

Paying for College

A PRIMER ON COLLEGE FINANCIAL AID



Proper Perspective

- ▶ God uses admissions and financial aid to direct our path
- ▶ God is writing our story and we trust that it's for our good and His glory
- ▶ We don't always get to understand how He is working but we can rest in His goodness

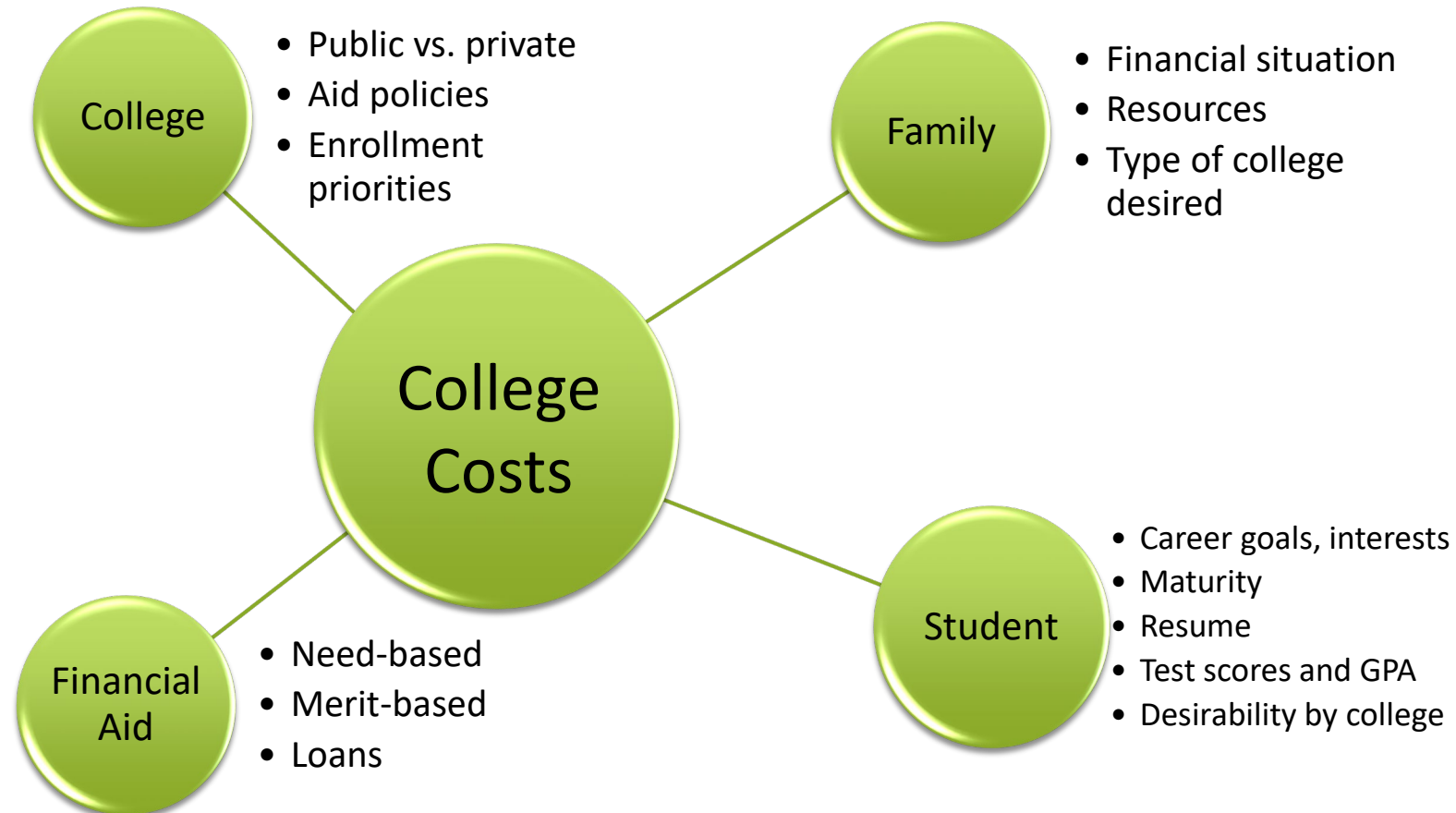
Goals for Tonight

- ▶ Empower you so that you are:
 - ▶ Not confused
 - ▶ Armed with tools – know eligibility
 - ▶ Understand concepts and strategies – *when* applying for admission
 - ▶ Expose myths and misinformation, guard against scammers

Tonight's Agenda

- ▶ Categories, types, and sources of financial aid
- ▶ How much will I get? - Calculating Financial Need
- ▶ How do I pay for this? Should I borrow?
- ▶ Free Application for Federal Student Aid (FAFSA)

Many factors affect \$.



Every situation
is unique!

Know the Terminology

- ▶ COA = Cost of Attendance
 - ▶ Tuition & Fees
 - ▶ Room & Board
 - ▶ Books/Supplies
 - ▶ Travel expense
- ▶ Published on each school's website

What *are* the costs? (2020-21/per year)

▶ Texas State Schools

- ▶ Texas A&M - \$31,428
- ▶ University of Texas - \$30,740
- ▶ Texas Tech - \$27,156
- ▶ UTSA - \$26,280

▶ Regional Private Christian Colleges

- ▶ Baylor - \$67,735
- ▶ Abilene Christian - \$48,800
- ▶ Wheaton - \$48,460
- ▶ Gordon - \$49,900

▶ Out-of-State Public *

- ▶ University of Alabama - \$51,424
- ▶ University Tennessee - \$50,918
- ▶ Colorado State - \$48,968
- ▶ University of North Carolina - \$52,026

▶ Nationally known, selective schools

- ▶ Vanderbilt - \$75,974
- ▶ University of Chicago - \$77,331
- ▶ Stanford - \$78,219
- ▶ Harvard - \$78,450

* Exception: Arkansas' neighboring state program

Having “The Talk”

- ▶ Have an honest discussion as a family:
 - ▶ Cost of attendance at various schools
 - ▶ Economic realities of a college education
 - ▶ Reasonable cost vs reasonable debt
 - ▶ Who's footing the bill and how
- ▶ Should help drive potential list of schools

Financial Aid: Think in Categories/Layers

Type of aid

Need

Merit

Athletic



Source of Aid

Government

College

Outside Sources



Family Eligibility

Eligibility for need-based aid (EFC)

Merit chances (research)





Sources of Aid

Sources of Aid

▶ Federal & State government

▶ College/University = Institutional Aid

▶ Private sources = “Outside Scholarships”

▶ businesses, charitable & civic organizations, churches, employers, foundations

▶ This is less than 3% of the aid out there, but the most time spent acquiring

Packaged together and offered by college/university

Components of a typical Financial Aid Package:

- ▶ Scholarships – Money that does not have to be paid back, awarded on the basis of merit or skill
- ▶ Grants – Money that does not have to be paid back, usually awarded on the basis of financial need
- ▶ Loans – Money students and parents borrow to help pay for college
- ▶ Work-Study – Offer of employment on campus where student earns money to help pay educational costs
- ▶ You are required to report outside scholarships, which may reduce your award package (it can not exceed the COA)

Federal Aid

- ▶ Largest source of financial aid
- ▶ Based on financial need
- ▶ Must apply before **every year** of college with the Free Application for Federal Student Aid (FAFSA)
- ▶ Federal Aid Includes:
 - ▶ Pell Grants (\$6345 max, 2020-21)
 - ▶ Educational Opportunity Grant
 - ▶ Veterans benefits
 - ▶ Direct Stafford Loans – student borrower
 - ▶ Subsidized vs. Unsubsidized
 - ▶ PLUS Loans – parent borrower
 - ▶ Federal Work Study – allocated by colleges

Texas State Aid

- ▶ Must attend school in the state of Texas
- ▶ Eligibility determined by **FAFSA**, awarded by colleges
- ▶ Texas state aid includes:
 - ▶ License Plate Insignia Scholarship (LPI)
 - ▶ Texas Armed Services Scholarship Program
 - ▶ Texas Educational Opportunity Grant Program (TEOG)
 - ▶ Texas Public Education Grant (TPEG)
 - ▶ Top 10% Scholarship Program
 - ▶ Toward Excellence, Access & Success (TEXAS) Grant Program
 - ▶ Tuition Equalization Grant (TEG)

Institutional Aid

▶ Public Schools

- ▶ Government money – mostly Pell Grant, Work Study, student loans.
- ▶ Limited institutional funds
- ▶ Government form and formula – FAFSA

▶ Private Schools

- ▶ Institutional money – comes from endowments, can outweigh government money BUT only at the schools that have the funds!
- ▶ Institutional form & formula
 - ▶ FAFSA is required (free)
 - ▶ Sometimes also the CSS Profile (\$25 + \$16 per/ each additional school)
 - ▶ Ask if college has their own form, deadlines

Private Sources of Aid

Myth:

- ▶ There are millions in unclaimed money. Search hard.

Reality:

- ▶ Scholarship programs work hard to generate publicity for their scholarship and give away all their money.
- ▶ If money goes unclaimed it is usually because of narrow eligibility restrictions.
- ▶ Time is best spent applying to scholarships that best match you.

Private Sources of Aid

- ▶ Foundations, businesses, charitable organizations, civic organizations and churches, parent employer (scholarship or educational benefits)
- ▶ Deadlines and application procedures vary widely
- ▶ **Local scholarships** and **natural connections** have better odds
- ▶ Think through all your natural connections: friends, relatives, professional & religious organizations, neighbors
- ▶ Look for **good fits** and narrow restrictions
- ▶ **Weigh the cost** of time & stress spent applying against odds of winning one-time, small amounts of money

Scholarship Searches

Legitimate

- ▶ College Advising Office postings
- ▶ San Antonio Area Foundation – www.saafdn.org
- ▶ Naviance Student
- ▶ College Board Scholarship Search
- ▶ CollegeNET.com
- ▶ Fastweb.com

Scam

- ▶ Guaranteed scholarships/aid
 - ▶ never give out SSN
- ▶ Promises to find “hidden” and “unclaimed” money
- ▶ Fees involved
 - ▶ never pay money for a scholarship
- ▶ Time pressure for participation

Financial Aid

How do I get Financial Aid?

You apply!

▶ To all three sources:

- ▶ Government – FAFSA www.fafsa.gov
- ▶ College – FAFSA, maybe CSS Profile, maybe college's form
- ▶ Private Sources – varies

▶ And to both types:

- ▶ Merit – automatic via college admission application OR separate application with college – read their website
- ▶ Need-based – FAFSA and maybe CSS Profile

FAFSA

(Free Application for Federal Student Aid)

- ▶ A standard form that collects demographic and financial information about the student and family
- ▶ Fill out online for each academic year
- ▶ Annual Process
 - ▶ Family completes financial aid applications **after** *October 1* of senior year and before aid deadlines (around Feb 15, different at each school – check college websites!)
 - ▶ Financial Aid Office offers financial aid award for admitted students by **April 1**
 - ▶ Student accepts award and enrolls by **May 1**

What is the Expected Family Contribution (EFC)?

- ▶ An assessment of a family's financial strength
 - ▶ *NOT an ability to pay, but what you can "afford to absorb over time"*
- ▶ Determines how much aid student will be offered
- ▶ Stays the same regardless of college
- ▶ Two components
 - ▶ Parent contribution – heavily weighted toward income
 - ▶ Student contribution
- ▶ Calculated using parent & student income & asset data from the application (FAFSA, CSS Profile, college's own form)
- ▶ It should **shape** the student's college list – **be informed!**

Factors That Determine a Parent's Contribution

▶ Total **Income**

- ▶ Custodial parents' taxable and non-taxable
 - ▶ Including custodial stepparent's income
 - ▶ Including amount being contributed to retirement plans

▶ Allowances

- ▶ Taxes paid
- ▶ Employment allowance if both parents are working
- ▶ Living allowance based on family size
- ▶ Retirement, age of parents
- ▶ Number in college

▶ Net **Assets** – (expected to pay up to **5.64%**)

- ▶ Cash/Bank accounts
- ▶ Real estate
- ▶ Other investments (**not** retirement accounts)
- ▶ Business net worth
- ▶ Non-family farm net worth
- ▶ 529 accounts, Coverdells, reported under parent assets
- ▶ Possibly home equity – only if college requires the Profile, not asked on the FAFSA

Factors That Determine a Student's Contribution

- ▶ Total income (taxable and nontaxable)
- ▶ Contribution is expected from summer earnings
- ▶ Assets (expected to pay approximately 20%)
 - ▶ Cash/Bank accounts
 - ▶ Other investments (not retirement accounts)

What Income Year Is Assessed?

- ▶ Use income from **prior prior year (2019 for class of 2021)** on the forms
 - ▶ Cannot use another year's income
 - ▶ If income has changed, must fill out forms with 2019 information and then write to each Financial Aid Office to explain current year
 - ▶ Can request consideration for special circumstances
- ▶ Use asset values **on the day** of filling out
 - ▶ Make planned major purchases before filling it out

What is Financial Need?

Cost of Attendance

– Expected Family Contribution

= Financial Need

- ▶ The amount of aid you are eligible to receive, but not necessarily the amount of aid you *will* receive.
- ▶ Your EFC is the same at all schools but your Financial Need will vary.

Eligibility Examples

Community College

5,000	COA
<u>-10,000</u>	EFC
-0-	Elig. for Aid

Texas Public University

25,000	COA
<u>-10,000</u>	EFC
15,000	Elig. for Aid

Private LA College

50,000	COA
<u>-10,000</u>	EFC
40,000	Elig. for Aid

Package Examples

College that Meets Need

(COA \$70K - EFC \$20K = \$50,000 need)

\$2,000 work study job

\$3,500 student loan

\$44,500 grant/scholarship

\$50,000 total award

College that Gaps

(COA \$45K - EFC \$20K = \$25,000 need)

\$2,000 work study job

\$5,500 student loan

10,000 stackable merit scholarships, discounts

\$7,500 PLUS loan

This is in addition to the EFC of \$20,000.

\$25,000 total award

How can I increase eligibility?

- ▶ There are no secrets or “one solution fits all”
- ▶ Income counts more than assets, so don’t get too intricate in trying to shift around assets
- ▶ Save in parent’s name, not student’s
- ▶ Assets not considered in the formula:
 - ▶ Retirement funds, life insurance, annuities

When do I pay the college bill?

- ▶ You will be billed by the college for the *post-financial aid amount* owed for the entire school year, divided in two (semesters) or three (trimesters)
- ▶ Due prior to each term
- OR
- ▶ Most colleges have payment plans, spread out over the term
 - ▶ Possible app or service fees, possible interest

Borrowing

Borrowing Realizations

- ▶ Most Financial Aid Offices assume students will borrow
 - All colleges calculate a student contribution before any aid is given
- ▶ If a student or family does not want to borrow, the college will not replace loans with other forms of aid
- ▶ If a student or family does not want to borrow, that may determine the enrollment path
 - ▶ Completion rates for alternating work and college are low. This takes a very dedicated and driven student.
- ▶ The most frequently used parent borrowing options are home equity, PLUS loans, family members or withdrawals from retirement (penalty-free)

Student Loan “Positives”

- ▶ Student loans are usually the only way students can contribute to their own college education
- ▶ The student is the prime beneficiary of the education; loans are an investment in their own future
- ▶ Student loans create opportunities to attend college
- ▶ One-third of graduates have zero debt; one-fourth graduate with less than \$20K debt
- ▶ Having a loan payment helps a young adult establish credit
- ▶ The vast majority of college graduates are responsibly making their loan payments
- ▶ There are several income-based repayment options

How Much is Too Much?

Student loan rule of thumb

Total debt
upon graduation should
not exceed
the average
first-year salary
in career field.

Monthly
student loan payments
should
not exceed
10-15% of monthly
starting salary.

Is the dream school worth the debt?

Details on Loans

- ▶ Stafford Direct Loans – student borrower
 - ▶ Subsidized – 4.45% interest, need-based, govt pays interest while in school; yearly limits: \$3500 freshman, \$4500 soph, \$5500 jr & sr
 - ▶ Unsubsidized – 4.45% interest, non need-based, student pays interest while in school; \$2000 additional above subsidized limits
- ▶ PLUS Loans – parent borrower
 - ▶ may borrow up to cost of attendance, per year
 - ▶ 7% interest plus 4% origination fee
- ▶ Private Loans - student borrower, higher interest rate, cosigner required – **red flag** (Federal loan limit for an undergrad degree is \$27,000 and additional loans are not advised)
- ▶ Home Equity loans



Strategy

Good news: College is a buyer's market

(except at highly selective and flagship state schools)

- ▶ 85% of college admissions deans worry about not meeting enrollment goals
- ▶ Last year, 63% of them did not meet enrollment goals
- ▶ 88% of colleges will see enrollments decline in the next decade
- ▶ The average tuition discount is 50% of the published sticker price and rising
- ▶ Highly selective colleges often have zero merit scholarships

Strategy: Apply to colleges where your child will be an attractive candidate for merit scholarships.

These are often the colleges you haven't heard of and who are less selective – the ones dependent on tuition income.

Strategy

- ▶ Most colleges do not meet need
 - ▶ Less than 70 colleges meet need, generally highly selective
- ▶ Most colleges gap, meaning, you will pay more than your EFC. They are also worried about meeting enrollment goals, so expect merit aid.
- ▶ Identify schools where your child is an attractive candidate for best merit offers
 - ▶ www.collegedata.com
 - ▶ www.collegeboard.org
- ▶ Beware of brand worship

College List Building

- ▶ If family qualifies for need-based aid and top student, then apply to schools that meet need
- ▶ If family does NOT qualify for enough need-based aid and can't afford the price then the **strategy** is a college where they'll get merit aid
 - ▶ Merit aid awarded more when student's GPA and test scores are above the college's mid-50th percentile
 - ▶ Or when student has particular desired niche talent
 - ▶ Or when student meets diversity criteria desired by college
- ▶ Even winning the college's top scholarship can still be unaffordable
 - ▶ Takes research to learn where these are
- ▶ List must have a financial safety school or two on it
 - ▶ This is where the honest family discussions come in

Consider affordable alternatives

- ▶ Student lives at home
- ▶ ROTC/Service academies
- ▶ Go slower to save/earn, work/intern; gap year
- ▶ Go faster = Cost less by finishing in 3 years, taking more classes, summer college classes, coming in with advanced credit
- ▶ Community College with a plan to transfer to a 4-year college
- ▶ Choose a trade/apprenticeship program

Don't...

- ▶ Assume a merit scholarship for your smart kid
 - ▶ Many highly selective schools have *no* merit aid
- ▶ Assume you won't qualify for need-based aid
 - ▶ Make sure by first running an EFC estimator
- ▶ Automatically take a college off the list because cost is too high
 - ▶ First research their merit and need-based aid policies
 - ▶ Many private colleges can cost less than state colleges
 - ▶ Most families do not pay the “sticker price”

Solid Resources

- ▶ www.thecollegesolution.com and book by the same name by Lynn O'Shaughnessey
- ▶ www.moneygeek.com/education/college Various financial aid topics
- ▶ www.studentaid.ed.gov Department of Department
- ▶ www.collegeboard.com College Board
- ▶ www.collegeforalltexas.com

Completing the FAFSA

FAFSA on the Web

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FAFSA™
Free Application for Federal Student Aid



- ▶ Website: www.fafsa.gov
 - ▶ It's FREE.
 - ▶ Fill out once and data is sent to colleges you specify (for FREE).
- ▶ Complete the **2021-22 FAFSA** for students enrolling in college in fall 2021.

FAFSA ID

- ▶ Allows you to sign FAFSA electronically
- ▶ May be used by students and parents throughout aid process, including subsequent school year
- ▶ **One** parent and the student **each** need to get an FSA ID first.

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Create a New FSA ID

An FSA ID gives you access to Federal Student Aid's online systems and can serve as your legal signature.

Only create an FSA ID using your own personal information and for your own exclusive use. You are not authorized to create an FSA ID on behalf of someone else, including a family member. Misrepresentation of your identity to the federal government could result in criminal or civil penalties.

To create your own personal FSA ID, enter answers for the questions below and select CONTINUE.

Important: When you are done click the CANCEL button to clear your data, even if you did not finish creating your FSA ID. Just closing your browser window or going to another website may not be enough to prevent other people using this computer from seeing your information until the session expires.

* Required

Create An FSA ID | Edit My FSA ID

E-mail

Confirm E-mail

Username *

Password *

Numbers Uppercase Letters Lowercase Letters Special Characters 8-30 Characters Show Text

Confirm Password *

Are you 13 years of age or older? * I am 13 years of age or older. I am 12 years of age or younger.

[Edit My FSA ID](#)
[Frequently Asked Questions](#)

CONTINUE

IRS Data Retrieval Tool

- ▶ While completing FAFSA, applicant may submit real-time request to IRS for tax data
- ▶ **2019** tax data populates FAFSA fields
- ▶ Data will be masked for your protection
- ▶ Participation is voluntary
- ▶ Reduces documents requested by financial aid office

FAFSA Items to Note

- ▶ The FAFSA questions are written from the perspective of the student. (“What is your SSN?”)
- ▶ Filing results will come to the student’s email address.
- ▶ Names must match exactly what is on the SS card even if it is wrong.
- ▶ There is only room for 10 colleges at a time.
- ▶ Use income from **prior prior** year (2019), but asset values on the day of filling out.

FAFSA Processing Results

- ▶ Student receives FAFSA processing results either by email notification or paper Student Aid Report (SAR), depending on method filed
 - ▶ Review results for accuracy
- ▶ Colleges receive data 10-14 days after submission
- ▶ May view SAR online at www.fafsa.gov

3 Common FAFSA questions:

1. Student's dependency status:

- ▶ Dependency status for Federal aid is different definition from IRS and not related to how you claim the student on your taxes
 - ▶ *Meaning, you can't get more aid by making your student "independent" by not claiming him on your taxes*

2. Divorced/Remarried Parents Income Information:

- ▶ Income information is submitted for custodial parent's household
 - ▶ *Meaning, custodial stepparent information cannot be excluded*

3. Which parent files the financial aid forms? (divorce, separation, never married)

- ▶ The only criteria is who the student lived with the most for the filing year.
 - ▶ *Meaning, it does not matter who has custody nor who claims the student on their taxes*

Special Circumstances

- ▶ Cannot report on FAFSA
- ▶ Send written explanation to Financial Aid Office at **each** college
- ▶ Be specific, use financial figures – **FAO cannot adjust without figures**
 - ▶ *“I need more money,” won’t help.*
- ▶ Colleges want to know and will make adjustments when they can

Common Special Circumstances –

adjustments will often be made for these

resulting in increased financial aid

- ▶ Change in employment status or projected income
- ▶ Medical expenses not covered by insurance
- ▶ Change in parent marital status
- ▶ Unusual dependent or elder care expenses
- ▶ Student cannot obtain parent information
- ▶ One-time source of income (bonus)
- ▶ Private/Home school tuition costs for younger siblings

