Additional loans may be available to students who are unable to earn the required contribution. Note that students are expected to contribute from assets as well as income—money that is saved and reported as an asset may be counted twice, both as income and as an asset.
- Billing--When your college sends a [bill](#), it will only be for the portion of your contribution that is owed to the college itself. Other expenses are paid directly by you. Remember that the college billing office won't care who actually pays the student portion of the contribution and who pays the parents' part of the contribution, as long as the college bill is paid. Families should discuss how a dependent student will set income and asset money aside for paying the Student Contribution.
- Grants and scholarships--These are not counted as student income when calculating the student's expected contribution-- and they don't need to be repaid. In addition, the IRS does not tax the portion of a scholarship or grant that goes toward tuition, fees, books, and required supplies. Any portion in excess of these expenses is taxable and should be reported on the student's tax return.

INDEPENDENT STUDENT INCOME

- Income protection--FM treatment of independent students' income is very different depending on whether they have dependents other than a spouse and whether a spouse is enrolled in college. IM assessment of independent students' income is significantly higher starting with the aid year 2000-2001. The new IM provides an Annual Education Savings Allowance for independent students who have dependents other than a spouse.

- Employment allowance--FM and IM provide an employment expense allowance for a single working parent or two working parents. For the 2000-2001 aid year, FM allows the lesser of \$2,800 or 35% of earned income; IM is \$2,880 and 32%.
- Excess grants--Aid formulas don't count grants and scholarships as income available for paying the expected contribution. The IRS doesn't tax the portion that goes toward tuition, fees, and other expenses directly related to education. It does tax any amounts in excess of these direct education expenses.
- Graduate students--Federal rules that consider graduate students to be independent do not necessarily apply to private (IM) student aid. Schools may expect parents to continue to contribute, especially if the student is under the age of 30.

FM Treatment--

- FM for students *with* dependents--If there are dependents other than a spouse, federal formulas give independent students favorable income and asset treatment like the parents of dependent students. They have an Income Protection Allowance depending on family size and number of students in college. Independent students should be sure to count in family size: the student, the spouse, the student's children who get more than half of their support from the student at the time of aid application and will continue to receive it during the aid year, and any others who live with the student and receive more than half of their support from him or her.

FM for students with *no* dependents--When there are *no* dependents other than a spouse, independent students are expected to contribute more. Federal formulas (FM) treat them in a manner similar to dependent students. They require independent students with *no* dependents to contribute 50% (after a tax-allowance) of income over \$4,250. If the student is married and the spouse is not enrolled in college, the income threshold changes to \$7,250.

- Simplified Needs--If independent students qualify, they can benefit from the special FM treatment that doesn't count assets. This is termed the Simplified Needs Test.
- Zero EFC--When applying for federal aid (FM), independent students *with* dependents other than a spouse may be eligible for Zero EFC (no family contribution is required) if they *qualify* to file the short tax forms or are not required to file. AGI (Adjusted Gross Income) must be \$12,000 or less. Zero EFC doesn't apply to independent students with no dependents (other than a spouse) or to private aid (IM). Remember that aid packages include work and loan components, even when there is no expected contribution.

IM Treatment--

- Significant IM contribution calculation changes have been implemented for the 2000-2001 aid year. Independent students (whether or not they have dependents) are given larger allowances against income, but are now expected to contribute a higher percentage of what is calculated as available income for education. The current requirement is 70% of available income for all independent students (vs. the former 50% for independents with no dependents other than a spouse and the former 22% to 47% for independents with dependents other than a spouse).
- All independent students will still be expected to make a minimum contribution (if a student has no dependents other than a spouse--\$1,900; if a student has dependents other than a spouse--\$1,150 for freshmen and \$1,400 for others).

- The IM formulas still permit a “Monthly Maintenance Allowance” during periods of non-enrollment (such as in summer). For 2000-2001 the maintenance allowance is \$1,330 per month for single independent students and \$820 for married students.
- High medical expenses--If you have unreimbursed (by insurance) medical and dental expenses that exceed 4% of total income, you qualify for an exclusion at colleges that award private aid (IM). FM colleges may make a similar adjustment if you bring it to the attention of the aid administrator.
- IM for students *with* dependents other than a spouse--IM's new Annual Education Savings Allowance applies to independent students who have dependent children younger than senior year in high school. Also, a new \$410 per month per child allowance applies to each dependent child. There is a new Emergency Reserve Allowance--\$14,770 for a family of 4 including dependents.

IM Students with *no* dependents other than a spouse--The Emergency Reserve Allowance is \$1,330 for single students and \$1,640 for married students.

ASSETS

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[DEPENDENT STUDENT ASSETS](#)
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PARENTS' ASSETS

- Assets counted by all schools--For parents of dependent students, federal aid formulas ([FM](#)) and private college aid formulas ([IM](#)) consider the following as assets:
 - cash, savings and checking accounts,
 - any investments including:
 - trust funds,
 - money market funds,
 - mutual funds,
 - CDs,
 - stocks, bonds, and other securities,
 - commodities,
 - precious and strategic metals,
 - installment and land sale contracts (such as mortgages owed to you),
 - Education IRA
 - real estate other than the family home (including vacation property),
 - investment farm equity,
 - [business assets](#) (only a percentage of business assets is considered).

Assets considered by IM schools only:

- home equity,
- equity in the [family farm](#) home and business,

--assets held in the names of the student's brothers and sisters who are under age 19 and not college students,
--A few IM colleges ask about cars, annuities and parent retirement accounts (these are reference questions for professional judgment--unlikely to be fully counted as dollar items).

- IM and FM formulas--Both methods of determining aid eligibility adjust the net worth of a business or farm downward. Only 40% of the first \$90,000 is counted. Of the amount between \$90,001 and \$265,000, only 50% is counted, and so on--up to counting 100% of the value above \$445,000.
- Some of the differences between **FM** and **IM**--Congress gives homeowners a special break. Federal FM formulas don't count home equity (your equity is the value of your home less any amounts owed on it). Colleges that use IM to award private college funds *do* count home equity as an asset. The private schools may make up for counting home equity by awarding their own more generous aid packages. Farms are also treated differently. FM doesn't count the residence or the business portion of a farm when it's truly a family farm. (If it's an investment farm, the business assets *are* counted.) IM, on the other hand, counts both the residence and the business assets--whether or not it is a family farm. Another difference is that only FM allows "**Simplified**" asset treatment--assets are not counted when income is below \$50,000 and families qualify to file certain tax forms.
- **FM** Asset Treatment--The maximum contribution that FM colleges expect from parents' assets is 5.64% per year. The FM Asset Protection Allowance takes into account the need to save for retirement and emergencies. This allowance goes up with the age of the older parent. If the older of two parents is 47 years old, the FM asset protection allowance for the 2000-2001 aid year is \$46,700. This figure becomes part of the aid formula. A parent with no spouse has a lower allowance.
- **IM** Asset Treatment--The new 2000-2001 IM aid year concept counts family assets in a different way. The formulas add together parent assets and any assets in the names of the student's brothers and sisters who are under age 19 and not college students. The contribution expected from these family assets ranges between 3% and 5%. The first \$25,000 is assessed at 3%, the next \$25,000 at 4%, and anything over \$50,000 at 5%. The new IM Asset Protection Allowance now includes an Emergency Reserve Allowance and an Education Savings Allowance that is based on the number of college students (including the current aid applicant) and on the number and ages of pre-college children (not including the current aid applicant).

IM schools usually require noncustodial parents to send financial information directly to the school and may expect them to contribute to college costs. A few IM colleges may ask about cars, boats, annuities, the cash value of life insurance, retirement accounts, consumer debt, and interest in assets held in another person's name (the value of these items may have some weight in a professional judgment decision).

DEPENDENT STUDENT ASSETS

- Assets counted by all schools--For dependent students, federal aid formulas (**FM**)--and private college aid formulas (**IM**)--consider the following as assets:
 - cash, savings and checking accounts,
 - any investments including
 - trust funds,
 - money market funds,
 - mutual funds,

CDs,
stocks, bonds, and other securities,
commodities,
precious and strategic metals,
installment and land sale contracts (such as mortgages owed to you),
Education IRA,
savings in a Uniform Gift to Minors Account (UGMA),
--real estate other than the family home (including vacation property),
--investment farm equity,
--business assets (only a percentage of business assets is considered).

Assets considered by IM schools only:

--home equity (if all or any portion is owned by the student),
--equity in the family farm home and business (any portion owned by the student),
--value of student's IRA, Keogh, 401k, 403b, etc. accounts as of December 31 of the base year.
--questions may be asked about cars, annuities, and any assets held in another person's name (these are reference questions for professional judgment--unlikely to be fully counted as dollar items).

FM student contribution--Federal (FM) formulas require dependent students to contribute 35% of their assets the first year and expect 35% of remaining assets in each of the following college years. (That translates into 82% of the original asset value.) The student is expected to have the remaining assets to contribute after the first year, even if the assets no longer exist. If the student accumulates additional assets, they are added to the expected student contribution at the same rate of 35% each year. Most parents that hope to qualify for aid usually save to pay their parents' contribution in their own names rather than in the child's name, since the parents' maximum annual FM contribution rate from assets is 5.64% as opposed to the student's 35% rate.

IM student contribution--Private (IM) college aid formulas changed in the 2000-2001 aid year. They now require a dependent student to contribute 25% (rather than 35%) of assets each year.

INDEPENDENT STUDENT ASSETS

- Assets counted by all schools --Independent students give information on the same types of assets as parents and dependent students. They report:

--cash, savings and checking accounts,
--any investments including:
 trust funds,
 money market funds,
 mutual funds,
 CDs,
 stocks, bonds, and other securities,
 commodities,
 precious and strategic metals,
 installment and land sale contracts (such as mortgages owed to you),
 Education IRA,
--real estate other than the family home (including vacation property),
--investment farm equity.
--business assets (only a percentage of business assets is considered).

Assets considered by **IM** schools only:

--home equity,

--equity in the **family farm** home and business,

--value of student's IRA, Keogh, 401k, 403b, etc. accounts as of December 31 of the **base year**.

--questions may be asked about annuities, and cars (these are reference questions for professional judgment--unlikely to be fully counted as dollar items).

- **FM** Asset Protection Allowance--Independent students *with* dependents, without dependents, and parents of dependent students all have the same FM Asset Protection Allowance. It is lower at younger ages. At age 25, the allowance is zero. At age 28, FM (2000-2001 aid year) allows \$7,800 for married and \$4,900 for singles.

After the allowance, independent students *with* dependents are expected to contribute from assets a minimum of 2.64% up to a maximum of 5.64%. Even though independent students who have *no* dependents (other than a spouse) have the same FM Asset Protection Allowance, they are treated differently for assets above the allowance--they must contribute 35%.

- Independent students who pass the FM **Simplified Needs Test** will not have their assets counted when federal formulas calculate eligibility for federal aid. Private aid formulas always count assets.
- Many schools that award private (**IM**) aid include 75% of an independent student's retirement account value as part of net worth. Ask how your school treats retirement accounts.
- Private college aid formulas (**IM**) changed in the 2000-2001 aid year. They now require independent students (including those with dependent children) to contribute 25% of assets each year. Assets that have been accumulated to meet IM's new Annual Savings Goal for each dependent child are protected by a Cumulative Education Savings Allowance. There is also an Emergency Reserve Allowance based on marital status and number of dependents other than a spouse.

BUSINESSES / INVESTMENT FARMS

- Discount--Aid formulas for both **FM** and **IM** give a discount for business assets. They count only 40% of the net worth of a business or farm up to \$90,000. The other 60% is not put into the formula. Between \$90,001 and \$265,000 they count 50% of net worth. Between \$265,001 and \$445,000 they count 60% of net worth. All of net worth over \$445,000 is counted.
- Farms--Family farm business assets will not be counted by Federal Methodology (FM) if the farm is the principal place of residence and the family operates the farm. If it's an investment farm, the business assets will be counted. Institutional Methodology (IM), on the other hand, always assesses farm business value (as well as equity in the residence).
- Value--Business value includes land, buildings, machinery, equipment, inventory. Business debt means debts for which the business was used as collateral. If you own a portion of a business, be sure to include only the value and debt on the part you own.
- Forms--If you own several businesses, you will add them together for a total on the FAFSA or PROFILE. Making handwritten notes on a machine-read form will cause errors. The PROFILE need analysis system, used by many colleges that award private funds (IM), requires families to provide a Business/Farm Supplement and copies of tax forms for each

business and/or farm owned by the family. This form details assets and income, so that colleges can judge value. Make it clear whether you own all or a portion of the business. Supplements are to be sent directly to the college's aid office.

- Tax treatment--IM schools often treat business losses and depreciation in different ways than the IRS does. They may add back depreciation and losses taken on IRS forms. Check on the policies of the colleges that interest you.
- Other considerations--Do you own rental income property? It's unlikely to be counted as a business asset unless you receive a substantial portion of your income from this type of source and unless you actively manage it. Do you hire your child in the family's unincorporated business? Be aware that some IM colleges add wages of dependents back to parents' income as untaxed income. The IM Business/Farm Supplement form inquires about employment of dependents.
- Options--Business owners and self-employed people have flexibility in managing finances. Business people can benefit from consulting with an advisor who is knowledgeable about both tax laws and college financial aid.

FAMILY FARM / PRIMARY RESIDENCE

- **FM**--Federal aid formulas don't count the value of your primary residence. So, your family farm will not be counted (none of its value--not even the business assets portion) IF the farm is your principal place of residence AND you "materially participated" in the farm's operation and IF you claimed this and your farm income on IRS Schedule F. Owners of *investment* farms, on the other hand, must report their farm value (less debt) as a business asset on their FAFSA aid forms.
- **IM**--Institutional aid formula treatment is different. Most private colleges *do* count the equity you have in your primary residence. So, you must separate out the residence portion (value and debt) from your total farm value--and list this in the Residence fields on your PROFILE form. The business portion of your "family farm" value (not including any value for your residence) will be listed on the form as a business asset.
- Supplements--Private colleges that use the PROFILE system may require a Business / Farm Supplement form for each farm and / or business that you own. Or, they may ask for a partnership or corporate tax return, including a balance sheet, in place of the Business / Farm Supplement. Assets and income are reported on the form. Copies of tax returns may also be required.

CAPITAL GAINS

Be aware that colleges that give private aid (**IM**) may count any capital gain as both an asset and as income. If your gain is an unusual event that won't recur another year, the aid administrator may see it as a reallocation of assets and not count your capital gain as income. Check with the colleges that interest you. You may decide to wait until a student is out of college to sell stocks, real estate, or your ownership in a business or other asset that will bring a gain.

Capital *losses* are generally treated as untaxed income by most colleges that award private aid (IM). Unlike the IRS treatment, IM colleges don't allow capital losses to reduce income.

DEBT / BORROWING

- Consumer debt--Owing consumer debt will not improve your eligibility for financial aid. There is no credit for personal or consumer loans, only debts against assets listed. If you have liquid assets, it is to your benefit to pay down consumer debt. Fewer assets will be counted by the aid formulas if you pay off car loans and other debt not counted by your college.
- Borrowing against counted assets--If you need a loan, borrow against the assets that colleges count. If the student will attend a college that provides private aid funds, home equity will be counted, so borrowing on your home will reduce your assets and increase your aid eligibility. Other possibilities are borrowing against other real estate, savings accounts, even borrowing on margin against brokerage accounts.
- Borrowing against retirement funds--What about your retirement plan? In August of 1997 Congress voted to allow penalty-free withdrawals from IRAs and 401(k)s for qualified higher education expenses. This usually wouldn't be a first choice. Parents' retirement funds are assets that are seldom counted in the aid analysis process. If you use your retirement account, you'll want to plan to replace the money for your retirement.
- Credit for student loans--The PROFILE form asks about educational loans owed by parents. Some private colleges may reduce assets by the amount of your educational loans and, if income is low, may even allow reducing your cash income by the amount of your monthly educational loan payments. The loans can be for the education of a parent, the student or the student's siblings, but they must be in the name of the parents. Colleges won't consider educational loans in the name of the student or siblings, even if it is a parent that is making the payments. There is considerable variation in college treatment of educational loans that are owed by parents. Ask the aid administrator how your situation may be treated.

HOME EQUITY

- Homes as assets--The family residence is a primary asset for many families. Congress has voted not to count this asset by Federal Methodology (FM), so no matter how high the equity in your home, it will not affect your eligibility for federal aid. However, colleges that give private aid by Institutional Methodology (IM) do count the family home.
- How much is your equity?--Home equity is the property's value minus the mortgage and any other debts on the residence. What is the actual value of your home? It may be quite different from the tax assessment figure. Take needed repairs and costs of sale into account. Some colleges put a cap on their consideration of home equity—they don't count any amount that is above three times parents' income.
- Home values--IM's PROFILE form asks the year that your home was purchased, the purchase price, how much is owed and how much it is worth today. Value figures that you use on aid forms will be checked against real estate inflation tables. If your home value has not increased by at least 3% per year, make an explanation, because an automatic adjustment may be made. Perhaps you bought when prices were higher or owe more than your home is worth today.
- Home equity loans--If you need to borrow to pay your expected contribution, you may consider a home equity loan or home equity line of credit. Lowering your home equity results in a lower asset amount on your applications for private college aid (IM). But the FAFSA aid form doesn't ask for home equity--federal (FM) aid formulas don't take home equity into account.

- Loan features--In most states home equity loans or lines of credit can be used to pay college bills or to pay off consumer loans. Lines of credit allow withdrawals as needed, so that interest is only charged on the amount borrowed. Interest payments are tax deductible on loans up to \$100,000 for taxpayers that itemize deductions. Remember that the value of your home could go down in a changing real estate market.

RETIREMENT FUNDS

- Retirement money is seldom counted--Most colleges don't count parents' retirement funds when calculating assets. In general, the private colleges that look at parents' retirement accounts do not actually count them as assets. They use the information as part of the larger picture--as when considering whether to adjust contribution from other assets. If parents are relatively young and have very large retirement accounts, they are better able to help pay for their child's education. Independent students are in another category. When calculating [EFC](#) for independent students, some [IM](#) colleges count 75% of their IRA/Keogh assets, reasoning that paying for education should come first before saving for retirement.
- Retirement contribution timing--Although the IRS doesn't tax the income you use to contribute to a tax-deferred retirement fund, college aid formulas *do* count it. You may prefer to make your contributions in years that are not base years for college aid applications. Contributing to a tax-deferred account saves taxes, but during aid years saving on taxes can mean less financial aid. Review your situation.
- Distributions for retirement--Taking out retirement money for living expenses during aid-application [base years](#) will increase income. If parents who are close to retirement have a choice, they may decide to use liquid assets for living expenses before dipping into retirement money. Whatever your situation, weigh the variables of your asset levels, tax benefits, and your ability to save for retirement at the same time you are paying college bills.
- Distributions for education--Starting in 1998, taxpayers were allowed to take penalty-free distributions from IRAs and 401(k)s for qualified higher education expenses of the taxpayer or spouse, or a child or grandchild of either the taxpayer or spouse. Eligible expenses include tuition, fees, books, equipment, and room and board. Even though there is no penalty for distributions, the income is taxable. You may need the money for retirement. Other options, such as a [home equity loan](#), may be a better choice.

INSTALLMENT SALES

Installment sales, such as mortgages and loans owed to you by others, should be valued at what they would bring if sold on the date that the aid application form is filled out. Talk with your banker. The mortgage you hold may be worth less than its face value--maybe more. The value will be based on its interest rate, the payment history of the debtor, and whether you are in first position for payment. Be prepared to back up any valuation you set at less than face value.

AID APPLICATIONS / AID PACKAGES

[APPLYING FOR AID](#)
[BASICS OF AID PACKAGES](#)
[PROFESSIONAL JUDGMENT](#)
[SAMPLE AID PACKAGES](#)
[AID OFFERS, COMPARISONS, ADJUSTMENTS](#)

APPLYING FOR AID

Types of forms--Applications must be submitted for each aid year. If you think that you don't need aid for the first year but may need aid later, it's safer to apply for the first year. The federal aid form, FAFSA (Free Application for Federal Student Aid), is required for nearly every aid applicant. Many families also must complete state forms, the CSS (College Scholarship Service) PROFILE form, individual college forms, supplements, and provide copies of tax returns. First-year aid forms may be due early in January. Returning students have later deadlines for renewal forms. You'll want plenty of time to read instructions carefully and ask any questions. Even families that are unlikely to qualify for aid should file the FAFSA--it entitles the student to borrow a Stafford Loan and it's free insurance in case your situation changes.

- FAFSA--The FAFSA (Free Application for Federal Student Aid) is used to award federal funds at both public and private schools. It is available at most high school guidance offices and college aid offices. When aid administrators begin building an aid package, they first need to know whether the student is eligible for a federal [Pell Grant](#) and other federal programs. At a minimum, most U.S. students are eligible for a [Stafford Loan](#), whether subsidized or unsubsidized. FAFSA is the only form required by most public colleges. It is used in awarding state aid as well as federal aid. Some private colleges use the [EFC](#) determined by FAFSA information to award private aid--they may make an adjustment for home value and they may add assets if the federal formula exempted you from having assets counted.

Each year the paper FAFSA form is a different color from the year before. Mail the paper FAFSA in the pre-addressed envelope to the processing center and mail any other required materials to the college. In addition to the paper FAFSA form, there are computer-based options. You may:

- submit your application electronically at certain schools,
- download and print FAFSA in PDF (Adobe Acrobat) format,
- apply online with *FAFSA (or Renewal FAFSA) on the Web* (www.fafsa.ed.gov),
- download *FAFSA Express* software (www.ed.gov/offices/OPE/express.html) and use a modem to send the information (the 2000-2001 aid year may be the last year for this option).

The FAFSA on the Web and Renewal FAFSA on the Web for the 2000-2001 aid year is scheduled to be available beginning on January 3, 2000. Be prepared to print a signature card and mail it to a processing center. If you have any questions, call the Federal Student Aid Information Center at 1-800-4-FED-AID.

In the fall of 1999, the Department of Education announced that students can use the Web to make certain corrections to their entries on the FAFSA forms. For the 2000-2001 aid year, they will be able to change all fields except Social Security Number and date of birth. Each student will have a PIN (formerly called EAC--Electronic Access Code). Once a PIN has been assigned, a paper signature will not be required.

Within about four weeks of filing your FAFSA (less for electronic applications), you will receive a Student Aid Report (SAR) showing your Expected Family Contribution (EFC). Look at the upper right side of your SAR for your EFC amount. "EFC:7000" would mean that your Expected Family Contribution is \$7,000. The SAR includes an information summary, so that you can check for accuracy and make any necessary corrections. If the EFC number is marked with an asterisk, you have been selected for verification. That means that you may be required to supply income tax forms and other documentation backing up your information. Your SAR will automatically be sent to the schools that you listed on your FAFSA.

The FAFSA form specifies a final processing date and shows deadlines for individual states, but what is important is the date by which your college wants you to file. The earliest that the FAFSA can be filed is the first day of the January preceding college enrollment. Once you have completed a FAFSA for your first year of college, the process should be easier in

following years. You will probably receive a partially completed Renewal FAFSA application form before the end of December. If you don't receive a Renewal FAFSA, ask your school or file a regular FAFSA form.

- PROFILE--Many of the colleges that award private (IM) funds require the PROFILE form. It is part of the Institutional Methodology need analysis system administered by the College Scholarship Service (CSS) of the College Board. You may obtain a paper form and use it to register by mail or telephone (800-778-6888). Or you may complete the PROFILE online at: <http://www.collegeboard.org/finaid/fastud/html/proform.html>. There is a fee to register and a fee for each school or scholarship program that will receive your information.

The PROFILE system is individualized according to the information that the college requires and according to the type of student. If only one college asks an uncommon question (such as the value of parents' IRA/Keogh plans), only that college will see your answer. Supplements that schools may require include: the Divorced/Separated Parent's Statement, the Business/Farm Supplement, and the Graduate/Professional Student Supplement. These supplements and tax returns are sent directly to the schools. To find out your Estimated Family Contribution at a private college, it's necessary to communicate with an aid administrator at the school or wait for your aid offer.

In addition to asset information, PROFILE applicants are asked for three years of parents' income data. Most of the questions are about the base year--the calendar year prior to the aid year for which you are applying (1999 income for those applying for 2000-2001 aid). In addition, PROFILE requires certain items from the previous calendar year--untaxed income and benefits, Adjusted Gross Income (1998), Income Tax Paid (1998), and Itemized Deductions (1998). After asking about the two past years (1998 and 1999), PROFILE asks for an estimate of: the current year's (2000) expected parents' income, other taxable income and untaxed income and benefits. This provides a three-year snapshot of income. Certain IM schools may ask first-time applicants for complete tax returns from two past years (1998 and 1999), so be prepared. PROFILE also inquires about the student's expected resources to pay for the aid year (2000-2001). Returning students may be sent a Renewal PROFILE. If you don't receive one, be sure to obtain a PROFILE form and apply for the new aid year.

- Sending information--If your school wants supplements, a Divorced/Separated Parent's Statement, and/or copies of tax returns, be sure to send them directly to the colleges. They should not be sent to FAFSA or PROFILE processing centers. Schools may ask for documentation to verify assets or untaxed income. Data on all forms must match. Aid administrators will check interest income against the assets you reported to see if there is a discrepancy. Copy all forms for your records; then file them where you can find them for reference if follow-up questions are asked. You will need them again when filling out the next year's aid forms.
- Verification--The federal government requires verification of approximately one-third of all financial aid forms submitted, but it is already standard at many colleges to ask every aid applicant for tax returns so that data can be checked. If it is not possible to complete your tax return for your first base year (calendar year before the first aid year) by the time the colleges want it, you can usually send a copy of the prior year's return, along with estimates of base year income. You will need to follow up later with the base year actual tax return. In any case, don't delay in supplying the information requested by the colleges. Estimates and actual returns should match as closely as possible.

BASICS OF AID PACKAGES

- Basics--Aid administrators create "aid packages" to help meet the difference between the cost of attendance and the contribution expected from the family. The components are grants or scholarships, student loans, and work-study. Funding is provided by a combination of federal and state money and, when available, private college dollars. Work-study and student loans are the basic "**self-help**" portion of any aid package. As a general rule, the amount of aid must not exceed the student's calculated financial Need (the school's standard Cost of Attendance minus the Expected Family Contribution equals Need). If the package has already met the full amount of Need and scholarships are later awarded from "outside" the college, the scholarships usually become part of the package, replacing loans and/or grants.
- Components--The items aid that aid administrators may use to make up aid packages include: Pell Grants, Stafford Loans, Perkins Loans, SEOG grants, state grants, ROTC living allowances, college and private grants and scholarships (including athletic and ROTC scholarships), waivers of tuition and fees, fellowships or assistantships, insurance programs for the student's education, earnings from work-study and any other need-based employment, and veterans' educational benefits.
- Professional Judgment--Aid administrators must adhere to complex regulations and formulas set by the government and by individual colleges. Personal circumstances and family finances don't always fit the rules neatly. In certain types of situations, aid administrators have leeway to use [professional judgment](#) (PJ) to make decisions. Aid administrators have more freedom to exercise PJ when they are awarding private aid money than when awarding government funds.
- Merit awards--The rules for awarding Federal Pell Grants and Federal Stafford Loans are the same for all eligible applicants. Colleges also use federal guidelines for awarding funds from other federal programs. However, some colleges use private (institutional) aid money to make merit awards to the most desirable students. A generous aid package may play a part in the student's choice of a college. "Preferential packaging" creates an aid package with fewer loans and more grants than for another applicant with similar finances. Some schools don't have merit awards. They give only need-based aid.
- Gapping--Some colleges pledge to fully meet what they have determined as the financial "need" of every admitted student. Others do not. If an aid package is not sufficient to meet need, there will be an "aid gap" ("unmet need"), so families will have to come up with the additional funds. "Gapping" is becoming more common as the cost of operating colleges outpaces the availability of funds. When there is a gap, a student may get full benefit from an "outside" scholarship, rather than having it replace part of an aid package.
- Federal components of aid packages--Applicants for aid at public or private colleges must file a FAFSA form, which is used to calculate aid eligibility according to Federal Methodology (FM). Financial aid administrators begin every aid package by looking at the FAFSA's Student Aid Report (SAR) to see whether the student is eligible for a [Pell Grant](#) and to see the amount of the student's Expected Family Contribution (EFC). When possible, the college will award campus-based [SEOGs](#) (Supplemental Educational Opportunity Grants), [Perkins Loans](#), and [Work-Study](#) job allotments based on federal guidelines. Every student who has filed a FAFSA form is entitled to a [Stafford Loan](#). If the student has enough financial need, the Stafford will be subsidized. On subsidized loans the government pays interest on the loan until repayment begins (six months after the student is no longer in school at least half time).
- PLUS loans in aid offers--Since [PLUS](#) loans are *not* designed to meet "Need" (the difference between the Cost of Attendance and the Expected Family Contribution), they are *not* need-based financial aid. If they appear in an aid offer, it may appear that the college awarded full

aid. However, a PLUS is intended to be one option that the family can choose to pay for either Expected Family Contribution or an aid gap.

- Private aid considerations--When a college has its own funds to supplement government programs, the Expected Family Contribution (EFC) will be calculated by Institutional Methodology (IM). All IM schools consider home equity and IM has other general guidelines that all IM schools follow. However, each school has its own policies on counting individual items in the financial picture. Collect information about aid policies at the colleges that interest you. Ask questions if you can't find the answers in print. What is the usual ratio of grant aid versus self help (jobs and loans)? Can some or all "outside" scholarship dollars be credited toward "self-help" components of the aid package? What items are counted as assets? How much is the student expected to contribute each year from summer earnings? Are merit awards renewable after the first year?
- Cost of public vs. private--The stated Cost of Attendance may be lower at a public college, but, depending on the circumstances, a private college could actually cost less. If family income and assets are high, there won't be much government assistance other than an unsubsidized Stafford Loan or a parent PLUS Loan. If the student is eligible for federal funds, she or he will qualify for them at private, as well as public, colleges. A private college that is generous with aid could be more affordable.
- Renewing aid--Will your college keep your aid package similar from year to year? It's a good question to ask, because colleges are aware that most students won't want to switch schools. Aid offers for renewal years may not arrive until midsummer. Most colleges try to make the amount of aid fall into the same range, unless there are big changes in the family's financial situation. After freshman year, students usually are required to contribute a somewhat higher amount from earnings, and student loans are somewhat larger. Stafford Loan levels are higher after the first year, so a smaller grant can meet the same need. If a student wins an "outside" scholarship that would combine with already-awarded aid to exceed the Cost of Attendance, aid will be reduced.

PROFESSIONAL JUDGMENT

Individual situations don't always fit neatly within aid regulations. That's why aid administrators have leeway to make Professional Judgment (PJ) decisions that will affect Expected Family Contribution. The decisions are made on a case-by-case basis. Families need to document unusual circumstances. An effort is made to treat students equitably.

Professional judgment items include:

- changing dependency status change from dependent to independent--the student may be required to show each year that his or her situation still warrants independent status,
- including items in the Cost of Attendance,
- determining satisfactory academic progress--if the student's progress is unsatisfactory, aid may be withheld,
- allowing for unusually high child care expenses,
- making adjustments for recent changes in family income or assets--job loss could be a basis for a decision to reduce [EFC](#),
- giving an allowance for primary or secondary tuition paid for student's siblings,
- making an adjustment for high medical or dental bills that were not reimbursed by insurance,
- considering educational expenses of parents enrolled in approved programs.

SAMPLE AID PACKAGES

NOTE: FM shows a state college; IM shows a high-priced private college.

3 Different Families 2 Types of Colleges	Lower income		Mid income		Higher income	
	*** FM	IM	FM	IM	FM	IM
+ Cost of Attendance	8,715	35,808	8,715	35,808	8,715	35,808
- EFC	1,515	3,998	7,628	9,489	25,715	27,608
=Need=Aid Eligibility	<u>7,200</u>	<u>31,810</u>	<u>1,087</u>	<u>26,319</u>	<u>0</u>	<u>8,200</u>

Award Package Offer:

College Grant	0	21,035	0	20,116	0	2,000
Pell Grant	1,575	1,575	0	0	0	0
State Grant	500	1,000	0	0	0	0
Stafford Loan (Subs.)	2,625	2,625	0	2,625	0	2,625
Work-Study Job	1,225	1,575	1,087	1,575	0	1,575
Perkins Loan	0	2,000	0	0	0	0
+ Total Aid Offer	5,925	29,810	1,087	24,316	0	6,200
- Unmet Need (Gap)	1,275	2,000	0	2,000	0	2,000
=Need=Aid Eligibility	<u>7,200</u>	<u>31,810</u>	<u>1,087</u>	<u>26,316</u>	<u>0</u>	<u>8,200</u>

*** This Low EFC family qualifies for [Simplified Needs](#) treatment, so FM counts no assets.

Aid offers vary widely. These are just generic examples illustrating basic aid components.

Cost of Attendance (COA) (Educational Budget) varies at each college. It includes tuition, fees, room, board, books, supplies, personal expenses, and transportation.

Self-help consists of a Work-Study Job *and* the student's educational loans.

Total cost to a family includes EFC and any Gap (plus any extra expenses not included in the COA).

Unmet Need (Gap) means that the school was unable to meet the student's full amount of "Aid Eligibility." Parents may borrow PLUS Loans or alternative loans to pay Gap and/or Parent Contribution.

Loans

Federal [Stafford Loan](#) is an entitlement program. Students qualify for either subsidized or unsubsidized loans.

Federal [PLUS Loan](#) program may be used by parents to cover "Unmet Need (Gap)" AND Parent Contribution. Plus loans are based on the parents' credit.

[Alternative Loans](#) are made by private lenders, such as banks. They help borrowers pay parent contribution, student contribution, or cover an aid gap. The amount of the loan should be no greater than the difference between the Cost of Attendance and aid that has been awarded.

- About a month after filing the FAFSA form, families receive a Student Aid Report (SAR) showing a federal Expected Family Contribution (EFC). In the Low EFC example, the family qualified for a Pell Grant of \$1,450 and a subsidized Stafford Loan. Most states make need-based grants to undergraduate students attending eligible schools in their home states and often in certain other states. For the above example, based on the Low EFC family's SAR, a state grant of \$500 was allowed at the state college and \$1,000

at the private college. Grants vary from state to state--sometimes mid-EFC to higher EFC applicants may qualify.

- The school's Cost of Attendance minus EFC (Expected Family Contribution) equals "Need" or, more aptly put, "Eligibility for Aid." Often, even though a student is "eligible" for aid, a school may be unable to meet a student's full amount of "eligibility." This leaves an aid Gap. Parents may use PLUS Loans or alternative loans to pay Gap and/or Parent Contribution.
- Some schools offer "Merit" Aid. The above examples do not reflect this—they are based on "Need."
- Through Self-Help (Work-Study jobs and student loans), students are expected to participate in paying for their own education. These student responsibilities are in addition to the Student Portion of the Expected Family Contribution.
- Private scholarships (received from "outside" sources that are not a part of a college's aid package) can be applied to the "Gap / Unmet Need" without altering the makeup of an aid offer. However, if full need is already met, the aid offer is changed. Many colleges have a policy of subtracting the first \$500 of "outside" scholarship money from loans and applying remaining scholarship money 50/50 to reduce loans and grants. The student is not credited for the full amount of the "outside" scholarship, but the total loan amount is reduced.

AID OFFERS, COMPARISONS, ADJUSTMENTS

- Special categories of applicants--Early Decision candidates are applying to one college only. They agree to attend if accepted. This means that there won't be any possibility of comparing aid offers. Early Action, available at a few schools, allows students to make additional applications, so aid offers can be compared. Students who transfer to a different college should check into their financial aid status. It's best to avoid transferring in the middle of an aid year. Aid funds at the new school may already have been allocated for the year.
- Comparing aid offers--When you receive an aid letter, check whether it says that it is a preliminary offer. Verify that there were no mistakes in the information used. Make a list showing what each aid offer shows for size of the family contribution, debt load, grants and scholarships that don't need to be repaid, job expectations and any "unmet need" ("gap"). Add any items, such as transportation, that would make one school cost more than another. Compare terms of loans and think about your future ability to repay them after graduation.

Part of an aid package can be refused, for instance, a work-study allotment. To replace a refused component, a family will have to come up with its own funds or use a loan. Turning down part of a package can create doubt as to whether the family really needed the amount awarded. Some work-study jobs are more flexible than others, allowing students to work fewer hours in weeks that require extra studying.

- Requesting an adjustment (reevaluation)--Adjustments are sometimes made in aid offers. Perhaps parents' financial situation has changed substantially since you filled out aid forms (job loss, for example), or you may feel that your circumstances were not understood. There may be items that you failed to mention when you filled out the forms. Perhaps a student thinks she or he must attend his or her second-choice school because the first-choice school (similar in type and cost) offered much less aid. If you want to explain why you believe that you need an adjustment in your aid offer, communicate with the aid office. Some colleges have printed forms to apply for reevaluating aid offers.

If you apply for an adjustment, do so immediately after receiving the offer, before all available funds are allocated. If you are asking for more aid because of new circumstances, be

prepared to explain and document the financial impact. If comparing a superior aid package from another college, let the first-choice college know the terms of the competing offer. If an outside scholarship has been subtracted entirely from your grant, ask whether part of it can be used to reduce the loan portion, rather than the grant portion, of your package. If the school offers aid based on merit and if you have reason to believe that your student's special honors or abilities were overlooked, mention them.

You may need to wait for an answer to a request for reevaluation, but don't let the deadline for aid award acceptance expire. Your funds could be awarded to another student. Accepting an aid award holds the aid offer, but it doesn't commit the student to attend the school.

COST-REDUCING OPTIONS

[BUDGETING](#)

[CHOICE OF COLLEGE](#)

[COOPERATIVE EDUCATION](#)

[MILITARY](#)

[NATIONAL SERVICE](#)

[SHORTENING TIME IN COLLEGE](#)

[WORKING](#)

BUDGETING

Traditional financial aid in the form of grants and loans is not always available or sufficient. Students can find additional ways to save on expenses and to cut down on borrowing. Keeping costs down while in college can be a challenge that brings real rewards. Consider living arrangements that save money, such as having one or more roommates, living in a cooperative housing situation, or even living at home. If there is a choice of meal plans, buy the one that best suits your habits. Use public transportation and find rides home, instead of bringing a car to college. If you have a credit card, use it wisely and pay balances when due so that there won't be interest charges. Check into options for telephone service. Research special rates on airplane fares. Compare prices when shopping. Look for used textbooks and student discounts.

CHOICE OF COLLEGE

- Public or private--The first and most important step in controlling the cost of college can be deciding which school to attend. An in-state public college, or a public college in a state that has an arrangement with the student's home state, can be the answer. In other cases, a private college will be the right choice. Remember that even though the Cost of Attendance is higher at many private colleges, they may have more aid money to award. If you are applying to a selective private college, find out whether it has a policy of meeting full "need" (aid eligibility). Colleges that have large endowments, relative to the number of students, can award more grant money.
- Merit aid--A student can often win a merit award by applying to a college where he or she is a top applicant in a category appreciated at the school. A college that considers the student to be special for academics, athletics, geographical diversity, or artistic talent is more likely to admit the student and to offer a scholarship or a financial aid package with more grants and fewer loans. Find out whether the school offers merit awards, necessary qualifications, and the usual amount given.
- Less-expensive schools--There are low-cost schools, even schools where no tuition is charged. The Cooper Union in New York City is tuition-free. Foreign universities, in Canada or farther from home, can be a bargain. Students can save money by attending a low-cost community college for a year or two and then transferring to a more expensive and

prestigious school to earn their degree. If you plan to do this, communicate with the second school and ask for confirmation in writing that credits may be transferred. Some colleges will award a degree with only one year at their school.

- Part-time attendance--Part-time students are less likely than full-time students to receive substantial college financial aid. However, they have the advantage of being able to work and study at the same time. There are universities that offer courses on weekends or at night for working students. Distance learning is now easily available. College courses are offered through computer connections, satellite TV, and correspondence.
- Admission applications--Apply to several similar schools so that you will be able to compare aid offers. Include in your application list a financial-safety school, one that you know will accept the student and that the family can afford. The best choice for financial safety may be the school that is most likely to give aid, rather than one with a low Cost of Attendance.
- Tuition discounts--Does the student fit in a category that qualifies for a discount at a particular college? Some schools give tuition breaks to children of alumni, children of employees, siblings or spouses of enrolled students, senior citizens, student leaders, or minority students. Consider the college that offers you something special.

COOPERATIVE EDUCATION

A student who has some idea of his or her ideal career after college can be an especially good candidate for cooperative education. Hundreds of colleges allow students to combine work and study, earning money for college while learning. Students may attend school while working. More often, they alternate full-time work and full-time study. Any work-study income is part of aid packages and won't be counted toward Expected Family Contribution. However, income that is *not* part of an aid package must be reported on aid forms and will be counted.

At some colleges, nearly everyone chooses cooperative education. It may take five years to graduate. If a student has a goal of gaining experience in a particular field, she or he should find out which colleges have arrangements with employers in the chosen subject. The federal government is a major employer of cooperative-education students.

Life experience, job experience and fewer loans are some of the benefits of cooperative education. Participants tend to be serious about what they are doing. After college, many continue working for the same employer they had during school.

MILITARY

Past military service can mean benefits for college. Veterans and dependents of veterans should look into what is available. Benefits can take many forms, including scholarships, loans and grants. The American Legion publishes a handbook, *Need a Lift?*, which details military and other sources of financial aid.

Funding part of an education through the military can be at a low or high level of commitment. ROTC (Reserve Officer Training Corps) is available at some, but not all, colleges. The traditional ROTC program is over a four-year period. It pays a small monthly stipend during junior and senior years and requires a service commitment. Another option is to apply for a competitive ROTC scholarship, which covers a substantial portion of costs in exchange for a longer service commitment as an officer after college. If you're thinking about ROTC, find out whether your college has ROTC and whether it's the right branch of the service for you. The elite military academies provide full education in return for a service obligation. Admission requires high achievement and a congressional (or other high level) appointment. Students interested in nursing and other health professions can also qualify for military programs and scholarships.

All branches of the service subsidize off-duty tuition at regular colleges for those who are currently enlisted. Military officers can apply for pay and expenses while attending graduate school. Enlisted personnel may choose to contribute to an educational fund for the future. The Veterans Administration will supplement these contributions--supplements are larger for longer enlistment periods. Then, monthly benefits will be paid while the veteran is attending college. The National Guard and Army Reserves also allow accumulation of education benefits.

NATIONAL SERVICE

Members of AmeriCorps, the National Civilian Community Corps, and AmeriCorps Vista work in national service programs related to community improvement. AmeriCorps living allowances, like work-study income, are taxable but not included in income counted by aid formulas. Admission to the program is competitive. Look for similar programs at the state level. Participants receive a small living allowance and an educational credit of up to \$4,725 per year (after a full-time year of service) to use toward higher education or repayment of student loans.

SHORTENING TIME IN COLLEGE

There is a national trend toward taking more than four years to earn a degree. Some students need time to choose their direction. Other students, especially those who have already chosen a field, may be able to complete requirements in three or three and a half years. By finishing college in less time, students can cut back on college costs and graduate sooner to begin working. Students and families will want to consider the value of a four-year college experience and weigh the stresses and benefits of accelerating the process.

Planning early and carefully makes a big difference. There are high schools that allow students to take college courses with credit that may be transferred. Many colleges give credits and advanced standing to students who take advanced placement courses in high school and get a sufficient grade on an AP test. Some colleges will even give credit for life experience. In some cases, a student enters with sophomore standing. Taking a test (for example, a language test) at college to qualify out of a course requirement can free up time to fill other requirements. Other ways to complete college in less time include: taking an extra course load, going to summer school, and attending night school.

WORKING

Working is a time-honored way to pay college bills. When college costs were lower, more students were able to work their way through school with fewer loans. Today, most students who receive financial aid have federally subsidized work-study jobs on campus during the school year. Unlike regular wages, work-study money isn't counted by aid formulas, so it won't be included when calculating the student's expected contribution. Work-study wages are taxable.

College placement offices provide information about job opportunities. Enterprising students can think of creative solutions. How about trading work for rent in an off-campus apartment? Students can provide tutoring, word-processing or delivery services. Can you start a business? Do some creative thinking about what fellow students need and would be willing to pay for. Making money for college can be enjoyable and impress future employers. It can even lead to a business career.

GRADUATE STUDENTS

- Federal aid programs--Graduate students don't qualify for Pell Grants or SEOG grants. Most federal aid to them is in the self-help category—loans and jobs. Graduate or professional students may borrow [Stafford loans](#) up to \$18,500 per year (a maximum of \$8,500 may be subsidized). The total borrowing limit for graduate and undergraduate Stafford loans is

\$138,500 (of which no more than \$65,500 may be subsidized). If borrowers qualify for a subsidized amount on a "need" basis, no interest is charged on that portion of the loan until the repayment period begins.

Perkins loans are awarded to graduate, as well as undergraduate, students with "exceptional" financial need. These loans are made directly through the school. Federal Work-Study jobs are available to graduate students who qualify on the basis of need. Students in a graduate program may receive either an hourly wage or a salary.

- University funding--Graduate student aid is usually based on merit rather than on need. Fellowships from universities and foundations provide tuition and a stipend without requiring students to work. Assistantships enable selected students to work in a teaching or research capacity in exchange for financial help. International students are among those who receive aid. More funding is usually available to graduate students in science and engineering than in other fields.
- Loans--Students who are unable to obtain private funding rely heavily on loans. In addition to federal and university loans, private banks make "alternative" loans to graduate students. Check into typical salaries in your chosen field to see whether expected salaries would allow you to comfortably repay your debt.
- Aid forms--Graduate and professional students use the federal FAFSA and the CSS PROFILE forms, as well as university forms. If requested by the university, PROFILE will provide an additional form, the Graduate/Professional Student Supplement. It is sent directly to the school. The supplement asks for the student's employment history, undergraduate and graduate financial aid history, the employment history of spouse or prospective spouse, whether the spouse has also applied for aid, and educational loans owed by the applicant and spouse.
- Parent contribution--Federal rules help graduate students by defining them as independent. Many private schools, however, expect parents to contribute to the cost of graduate school education. The rate of contribution may be lower than for parents of undergraduates. If the student is at or above age 30, schools would be unlikely to require a parent contribution. Schools often allow students to borrow in place of any calculated parent contribution.
- Families and Number in College--When a family member is in graduate school and another family member is in college, you may wish to bring your situation to the attention of the financial aid administrator at your school.

STUDY ABROAD / INTERNATIONAL

- U.S. students abroad--U.S. students who are earning credits toward their degree by participating in an approved exchange program at a U.S. college usually take their aid packages with them. Work-Study jobs are not available outside the country, but loans may be available to cover the difference. Scholarships and fellowships are also available for studying abroad.
- International students in the United States--Federal aid programs aren't generally open to international students. "Eligible noncitizen" is narrowly defined. If there are universities in their home countries that have ties to U.S. colleges, students can contact those universities to find out if any aid is available at the U.S. colleges. Governments in home countries may offer assistance, in the expectation that the educated student will return home.

There are many private colleges in the United States that offer financial aid to international students. Ask for special international student aid application forms. The equivalent of the PROFILE is the Foreign Student Financial Aid Application. Canadians may be provided with different aid forms than students from other countries. If loans are needed, some U.S. banks make alternative loans available to international students.

PLANNERS / CONSULTANTS

- Before selecting a planner / consultant--Start by learning all you can about financial aid. Every family has unique needs for information. If college-bound children are young, there are many choices for early saving and positioning of business and other assets. Planning for retirement, taxes, and college are all related. Books and magazine articles provide general information on saving, investing, tax strategies, and college financial aid. Don't pay or overpay for services that are available at no charge or at low cost. Free advice may be available from your state agency or from colleges of interest to you. If you feel that you could benefit from individualized assistance, look for an advisor that's right for you.
- How to choose a planner / consultant--Strategies that work for tax planning and retirement planning may actually reduce your financial aid eligibility. So, make sure that your financial advisor is knowledgeable about the financial aid system and keeps up to date with its changes. If you have a young child, you may want a financial planner who is knowledgeable about investments. If your child is near college age, you may look for an advisor who knows about individual colleges, fills out aid application forms, and does scholarship searches. Ask friends for recommendations. Then, interview your prospective advisor on the telephone. If you like what you hear, meet in person. Choose someone with whom you feel comfortable!

Questions you may wish to ask when selecting a consultant:

1. How informed are you about the college financial aid system?
2. How long have you been advising families about college financial aid?
3. Do you keep up to date on changes in the college aid system?
4. Are you familiar with current tax laws that concern college financial aid?
5. Can you supply references—names of clients you have advised about college financial aid?
6. What is your focus as a consultant? (For example, some counsel families of high school juniors and seniors. Others help parents of younger children set up investment plans for college savings.)
7. Do you provide investment advice for college and retirement savings plans?
8. Are you a Certified Financial Planner? (Not necessary.)
9. Are you registered with the Securities and Exchange Commission and with our state as an investment advisor? (Not necessary unless acting as an investment advisor.)
10. Have there been any complaints against you that led to official disciplinary action?
11. Do you provide clients with analysis, recommendations, and a plan in written form?
12. Do you or does anyone in your company receive a commission if clients buy products that you recommend? (This is an item of interest, not a problem.)
13. How often would you recommend meeting to implement and update our plan?
14. What are your fees and how are they calculated?

TAX CONSIDERATIONS

[TAX OVERVIEW--READ FIRST](#)
[CANCELLATION OF CERTAIN LOANS](#)
[CHILD TAX CREDIT](#)
[CHOOSING/COMBINING PROGRAMS](#)
[EDUCATION IRAs](#)
[EDUCATION SAVINGS BONDS](#)

[EMPLOYER-PROVIDED BENEFITS](#)
[EXCLUDABLE SCHOLARSHIPS, GRANTS](#)
[GIFT TAX](#)
[HOPE & LIFETIME LEARNING CREDITS](#)
[INTEREST DEDUCTION ON LOANS](#)
[ROTH IRAs](#)
[STATE PLANS](#)
[UNIFORM GIFT TO MINORS](#)
[WITHDRAWALS FROM IRAs](#)
[WORK-RELATED EXPENSES](#)

TAX OVERVIEW

Starting early to plan and save are the keys to benefiting from your **college saving options**. The information in this *Guide* provides you with a starting point. The regulations are more complex than what is presented here and are subject to change. You may benefit from talking with a [consultant](#) who is knowledgeable about both tax law and student financial aid. Become informed about the best choices for your financial situation.

The Tax Relief Act of 1997 created many new programs and benefits to help families with college expenses. These include Hope credits, Lifetime Learning credits, Education IRAs, an interest deduction for student loan payments, penalty-free withdrawals from Individual Retirement Accounts, and an extension of the exclusion for employer-provided educational benefits. The tax benefits of [state education savings plans](#) were extended.

Other choices for educational savings include trusts, custodial accounts, life insurance, annuities, [gifts](#), regular savings accounts, stocks, money market accounts, and [home equity](#). If your family will qualify for financial aid, use caution. Financial aid formulas count assets in a student's name at a much higher rate than assets in parents' names. The earlier you start saving, the more your investments can grow. You'll have less debt and more freedom when college bills come due.

HOPE AND LIFETIME LEARNING CR.

Hope Scholarship tax credits and Lifetime Learning tax credits apply to the education of the taxpayer, spouse, or dependents. They are not like tax deductions that reduce taxable income and they are not refundable. Instead, they are credits against taxes owed. They can be used for payments made (in the same tax year) for qualified tuition and related expenses at an eligible educational institution. Neither program will give credit for costs paid by grants or other tax-free educational benefits or for any item on which a tax deduction has been taken. You can't use both types of credits in the same tax year for the same student. Neither can be combined in the same year with tax-free treatment of an educational IRA distribution.

Qualified tuition and related expenses for which credits can be claimed are tuition and fees required for enrollment or attendance at an eligible institution. This does not include room and board, books, student activity fees, athletic fees, insurance, or other expenses not related to the academic course of instruction. Expenses for sports, games or hobbies are not included unless they are part of the student's degree program.

Married taxpayers must file joint returns in order to be eligible for the Hope and Lifetime Learning tax credits. A dependent student may not claim the tax credits unless no one claims the child as a dependent on a federal income tax return. A taxpayer that claims the student as a dependent claims the credit, even if the student actually paid for the expenses.

The credits are phased out (gradually reduced) for joint filers with modified AGIs (Adjusted Gross Incomes) between \$80,000 and \$100,000 (between \$40,000 and \$50,000 for single filers). Beginning in the year 2002, the phase-out ranges will be adjusted for inflation. In the case of

these credits, AGIs are “modified” by adding back the following items: income earned abroad, income earned from sources in Puerto Rico or in certain U.S. possessions, and foreign housing deductions.

Hope tax credits--See the beginning of this section for regulations that apply to both Hope and Lifetime Learning credits. Hope Scholarships are actually tax credits, not scholarships. They are restricted to students enrolled in one of the first two years of postsecondary education. They can be used for any number of students in the taxpayer's family (taxpayer, spouse or dependent children). Students must be enrolled at least half time for at least one academic period (semester, trimester, quarter) at an eligible educational institution in a program leading to a recognized undergraduate educational credential. The more students there are in the family, the more credit can be claimed, as the credit is on a per-student basis.

Taxpayers can deduct 100% of the first \$1,000 and up to 50% of the second \$1,000 spent in a tax year on qualified tuition and fees. So, the maximum credit per family is \$1,500 times the number of eligible students. Beginning in 2002, the dollar limit on the amount of the Hope credits will be indexed for inflation. Credits are phased out for joint filers with modified AGIs (Adjusted Gross Incomes) between \$80,000 and \$100,000 (between \$40,000 and \$50,000 for single filers).

Lifetime Learning tax credits--See the beginning of this section for regulations that apply to both Lifetime Learning and Hope credits. Lifetime Learning credits are very different from Hope credits. They may be taken for an unlimited number of years. They are available per family, not per student. Lifetime Learning credits apply to any enrollment level--the student doesn't need to attend half time or be in the first two years of postsecondary education or be an undergraduate. Eligible expenses may be claimed for graduate courses.

Through the year 2002 the annual maximum tax credit per family is 20% of the first \$5,000 of tuition and fees (maximum credit \$1,000). Starting in the year 2003 the annual maximum is 20% of the first \$10,000 (maximum credit \$2,000). As with Hope credits, Lifetime Learning credits are phased out for joint filers with modified AGIs (Adjusted Gross Incomes) between \$80,000 and \$100,000 (between \$40,000 and \$50,000 for single filers).

EDUCATION IRAs

Education IRAs (Education Individual Retirement Accounts) are trusts created to pay a beneficiary's qualified higher education expenses. In spite of the name, they are not accounts meant for retirement. Contributions may be made until the beneficiary reaches the age of 18, but not in the same tax year as contributions to a state tuition program. Unlike state plans, investments in Education IRAs may be self-directed. The maximum yearly contribution per account (from all contributors) is \$500 per child, but it is phased out for joint filers with modified AGIs (Adjusted Gross Incomes) between \$150,000 and \$160,000 (between \$95,000 and \$110,000 for single filers).

Any individual, including the child, may make the contributions. Contributions to Education IRAs are not tax-deductible, but earnings accumulate tax-free. Tax-free withdrawals are allowed whether the beneficiary is enrolled full time, half time, or less than half time--if the amount withdrawn does not exceed qualified expenses. Qualified expenses include tuition, fees, books, supplies, and equipment at an eligible institution. Room and board also qualify as expenses if the beneficiary is at least a half-time student. The limit for room and board expenses is the amount of the college's basic charge for room and board (or \$2,500 per year for students who live off campus and not at home).

Tax-free withdrawals preclude taking a Lifetime Learning credit or a Hope credit for the same student in the same year. If a balance remains in an account when the beneficiary reaches age 30, the balance must either be distributed as income (subject to a 10% penalty) or be rolled over to a new, younger beneficiary who is a member of the family.

WITHDRAWALS FROM IRAs

Taxpayers are allowed to make penalty-free withdrawals from traditional IRAs (Individual Retirement Plans) for qualified higher education (undergraduate or graduate) expenses of the taxpayer or spouse, or a child or grandchild of either the taxpayer or spouse. "Traditional" means IRAs that are not Roth IRAs, SIMPLE IRAs, or Education IRAs. The withdrawals may be used for post-secondary expenses for tuition, fees, books, supplies, and required equipment. If the student is attending at least half time, the college's basic charge for room and board is also a qualified expense. Although there is no penalty for withdrawal, the income is still taxable. Of course, a withdrawal from an IRA probably is not a first choice if the IRA will be needed for retirement.

STATE PLANS

Prepaid tuition programs and state savings plans fit within Section 529 of the Internal Revenue Code, which codifies tax benefits for Qualified State Tuition Programs (QSTPs).

To qualify for 529 QSTP tax benefits, a program must:

- be established and maintained by a state or agency,
- allow a person to do the following for the higher education of a designated beneficiary
 - buy tuition credits (or certificates) for qualified educational expenses, OR
 - make contributions to an account set up to meet qualified educational expenses,
- require cash contributions,
- prohibit contributor and beneficiary from directing the investment,
- allow change of beneficiary only to closely-related family members,
- impose a penalty on any refunds of earnings that don't meet certain criteria.

According to federal rules:

- Contributions to a QSTP are not tax-deductible.
- Growth is tax-deferred (free of federal tax until the money is used for qualified educational expenses).
- Withdrawals are taxable only to the extent that they are more than the amount contributed.
- Gains are taxed at the beneficiary's tax rate (usually lower than the tax rate of the contributor).

Rules for QSTPs are subject to change.

Some state plans may not meet 529 guidelines. Check with your state to be sure you will be eligible for the federal tax benefits. States vary in their tax treatment of QSTPs and in the types of programs offered. Most states don't count 529 programs when calculating state financial aid to students.

Qualified expenses include tuition, fees, books and supplies. If the student attends at least half time, qualifying expenses can also include room and board. Withdrawals from state plans are eligible for Hope and Lifetime Learning credits.

The rules don't allow contributing in the same year to both an Education IRA and a state plan for the same beneficiary. Since Education IRAs only allow an annual maximum deposit of \$500 per beneficiary, state plans provide an opportunity for parents (and grandparents) to save a larger amount (while still getting tax benefits). QSTP contributions qualify for the \$10,000 per donee per year annual exclusion from [gift tax](#). The 529 rules allow contributing up to \$50,000 (\$100,000 for a married couple) per beneficiary in a single year prorated over five years. Remember that the 529 plans (unlike Education IRAs) may not be self-directed.

There are differences between prepaid tuition programs and state savings plans, the two types of state qualified state tuition programs (QSTPs).

Prepaid tuition programs are generally available only to residents of the state that administers them. In most states that have these programs, state residents protect themselves against college cost increases by purchasing (in a lump sum or on a regular basis) a guarantee of future credits toward college tuition. The credits are generally based on the tuition price at public colleges and universities in the state. Check into your state's regulations, guarantees, and which colleges may be selected. Ask about costs, benefits, and what penalties there may be if the credits are not used. Prepaid tuition programs are usually treated as an "outside" source of aid that reduces the amount of financial aid that would otherwise be awarded. Keep up-to-date for possible changes to this treatment.

Visit: <http://mapping-your-future.org/features/SavingsPrograms.htm>.

State savings plans are a newer form of state plan. They allow choosing any qualified educational institution. They are often linked to large investment firms. They don't guarantee a certain return. Most plans allow out-of-state residents to participate. Buying into an out-of-state plan could result in paying state taxes on your earnings. If the owner of the account is a parent, the funds are considered a parent asset, so financial aid formulas would assess them at a maximum of 5.64% (rather than at the child's higher rate). When income is withdrawn, it may be considered the student's income--assessed by financial aid formulas at 50%. Check into state savings plans, fees, and current guidelines.

Visit: <http://www.collegesavings.org/>.

INTEREST DEDUCTION ON LOANS

Interest paid on qualified student or parents' education loans during a taxable year may be deducted by the person responsible for making the interest payment. Dependents may not take the deduction. The loans can have been used to pay post-secondary expenses (including graduate school) for tuition, fees, books, equipment, room, and board (for taxpayer, spouse or dependent), if the student was enrolled at least half time. The deduction applies to interest paid in the first 60 months of repayment.

The maximum deduction is \$1,500 for 1999 (\$2,000 for 2000, \$2,500 for 2001 and thereafter). The education loan interest deduction is phased out for joint filers with modified AGIs (Adjusted Gross Incomes) between \$60,000 and \$75,000 (between \$40,000 and \$55,000 for single filers). Married couples must file a joint return for the deduction to be allowed. It's not necessary for taxpayers to itemize on their tax returns to benefit.

The loans may be government-backed or private. Loans made by relatives do not qualify. The regulations prohibit deducting interest on any amount that can be deducted under another tax provision, such as home mortgage interest. The IRS expects those who receive more than \$600 per year in student loan interest to file a form and provide the information to the person who makes the payments.

EMPLOYER-PROVIDED BENEFITS

Congress extended the provision that employees can exclude from taxable income up to \$5,250 of undergraduate education benefits made available by an employer. The exclusion ends as of any courses beginning after May of 2000. However, as in the past, another extension may be made.

The benefits can be for employer-paid tuition, fees, books, supplies, and equipment. The courses do not have to be work-related. They can not include graduate level courses that normally lead to a law, business, medical, or other advanced academic or professional degree.

CANCELLATION OF CERTAIN LOANS

If a student loan meets certain criteria and it is forgiven in exchange for community service, the borrower can exclude the forgiven loan amounts from taxable income. Check into the details if your loan is cancelled.

EDUCATION SAVINGS BONDS

Taxpayers who purchased Series EE savings bonds issued after 1989 may qualify to exclude the interest on the bonds if they pay qualified higher education expenses during the same year that the bonds are redeemed. Qualified expenses are tuition and fees (not room and board or courses involving sports, games, or hobbies that are not part of a degree program). The proceeds from the bonds must be used for the taxpayer, spouse, or dependent to attend an eligible school. The taxpayer must have been at least 24 years old before the bonds' issue date.

Include as expenses any contribution to a qualified state tuition program or contributions to an Education IRA. Expenses cannot include any item that is used to qualify for the Hope or Lifetime Learning credits. In addition, expenses must be reduced by any tax-free scholarships, veterans' educational assistance benefits, state tuition plan benefits, employer-provided educational assistance benefits, and tax-free withdrawals from an education IRA. The exclusion is phased out for joint filers with modified AGIs (Adjusted Gross Incomes) between \$78,350 and \$108,350 (\$52,250 and \$67,250 for single filers). Married taxpayers must file a joint return to claim the interest exclusion. If income is above the limit when bonds are redeemed, no interest exclusion will be allowed.

CHOOSING/COMBINING PROGRAMS

Early planning is especially important, now that the new tax programs are in place. Many require that a choice be made between one and another. A taxpayer can't use both [Hope and Lifetime Learning credits](#) for the same student in the same year. But when several family members are attending school, Hope can be used for some and Lifetime Learning for others. Hope credits are per student and Lifetime Learning credits are per family. There is an annual per-family maximum for Lifetime Learning credits. Keep in mind that Hope and Lifetime Learning credits can *not* be used for room and board. If the student is enrolled at least half time, room and board expenses *do* qualify as expenses for withdrawals from Education IRAs and traditional IRAs.

In a single tax year a taxpayer cannot both take a Hope or Lifetime Learning credit and also exclude from income an [Education IRA](#) distribution for the same student. In years that taxpayers contribute to a beneficiary's Education IRA, they may not contribute to a [state plan](#) for the same beneficiary. When distributions are taken to pay college expenses, state plans and traditional IRAs are taxable by the IRS (with state plans being taxable at the beneficiary's tax rate). Education IRA distributions for qualified expenses are free of federal tax. Families have the option of waiving the tax-free status of an Education IRA distribution in order to claim a Hope or Lifetime Learning credit.

Which program means the most for you? If the student is in college or entering college, you may be ready to take a distribution from your state savings program. For most families it will make sense to use Hope credits (per student) for students attending at least half time during the first two years of college and Lifetime Learning credits (per family) thereafter.

Families with younger children have more choices. The annual amount that can be contributed to an Education IRA (\$500) is relatively small, so it's best to start early. Larger amounts can be contributed to [state plans](#). A family could contribute to an Education IRA in some years and to a state plan in other years or contribute for one child one year and another child the next year. Find out how much your state plan will refund if you are unable to use your investment in it. State plans don't allow you to make the investment decisions.

If parents are experienced investors, they may prefer to manage the investments themselves. There are many [options](#). They may choose to keep a college savings account in their own names to save for their Expected Parent Contribution. Aid formulas count parent assets at a lower rate than student assets.

EXCLUDABLE SCHOLARSHIPS, GRANTS

A degree candidate at a qualified educational institution may exclude from gross income any scholarships or fellowship grants that were used for qualified tuition and related expenses. These include tuition, fees, books, supplies and required equipment, *not* room and board, travel, etc.

If a school offers tuition reduction to employees and / or their children, the tuition reduction is nontaxable if it is for undergraduate education and is not given in exchange for work. An exception is made for a graduate student who is teaching or doing research at an educational institution in exchange for education (not in exchange for pay). In this case, the graduate student does not have to pay tax on the amount of tuition reduction.

Tax is due on the portion of a scholarship or fellowship that is *not* used for qualified tuition and related expenses. Tax is also due on any part of a scholarship or fellowship that represents payment for services, even if all candidates for the degree are required to perform the services.

WORK-RELATED EXPENSES

For educational expenses to be deductible, they must meet certain requirements. Education *qualifies* if it is required by the law or by your employer in order to keep your present employment and / or it maintains or improves skills needed in your present work. However, even if it meets one of the two criteria just mentioned, education does *not qualify* as deductible if it is necessary to meet the minimum educational requirements of your present trade or business and / or it is part of a program that can qualify you for a new trade or business. Expenses that may be deductible include tuition, books, supplies, lab fees, and certain transportation and travel costs.

CHILD TAX CREDIT

Taxpayers who claim a dependency exemption for qualifying children under age 17 are entitled to a credit of \$500 per child for 1999 and thereafter. The credit begins to phase out at a modified AGI (Adjusted Gross Income) of \$110,000 for joint filers (\$55,000 for married couples filing separately and \$75,000 for single persons). Additional rules tie the child tax credit to the refundable Earned Income Credit.

GIFT TAX

Tax law allows giving \$10,000 per year to any number of individuals before incurring the gift tax. This includes contributions to a qualified [state plan](#). Spouses who agree to give joint gifts may give up to \$20,000 to any number of individuals each year. The rule doesn't apply to "future interests" except that there are separate rules for gifts in trust to minors. In addition, a gift of an unlimited amount can be made directly to a qualifying educational institution for another person's tuition (not room and board). This is one of many [options](#) that can help with college costs.

ROTH IRAs

Beginning in 1998, taxpayers could set up and contribute to a new type of retirement account, the Roth IRA. Contributions are nondeductible and are limited to \$2,000 per year. The earnings will be tax-free if the money stays in the account for 5 years and if withdrawals are "qualified distributions" (either made after age 59 ½, made upon death or disability, or made for up to \$10,000 for first-time homebuyer expenses). The maximum contribution is phased out for joint

filers with AGIs (Adjusted Gross Incomes) between \$150,000 and \$160,000 (between \$95,000 and \$110,000 for single filers). Unlike regular IRAs, there is no requirement to take minimum distributions beginning at age 70 ½. Roth IRAs expand parents' choices for college and retirement savings.

UNIFORM GIFT TO MINORS

Custodial accounts may be opened in the name of a minor under the Uniform Gift to Minors Act (UGMA). In some states it is called the Uniform Transfers to Minors Act (UTMA). The account belongs to the child, who can use it for any purpose when she or he is no longer a minor under state law (age 18 or 21 depending on the state). The child is not limited to using the money for educational purposes. If the child is under age 14, investment income above \$1,400 will be taxed at the parents' tax rate. Funds in an UGMA account reduce college financial aid eligibility. Students are expected to contribute 35% of assets each year according to federal aid formulas and 25% of assets each year according to private aid formulas.

ADMISSION TO COLLEGES

Picture yourself reading a mountain of admission application forms. You would be likely to take special notice of students who had solid academic track records, participated in extracurricular activities, and took leadership roles.

- Part of the bigger picture--The activities that prepare a student for college admission set the tone for the years ahead. Academic work, extracurricular activities, pursuing fields of interest, and thinking about possible directions for the future are all important. Putting in extra enthusiasm leads to added enjoyment and success. It also improves chances of being admitted to one of the colleges of your choice!
- What colleges want to see:

Course Content--English, math and science, foreign languages, social studies. Four (preferably five) solid courses each year. Select the most advanced courses available to you.

Grades--Your grades indicate whether you are a serious student. If you know your future field of study, it's important to show strong grades in related subjects. Science and math grades are significant for students heading into engineering, environmental science, or medical fields. Grades in junior year and the first half of senior year are the most carefully examined, but colleges look at your academic record right up until graduation.

Activities--Can you show that your participation in extracurricular activities is more than just a list? Did you contribute ideas and leadership? Let the college know what matters to you, where you put your energy, and what you got out of your efforts.

Test scores--Many colleges ask for scores from the SAT or ACT tests. If your colleges do, and if you have taken the Practice SAT (PSAT) or regular SAT or ACT, you can compare your test scores to the published test score ranges for students admitted to the school. It will give you an idea of where you stand. If you are early in the process, you may be able to improve your scores. Your highest scores are the ones that count.

References--Positive statements from your guidance counselor, teachers, and others carry weight. The best letters of reference are genuinely enthusiastic and add new information or a new viewpoint that isn't in other application materials. Help the people you have asked to recommend you. Provide them with envelopes and a brief reminder of information about yourself.

Essays--Allow time to express yourself well. It's your chance to communicate what kind of person you are and what is important to you. What makes you different from others? Avoid repeating what admissions officers already know from reading the rest of your application.

Interests and talents--Will your application convey enthusiasm about what interests you? Are you a star athlete, do you play an unusual musical instrument, are you active in community service projects? You may be the special person the college wants.

Diversity--Admissions officers like variety in an entering class. You may have an advantage if you are from a distant state or from a group that isn't well represented on campus.

Interviews--Talking with a college representative helps you learn about the school and helps the school learn about you. Stay away from asking questions that are already answered in the school's literature. It's a good idea to interview, even if it isn't required. If you are offered the opportunity, have both an alumni interview and a campus interview. Question-and-answer sessions that follow campus tours are sometimes called group interviews. Although they give you a chance to ask questions, group interviews are unlike individual interviews. They don't give an admissions officer a chance to find out about you.

- Choosing the right college--List the features that are most important to you--size, location, distance from home, strong programs in particular fields of study, etc. Find out which colleges meet some or all of your criteria. It's best to keep an open mind and visit more than one type of college. For most students, it's a good plan to choose schools that offer a variety of choices. If you attend a college that has many course offerings, you will have the flexibility to change or widen your direction.

Find out as much as you can about the schools by reading reference books and college materials and by talking to people. Take the time and make the effort to visit colleges. Tours, interviews, attending classes, and talking with people on campus will all help you find the colleges that "fit" you best. Take notes, so that you can later compare your impressions, ideas, and questions.

When you decide which colleges to apply to, include: a school that is a "reach" (more selective in admissions than your other choices), a "safety" school (that is very likely to accept you), and an "affordable" school (that your family would be likely to be able to pay for, even if financial aid is limited).

- How can you strengthen your application for admission?--Start early when choosing courses and activities, so that you can use your time wisely. Be sure to take the recommended college preparation courses and other solid courses. Use any opportunities to take challenging and advanced classes. When you know that you have an area of weakness, make an effort to improve, even if it means finding special help. During the school year, pursue academic and extracurricular interests. During the summer, make your time valuable with meaningful activities. A job that is an unpaid learning experience may pay off later. Show that you can be an organizer and a leader. Give thought to what your travel, work, volunteer and other experiences mean to you.
- Basics for high school juniors and seniors--You'll need to be systematic in this important time. To keep on track, you'll need a master list and a calendar of precollege activities. You can use this *Guide's* [Interactive College Planner](#) and [Calendar](#). Copy and paste into your word processor the *Planner* and the text from the appropriate grade(s) in the *Calendar*. Then tailor them to suit your needs. Your calendar should include times for:
 - meetings with guidance counselors,
 - registering for and taking standardized and AP tests,
 - submitting admission application forms and related materials,

- sending financial aid application forms and required materials,
- college fairs,
- college financial aid sessions,
- college visits,
- interviews,
- scholarship application deadlines,
- lining up summer work and/or activities,
- and other important dates.

Being well-organized helps you to enjoy the process and to be successful in meeting your goals for the future.

CALENDAR / EARLY AWARENESS

<u>GRADE 1</u>	<u>GRADE 9</u>
<u>GRADE 2</u>	<u>GRADE 10</u>
<u>GRADE 3</u>	<u>GRADE 11 Fall</u>
<u>GRADE 4</u>	<u>GRADE 11 Winter</u>
<u>GRADE 5</u>	<u>GRADE 11 Spring-Summer</u>
<u>GRADE 6</u>	<u>GRADE 12 Fall</u>
<u>GRADE 7</u>	<u>GRADE 12 Winter</u>
<u>GRADE 8</u>	<u>GRADE 12 Spring-Summer</u>

GRADE 1

Parents and students enjoy books together. The library is a great resource!

Check with teachers to be sure there are no obstacles to learning.

Let your child know that you value school and learning. Ask about the school day. Praise accomplishments.

Be involved at your school. Work with the school and other parents to make it a good place for learning. Make sure that standards are kept high.

Show your child know that college is an exciting goal for the future.

Start saving for college. Saving, no matter how small an amount, indicates to your child that college will be possible. Money that is put aside early has more time to grow. If you have saved, you'll have more choices when college bills are due. There will be less need to borrow and pay interest. There are tax benefits for participating in a state savings plan or opening an Education IRA account for your child.

GRADE 2

Communicate with teachers about your child's progress in school. Let teachers know that you want your child to do challenging work.

Is your student developing solid math and reading skills?

Let your child know that your hopes for his or her future include a college education.

TV can be valuable if it is used for quality programs and used sparingly, so that there is plenty of time for other activities.

GRADE 3

Does your child have an opportunity to use computers? If not, check out the library or other resources.

Children can be encouraged to start saving now for that fabulous Year 2009 computer they will be able to buy for themselves when they are ready for college. How about having your child invest a small amount in mutual funds or in the stock market as a learning experience? It could grow into a college fund.

Show that your expectations are high; give encouragement and praise.

Is your child obtaining enjoyable books for reading at home?

GRADE 4

Does your family have any friends and/or relatives in college? Ask them about what they are doing.

Find out what grade-level expectations are and whether your child is meeting them. Make sure your child receives help with studies, if needed.

Schedule daily time for homework. Parents can be involved by giving encouraging assistance.

When traveling to a place where a college is located, consider taking a walk or tour to find out more about the school.

Help your child develop and pursue interests and hobbies in free time during the school and summer. Have fun!

GRADE 5

Keep reading together. List new vocabulary words from reading and listening. Family members can make a game out of using new words whenever possible.

Enjoy using new math skills in real-life situations.

Be involved with your school.

When talking with your child about careers, mention that higher education leads to many opportunities.

GRADE 6

Keep checking on your student's progress in school. Work should be challenging.

Update and review your saving-money-for-college plan and continue with it.

In the spring, visit the guidance counselor for Grade 7. Make sure that your child is placed in the highest possible classes and takes advantage of any special programs.

Continue pursuing interesting activities after school hours and in the summer (sports, art, music, volunteering, etc.)

Students can earn and save money toward college and/or special classes, programs, or trips.

GRADE 7

Parents--talk with guidance counselors and teachers. Let them know that your child is headed for college. Ask what they and you can do to make sure that your student benefits most from the opportunities that are available.

Students--participate in school activities. Look for chances to be a leader. It's fun.

Be sure to develop a strong grounding in math as a basis for future courses that will be important for college. Parents--if your child is falling behind in math, find out if special help or tutoring is recommended.

In the third quarter, start choosing classes for next year.

Parents--your child may be ready to learn money management by having a checking account and managing his or her own finances. (Idea--give a clothing allowance similar to the amount spent last year; then let your child decide how to spend or save any amount above what is used for clothing.)

GRADE 8

Students--work hard in all of your classes.

Studying algebra early helps a student progress toward calculus and other important higher level math courses.

Planning any trips? It's not too early to visit colleges when you are traveling. Many colleges have informational tours--they are more interesting than many tourist attractions. Call ahead for schedules and starting points for tours.

In the spring, students and parents talk with next year's guidance counselor about the best ninth-grade classes for a college-bound student. Colleges expect certain levels of study in English, math, foreign language, science and social studies. Take any advanced classes available.

Keep saving for college. Encourage your child to participate in the college savings program with some of his/her own funds (earnings, gifts, allowances, etc.).

Review money-management skills. Parents and students set new budgets and goals together.

GRADE 9

Meet with your guidance counselor, especially in fall and spring, to choose the right courses. Plan ahead so that there is time to take all of the math and other classes that college admissions officers want to see. Take as many Advanced Placement classes as possible. Parents stay involved.

Students, work at those classes!

Continue with the extracurricular activities. They're fun, and they are important to admissions officers at colleges. When possible, take leadership positions.

What are your interests? Find out what's involved in various occupations. Your guidance office may have a computer program for researching career interests.

Talk to relatives and friends who are in college or went to college. Ask what they were looking for in a school, whether they found it, and what they would look for today. .

Seek summer employment or volunteer work in a field that may be related to future career interests.

Review your college savings plan and the student's personal budget. Your first "base year" for college aid begins January 1 of junior year.

GRADE 10

Parents and students plan together.

Talk with your guidance counselor. Choose the right courses for college admissions and graduation.

Some students, particularly if they are in honors courses, practice for standardized tests by taking the PSAT (the preliminary SAT test) in sophomore year. The PSAT is given in October. Ask your guidance counselor.

Students, continue studying and participating in activities.

Attend college fairs.

Read up-to-date books that describe colleges. Look for and order information from the most interesting schools. Make a list of colleges that interest you.

Parents--consider your income and asset situation. Aid formulas look at income for base years. Your most important base year starts in January of junior year.

Plan for summer. Students--look for a job related to your interests; schedule college visits. Review your budget. Summer is a good time to read and to review math skills in preparation for SAT/ACT tests.

GRADE 11 Fall

Parents and students continue planning together in this important year.

Work closely with your guidance counselor. Make sure that you register for the courses that you need for college. Sign up for advanced classes whenever possible. Take standardized tests at the right time.

Grades for this year are important for college admission. Keep working!

Continue with your important extracurricular activities.

Register for the PSAT (Preliminary Scholastic Aptitude Test). Take it in October. The PSAT practice test in October of junior year prepares students for the SAT. It will give you an idea of where your strengths and weaknesses are and how your scores compare to those of students who are admitted to the colleges you are considering. An extremely high score may qualify you for the National Merit Scholarship competition.

SAT I and SAT II (Scholastic Aptitude Tests). Find out test dates and registration dates and make your plans! Look on the Web at: <http://www.collegeboard.org/sat/html/calen001.html>. Students who will be taking tests outside the U.S. need to register early. Students who intend to apply to colleges for Early Decision or Early Action must plan ahead. Students who apply under Early

Decision agree to attend the school if accepted. Under Early Action (offered by fewer colleges), the student is still free to choose another school.

Three SAT II Subject Tests (formerly called "Achievement Tests") are required by many colleges. The SAT II Writing Test is usually one of the three. You may decide to take two subject tests in the spring of junior year and the other during senior year. If the colleges on your list require SAT II tests, choose your subjects early. For example, if you are considering taking the SAT II chemistry test, ask the chemistry teacher if the class will provide enough background to do well in the subject test. If you decide to go ahead with chemistry, take the subject test right after you finish the class. Tests should be taken as soon as possible after completing a related course. You may choose to take science, history, foreign language and/or math tests in junior year, then read during the summer and wait until senior year to take the Writing and the Literature tests. You may take up to three subject exams on one day. Not all tests are offered on every test date. You may take more than three on several test dates and report the best ones.

The ACT Test (American College Testing assessment test) is an alternative to the SAT. Most students who take it are from the South and the Midwest. If this test is made available to you, check to be sure whether your colleges accept it. Most colleges do.

Seek out and build relationships with the teachers who will write your college recommendations.

Find out the dates of local college events. Attend college fairs. Meet with college representatives who visit your school.

Continue collecting information on colleges. Decide which features are most important to you—location, academic quality, size, fields of study, cost, type, etc. Refine the list of colleges that interest you. You may start with a list of ten or 15 colleges and eventually apply to three or five schools.

Attend financial aid information nights at school. Review financial aid forms. Begin collecting financial data. Your family's income for the year starting January 1 will be viewed by financial aid formulas. It's your first base year.

Plan college visits. Do some research ahead of time. Make a list of questions that aren't answered in the literature. Find out when tours are scheduled. If possible, make an appointment for an interview. If you can visit while college is in session, you will get a better feel for the atmosphere on campus. You may be able to sit in on a class or two.

GRADE 11 Winter

Ask relatives, friends, and acquaintances about where they went to college and whether they have suggestions for you. Continue doing your own college research. Make a list of your thoughts, questions, and impressions.

If your PSAT scores were low compared to SAT scores at colleges that interest you, study to improve in areas of weakness.

Register in February for the March SAT I test.

If interested in a federal military academy, begin planning your application process. Take SAT I and IIs this year.

Stay in touch with your guidance counselor.

Plan college visits. Find out schedules for tours and information sessions.

GRADE 11 Spring-Summer

Register in March for the May SAT I and SAT II tests.

Register in April for the June SAT I and SAT II tests.

Take the tests!

Familiarize yourself with private scholarships available to you. Obtain application forms.

If you are in Advanced Placement courses, take the tests in May. High grades on AP tests can earn you college credit and/or advanced standing.

Talk with seniors about the colleges they chose to apply to and why they made their choices.

Meet again with your counselor. Plan senior year courses with college and graduation requirements in mind.

Think about how you will present yourself in college admissions applications and interviews..

If you are considering an Early Decision or Early Action admissions application, gather the necessary forms now.

Apply for nomination to a military academy, if interested.

Check into summer deadlines to apply early for a four-year ROTC scholarship,

Make spring trips to colleges and plan summer trips. If interviews are available, it may be necessary to schedule them far in advance.

Look for educational summer employment or other opportunities. College admission committees will be interested in how you spent your summer. It's a chance to learn and have fun.

Review your SAT test scores. Summer is a great time to upgrade math and subject skills for future tests. Read, read, read!

GRADE 12 Fall

Students and parents--work together to make the best choices. Plan for and meet deadlines.

Meet with your guidance counselor to plan courses and to schedule tests. Discuss college choices. Parents should be involved.

Keep up with grades, extracurricular activities, volunteer work.

If you are applying for Early Action or Early Decision, complete your application materials now. Most college deadlines for these programs are in November or December.

Register for fall SAT I and SAT II tests, whether taking them for the first time or repeating because you think you can improve your score.

Attend college fairs and financial aid information programs. Meet with college representatives who visit your school. Ask questions.

Decide which colleges are most interesting to you. Make a side-by-side list of features to compare them; then decide which features are most important. If possible, schedule an overnight visit to stay with a student in a dorm and attend a few classes.

Make appointments for any recommended college interviews.

If you need additional information or application forms for college admission and financial aid, call or send for them right away. This can often be done on the Internet.

Look over admissions application forms early. If essays are required, allow time to do them well.

Make a list of due-dates for admissions and financial aid application materials.

Check into fall deadlines for four-year ROTC scholarships.

Males between the ages of 18 and 25 must register with the Selective Service. The FAFSA federal aid form asks whether you have registered and provides a box to request automatic registration.

Obtain [FAFSA](#) (federal aid form) or prepare to file the FAFSA online. If you are also required to submit the [PROFILE](#) aid form, register for a paper form or prepare to file online. Get copies of any other necessary aid forms. Start early to compile financial information and complete draft copies, so that you can be among the first to file aid forms.

Find out how many recommendations you need. Ask teachers (also guidance counselors and employers, etc.) whether they are willing to write them for you. Provide them with forms, envelopes, and a brief description of your academic record and extracurricular activities. Tell them that you appreciate their efforts.

Let your counselor know that you appreciate the work she or he is doing for you (advice, providing information, sending recommendations and transcripts, etc.).

Make your final choice of colleges.

Apply for admission! Keep records of your application materials.

GRADE 12 Winter

Family income tax returns should be prepared as early as possible. Many colleges ask for copies of tax returns. An estimate may suffice until the tax filing date.

Complete and send your FAFSA (federal financial aid form) as soon as possible **after January first. Make a copy for your records.**

Complete and send your PROFILE (private college aid form) and/or other required financial aid application forms in time to meet the deadlines. **Keep copies** of everything you send.

Review the SAR (Student Aid Report), which should be sent to you within a month after your FAFSA is filed. If any corrections are needed, make them and send the document back to the processor.

Have midyear transcripts sent to colleges.

Register for Advanced Placement Exams if you have taken, or are taking, AP courses.

Look into private scholarships and other funds that may be available to you. Obtain application forms. List the deadlines. Complete and submit applications when due.

Apply for summer employment or programs.

Parents of Dependent Students: get ready for your first college bill. Pay down any credit card bills and give yourself as much cash flow freedom as possible. The first bill may be due in July and cover the first semester. Some schools offer monthly payment arrangements.

GRADE 12 Spring-Summer

Apply for private scholarships with spring deadlines.

Keep your grades up. Colleges ask for your final transcript.

Take AP tests.

Receive and open your letters from colleges. Compare financial aid awards. Decide which college to attend. The reply date is usually May first. Notify the school you choose and send your admission deposit. Let other schools know that you will not attend, so that they may give your place and aid funds to another student. Aid awards must be accepted in order to hold them. If your aid award is such that you expect significant difficulty in meeting costs, communicate with the aid office.

Ask your guidance counselor to send your final transcript to your new school.

Thank your counselor and those who gave recommendations. Tell them about your plans.

Graduate. Congratulations!

Look into terms of loans for student and parents. Apply for loans. Expect the first college bill.

FRESHMAN YEAR IN COLLEGE (AND BEYOND)

To continue receiving aid, you must file application forms for every year of postsecondary education. Your copies of first-year application forms will help you with renewal forms the next year.

INTERACTIVE COLLEGE PLANNER

This is a template for keeping track of your ideas, questions, and to-do lists as you plan for college. Copy and paste it into a file on your word processor, so that you can use it to make notes as you learn about the college aid and college admissions process. We suggest that you call it MY_PLAN. You can use it together with the [Calendar](#).

Many people find that it works well for them to write one-liners. They amplify and organize their thoughts later. Some of the sections have a sample item that you can delete and replace with your own text. Alter the headings, add new sections to suit your needs. As you click through this *Guide to College Financial Aid*, copy and paste portions of it into MY_PLAN. Only you can jump-start your college plan!

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IDEAS

[Sample: If the boys attend college at the same time, the parent contribution will be significantly lower.]

QUESTIONS for GUIDANCE COUNSELORS:

[Sample: When is the next college fair--where--who's there?]

QUESTIONS to ASK COLLEGES:

QUESTIONS for COLLEGE AID OFFICERS:

[Sample: Summer job--how much is Jesse expected to contribute? Merit scholarships available?
Or is aid based on Need only?]

MORE QUESTIONS:

INFORMATION NEEDED:

TO-DO NOW:

[Sample: Contact M. University for brochure and aid information.]

TO-DO SOON:

[Sample: Find out current value of our house.]

TO-DO LATER:

OPTIONS FOR LOWERING COSTS

SAVING-FOR-COLLEGE PLAN and TIMETABLE:

COLLEGE CHOICE LIST:

SCHOLARSHIP LIST:

DEADLINE DATES:

[Sample:
1/1/00 A. College-- Admission application form due.
1/15/00 B. College--Admission application form due.
2/1/00 A. College--Financial aid application form due.]
=====

GLOSSARY OF FINANCIAL AID TERMS

ACADEMIC YEAR -- The school (academic) year is usually nine months (fall and spring semesters), but the period may vary according to the school and program.

ADJUSTED GROSS INCOME (AGI) -- income that is federally taxed. See IRS form.

ADJUSTMENTS -- items that the IRS allows to be subtracted from Taxable Income. See IRS form. Adjustments include: self-employment health insurance deductions, moving expenses, half of self-employment taxes paid, contributions to various retirement plans, penalty for early withdrawal of savings, and alimony paid.

ADVANCED PLACEMENT -- high school classes that enable students to go on to higher level courses in college. Colleges may award credit if students earn high grades in AP exams.

ALLOWANCES -- amounts allowed as deductions by aid formulas. They include: Tax Allowance, Income Protection Allowance, Employment Expense Allowance, and Asset Protection Allowance.

AMERICORPS -- The National Community Service Act's AmeriCorps program provides jobs that pay a small allowance and provide educational benefits. The allowances are taxable, but they are not counted as income viewed by aid formulas.

AP -- Advanced Placement classes offered in high school are followed in May by AP exams. High grades on AP exams may earn college credit. The classes help prepare students to choose higher level courses in college.

ASSETS -- property, including cash, savings and checking accounts, investments, trust funds, money market funds, mutual funds, CDs, stocks, bonds, real estate, business assets, and mortgages or loans owed to you. A few private colleges ask about the value of your cars and retirement accounts.

AVAILABLE INCOME -- Aid formulas determine an income amount they consider "available" for use in calculating the Expected Contribution. Total income from all sources minus allowances is "available income."

AWARD YEAR -- period for which aid is requested, usually the academic year between July 1 of one year and June 30 of the following year.

BASE YEAR -- calendar year before the academic year for which aid is requested. The first base year for students entering as freshmen in the year 2000 began on January 1, 1999. Income data from each base year is used to calculate the Expected Family Contribution.

BUSINESS ASSETS -- market value of business property plus other assets owned by sole proprietorships, partnerships, or corporations.

BUSINESS/FARM SUPPLEMENT -- Private colleges that use the PROFILE aid application system require this form to collect additional information about business or farm assets.

CAMPUS-BASED PROGRAMS -- The federal aid programs that are administered by the colleges are the Federal Perkins Loan, the Federal Supplemental Educational Opportunity Grant (SEOG), and Federal Work-Study.

CAPITAL GAIN -- income earned from the sale of an asset. See IRS form.

CAPITAL LOSS -- a loss resulting from the sale of an asset. See IRS form.

CAPITALIZED -- Borrowers may choose to allow interest on unsubsidized Stafford loans to accumulate. Interest that is "capitalized" is continually added to the original principal amount of the loan, so the total amount owed becomes much higher than it would be if interest did not accumulate.

COA -- Each college uses its own standard figure for Cost of Attendance when awarding aid. It includes tuition, fees, room and board, books and supplies, transportation, and an allowance for miscellaneous personal expenses.

COLLEGE SCHOLARSHIP SERVICE (CSS) -- The College Board's College Scholarship Service administers the PROFILE need analysis system used by many private colleges to award their own aid funds.

COMPONENTS OF AID PACKAGES -- Financial aid includes grants and scholarships, loans, and work-study.

CONGRESSIONAL METHODOLOGY -- former name for what is now, with changes, called Federal Methodology (FM). It is a set of need analysis formulas voted by Congress and used to compute the Expected Family Contribution to award federal funds to students at public and private colleges.

CONTRIBUTION -- number of dollars expected from a student and/or parents toward college expenses before aid is awarded.

COST OF ATTENDANCE (COA) -- Each college uses its own standard figure for Cost of Attendance when awarding aid. It includes tuition, fees, room and board, books and supplies, transportation, and an allowance for miscellaneous personal expenses.

DEFERMENT -- For financial aid purposes, "deferment" refers to postponement of the date at which loan repayment must begin.

DEPENDENT STUDENT -- student who does not qualify as an independent student. Parents' (as well as the student's) assets and income will be considered by aid formulas.

DIRECT LOANS -- Federal Stafford and Federal PLUS loans fall in either the Direct or FFEL category. If your school, participates in the William D. Ford Federal Direct Loan Program, funds are lent directly by the U.S. government. (At schools that don't use the Direct Program, the loans are of the FFEL (Federal Family Education Loan) type, made through banks, credit unions, and other private lenders.)

EARLY ACTION -- Students may apply early for admission under Early Action. Unlike Early Decision, students may apply to other schools and are not required to agree to attend if accepted.

EARLY DECISION -- Some colleges allow students to apply early for an admission decision on condition that students must agree to attend if accepted and to withdraw applications at any other schools.

EDUCATION IRA -- trust account set up in the name of a beneficiary in order to save for higher education expenses. Contributions may be made until the child reaches the age of 18.

EFC -- Expected Family Contribution is the number of dollars a family is expected to pay toward college expenses before aid is awarded. If the student is dependent, the EFC consists of a student contribution and a parent contribution.

ELIGIBILITY -- The amount of aid for which you are "Eligible" is the same as the "Need" for aid that has been calculated by the aid formulas that analyzed your financial data. Different aid formulas may calculate different results. "Eligibility" ("Need") may be met in part or in full by an aid package. If the family does not receive the full amount of aid for which it is "Eligible," there is an aid gap.

ELIGIBILITY QUALIFICATIONS -- To be eligible for most aid programs, a student must be a U.S. citizen or eligible noncitizen, have a high school diploma or equivalent, have a Social Security number, be enrolled as a regular student studying toward a degree in an eligible program, be registered with the Selective Service if required, make satisfactory academic progress, show financial "Need" (according to aid formula calculations), and sign a certification statement on the FAFSA form.

EMPLOYMENT EXPENSE ALLOWANCE--A single working parent or two working parents can benefit from the employment expense allowance, which takes into account the costs of going to work. FM allows the lesser of \$2,800 or 35% of income (for the 2000-2001 aid year calculations).

EQUITY -- value of ownership in property. Home equity is the current value of the family residence less any amounts owed on it.

EXCLUDABLE ITEMS -- Certain income, expense, and asset items are allowed to reduce the amounts counted by aid formulas.

EXEMPTIONS -- When figuring taxable income, the IRS allows a special deduction based on the number of persons in a family. See IRS form .

EXPECTED FAMILY CONTRIBUTION (EFC) -- the number of dollars the family (student, spouse if any, and parents of dependent students) is expected to pay toward college expenses. There are two ways EFC is computed--by Federal Methodology (FM) and by Institutional Methodology (IM). (If the family does not receive aid for the full amount of the difference between the official cost of the college and the EFC, there is an aid gap.)

FAFSA -- The Free Application for Federal Student Aid is the application form for all federal student financial aid.

FAMILY CONTRIBUTION -- aid formulas compute the number of dollars a family is expected to pay toward college expenses before aid is awarded. If the student is dependent, the EFC consists of a student contribution and a parent contribution.

FEDERAL METHODOLOGY (FM) -- a set of need analysis formulas used to compute the Expected Family Contribution. It is used when awarding federal aid to students at public and private colleges.

FEDERAL WORK-STUDY PROGRAM (FWS) -- a federally-supported program of part-time employment based on an applicant's financial need. FWS allows qualified students to earn money to pay part of their college expenses. These earnings are taxable, but they are excluded when aid formulas are applied.

FFEL LOANS -- Federal Stafford and Federal PLUS loans fall in either the FFEL or Direct category. FFEL (Federal Family Education Loan) loans are made through banks, credit unions, and other private lenders. (At schools that participate in the William D. Ford Federal Direct Loan Program, funds are lent directly by the U.S. government.)

FM -- Federal Methodology is a set of need analysis formulas used to compute the Expected Family Contribution. It is used when awarding federal aid to students at public and private colleges.

FSEOG -- The Federal Supplemental Educational Opportunity Grant is a campus-based federal program for undergraduates with the lowest Expected Family Contributions (highest financial need for aid). Colleges award the funds.

FULL TIME -- In most cases, full time is at least 12 credit hours in a term or 24 clock hours per week.

GAP -- When an aid package does not meet the full amount of the difference between the official cost of the college and the family's Expected Contribution (EFC), there is an aid gap. "Unmet Need" is another term for aid gap.

GIFT AID -- grants or scholarships that do not need to be repaid.

GRACE PERIOD -- time period during which a borrower does not need to make payments of principal or interest.

GRANT -- aid that does not need to be repaid. Financial aid formulas will not count this as income available toward the Expected Family Contribution. To the extent that it goes toward direct educational costs, it is tax-free.

GUARANTY AGENCY -- state agency or nonprofit institution that insures educational loans for lenders and works with the FFEL loan programs.

HALF TIME -- In most cases, half time means at least 6 credit hours in a term or 12 clock hours per week.

HEA -- The Higher Education Act authorizes federal Title IV student aid programs. It was reauthorized in October 1998 with the Higher Education Amendments of 1998.

HIGHER EDUCATION ACT -- the Higher Education Act (HEA) authorizes federal Title IV student aid programs. The Higher Education Amendments of 1998 reauthorized the Act in October 1998..

HOME EQUITY -- home value minus mortgage and other debts owed on the property. Home equity is not counted in the federal aid formulas ([FM](#)), but is counted by the institutional formulas ([IM](#)).

HOME EQUITY LINE OF CREDIT -- a home equity loan that is set up so that the borrower can withdraw funds as needed.

HOME EQUITY LOAN -- The borrower's equity in the primary residence is the collateral for a home equity loan. Interest is tax deductible on loans of up to \$100,000 if the taxpayer itemizes on his or her tax return.

HOPE SCHOLARSHIP TAX CREDIT -- a credit that applies to expenses paid for the tuition and fees of undergraduates enrolled at least half time in the first or second year of college. The credit is on a per-student basis. Restrictions apply.

IM -- Institutional Methodology is a set of need analysis formulas used to compute the Expected Family Contribution for awarding private (institutional) funds to students at private (and some public) colleges.

INDEPENDENT STUDENT -- Federal rules say that a student can be considered independent if at least one of the following applies: the student is at least 24 years old, is married, has legal dependents other than a spouse, is an orphan or ward of the court, is a veteran of the U.S. Armed Forces, or is enrolled in a graduate or professional program. Private colleges sometimes have additional requirements and may require a contribution from an independent student's parents.

INSTITUTIONAL METHODOLOGY (IM) -- a set of need analysis formulas used to compute the Expected Family Contribution for awarding private (institutional) funds to students at private (and some public) colleges.

IRA -- Individual Retirement Account. Contributions to tax-deferred retirement accounts are allowed as deductions by the IRS, but they count as Untaxed Income for financial aid purposes.

KEOGH -- type of retirement account. Contributions to tax-deferred retirement accounts are allowed as deductions by the IRS, but they count as Untaxed Income for financial aid purposes.

LIFETIME LEARNING TAX CREDIT -- applies to the expenses of undergraduates beyond the first two years of college and to the expenses of graduate or professional education. The credit is on a per-family basis and can be taken for any number of years. Restrictions apply.

LOANS -- Loans, such as student Stafford Loans and student Perkins Loans, are included in aid packages. Parents may use PLUS Loans or alternative loans to pay for Parents' Contribution or any aid gap.

MERIT AID -- aid based on the characteristics of the student, rather than on financial need.

METHODOLOGY -- sets of formulas are used to determine a family's "Need" for student financial aid. There are two important types--"Federal Methodology" ([FM](#)) and "Institutional Methodology" ([IM](#)).

NEED -- Aid administrators subtract the Expected Family Contribution from the college's Cost of Attendance to determine the "Need" ("Eligibility") for aid. "Need" may be met in part or in full by an aid package.

NEED ANALYSIS -- determination of a family's Expected Contribution and "Need" ("Eligibility") for aid by examination of financial data.

NET WORTH -- the total of all assets minus any liabilities or debts against these assets.

OUTSIDE SCHOLARSHIPS -- scholarship money from private organizations originates from "outside" the aid package. All or part of "outside" scholarships may be subtracted from already-awarded college grants and loans, so that the total of family contribution and aid will not be higher than the Cost of Attendance.

PACKAGING -- This is the process by which an aid administrator puts together grant, scholarship, loan, and job components to build an aid package for a student

PARENTS' CONTRIBUTION -- the amount that aid formulas calculate parents must pay from their income and assets toward a dependent student's college costs before aid is awarded. This is added to the Student Contribution. The total of the two is called Expected Family Contribution.

PELL GRANT -- federal grant (as calculated by analysis of the FAFSA form) to undergraduate students with the greatest financial need.

PERKINS LOAN -- federal loan program with a low interest rate for students with high need. The Perkins Loan is a campus-based program.

PERSONAL ASSETS -- include cash, savings and checking accounts, investments including trust funds, money market funds, mutual funds, CDs, stocks, bonds, real estate, and mortgages or loans owed. Aid formulas used by colleges which award private funds (IM) count the primary residence as a personal asset.

PJ (Professional Judgment) -- Aid administrators have the ability to make decisions based on special circumstances.

PLUS LOAN -- federal loan program for parents of undergraduates. PLUS loans are not based on financial need. They depend on the parents' credit and can be used toward the Family Contribution or to cover an aid gap.

PREFERENTIAL PACKAGING -- creating an aid package that provides a mix with more grants and fewer loans for applicants that a college hopes to enroll.

PROFESSIONAL JUDGMENT (PJ) -- Aid administrators have the ability to make decisions based on special circumstances.

PROFILE -- the College Scholarship Service's institutional (IM) aid application and need analysis process, used by many private colleges.

REAUTHORIZATION -- Congress periodically reviews, revises, and votes on the Higher Education Act, which authorizes federal student aid programs. The Act was reauthorized in October of 1998 by the Higher Education Amendments of 1998. (The previous reauthorization was in July of 1992.)

RETIREMENT ACCOUNT CONTRIBUTIONS -- Contributions to an IRA, Keogh, SEP, 401k, 403b or any other tax-deferred retirement accounts are allowed as deductions by the IRS, but they all count as Untaxed Income for financial aid purposes.

ROTC -- Reserve Officer Training Corps programs are available at many colleges. Options include:

--a traditional four-year program that pays a small monthly stipend during junior and senior years and requires a service commitment and

--a competitive ROTC scholarship program that covers a substantial portion of costs in exchange for a longer service commitment as an officer after college.

SAR -- A Student Aid Report is a report generated by the FAFSA form. It shows whether the student qualifies for a Pell Grant and the amount of the federal Expected Family Contribution.

SATISFACTORY ACADEMIC PROGRESS (SAP) -- Aid rules require academic standards to be met in order for a student to continue receiving financial aid.

SCHOLARSHIPS -- Scholarships are financial aid that does not need to be repaid. They come in several varieties. Colleges may award private grant money as a named scholarship. It may be part of a need-based aid package, or it may be based purely on merit. Money from scholarships that are not connected with the college are "outside" scholarships. Outside scholarships may be subtracted from an aid package because the total of Family Contribution and already-awarded aid might exceed the college's standard Cost of Attendance.

SELECTIVE SERVICE -- Males who are U.S. citizens aged 18-25 are required to register for military service in case of national necessity.

SELF-HELP -- In addition to the Student Contribution, students also help pay for part of their college costs through student loans and work-study jobs--as designated in their aid packages.

SEOG (Supplemental Educational Opportunity Grant) -- campus-based federal program for undergraduates with the lowest Expected Family Contributions (highest financial need for aid).

SIMPLIFIED NEEDS TEST (SNT) -- Federal Methodology will not count parents' or student's assets when calculating Expected Family Contribution if parents' income is under \$50,000 and

both students and parents file (or *qualify* to file) IRS Form 1040A or 1040EZ or are not required to file a tax return. [Simplified](#) Needs Test.

SPECIAL CIRCUMSTANCES -- Aid administrators may use Professional Judgment to take unusual situations into account when awarding aid.

STAFFORD LOANS -- federal loan entitlement program available to students who file the FAFSA form. When the student qualifies on a financial need basis, the loans are subsidized--the government pays interest on the loan while the student attends at least half time and for six months thereafter.

STUDENT AID REPORT (SAR) -- report generated by the federal aid application form (FAFSA). It shows whether the student qualifies for a Pell Grant and the amount of the FM Expected Family Contribution.

STUDENT CONTRIBUTION -- The amount of college costs that aid formulas determine a student must pay before aid is awarded. If the student is dependent, it is added to the Parents' Contribution and the total is called Expected Family Contribution.

SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT (SEOG) -- a campus-based federal program for undergraduates with the lowest Expected Family Contributions (highest need for aid).

TITLE IV -- Designates federal student financial aid programs authorized by the Higher Education Act. Programs include Pell Grants, SEOGs, Perkins loans, Stafford Loans, PLUS loans, and federal Work-Study.

UGMA (Uniform Gift to Minors Act)--An account established for the benefit of a minor (age varies according to state) as an irrevocable gift. A custodian manages the account. In some states, the custodial account is called UTMA (Uniform Transfer to Minors Act).

Uniform Gift to Minors Act (UGMA)--An account established for the benefit of a minor (age varies according to state) as an irrevocable gift. A custodian manages the account. In some states, the custodial account is called UTMA (Uniform Transfer to Minors Act).

UNMET NEED -- When an aid package does not meet the full amount of the student's calculated need for aid, there is "Unmet Need." Another term for "Unmet Need" is "aid gap."

UNTAXED INCOME -- Various nontaxable income items are counted by federal and institutional aid formulas. These include untaxed Social Security and other retirement benefits, retirement plan tax deductions taken, tax exempt interest, child support received, AFDC / ADC payments, earned income credit, fuels tax credit, foreign income exclusions.

VERIFICATION -- close inspection of all tax returns and other submitted financial documents to confirm that the amount of aid awarded is accurate. The federal government requires schools to verify approximately one-third of all aid forms submitted, but many colleges verify all applications.

WORK-STUDY -- Federal Work-Study (FWS) is a federally-supported program of part-time employment based on an applicant's financial need. FWS allows qualified students to earn money to pay part of their college expenses. These earnings are taxable, but they are excluded when aid formulas are applied.

FOOTNOTES

FM (Federal Methodology)

refers to the way federal financial funds are awarded at public and private colleges. The majority of students at public colleges rely primarily on government aid.

IM (Institutional Methodology)

refers to the way private college (institutional) financial aid funds are awarded. Private (and some public) colleges are able to supplement government funds with their own resources.

MERIT AID

Aid that is not based on financial need is known as "merit" aid.

FAFSA FORM

The Free Application for Federal Student Aid is the application form for federal student financial aid. The amount of federal aid is determined by Federal Methodology formulas (FM).

BASE YEARS

are the calendar years before each academic year for which aid is requested. The first base year for students entering as freshmen in the fall of the year 2000 began on January 1, 1999. Income data from each base year is combined with asset data to calculate Expected Family Contribution.

EFC

Expected Family Contribution is the amount that aid formulas determine that the family must contribute toward college costs before aid is awarded. If the student is dependent, the EFC includes the Parents' Contribution and the Student Contribution.

LOANS

[Alternative](#)

[Perkins](#)

[PLUS](#)

[Stafford](#)

SIMPLIFIED NEEDS TEST

Federal formulas don't count assets for families that pass the Simplified Needs Test. (Private college aid formulas (IM), on the other hand, *always* consider assets.) Both independent students and families with dependent students may qualify for federal Simplified Needs treatment. Adjusted Gross Income (AGI (Adjusted Gross Income) must be below \$50,000 for independent students (including spouse, if any) or for parents of dependent students.

Parents *and* student or independent student (and spouse, if any) must file or *qualify* to file the short IRS tax forms--Form 1040A or 1040EZ--or not be required to file an income tax return. The important word is "qualify" to file, because they may actually file a Form 1040 to claim an educational tax credit. If a 1040 is filed for the purpose of claiming a Hope or Lifetime Learning tax credit, it does *not* disqualify a family that would otherwise be eligible for Simplified Needs treatment.

The short tax forms can *not* be used by taxpayers who itemized deductions, earned self-employment income from their own business or farm, received alimony, real estate income, a capital gain, or any other income that would require filing an IRS 1040. A refund of state tax claimed as a tax deduction the prior year requires filing a 1040. Any of these items disqualify a family from Simplified treatment.

Colleges or states can choose to use Simplified calculations or they can choose to include assets. The -2000-2001 FAFSA form requires asset information from all applicants. Prior to the

1999-2000 form, those who earned under \$50,000 and were not required to file an IRS 1040 form did not need to report assets to qualify for federal aid.

Schools that use IM formulas don't allow the Simplified treatment. They always count assets.