

FINANCIAL AID BASICS

What's a FAFSA?

- **Free Application for Federal Student Aid** - A universal measuring tool that the Federal Government uses to determine a family's financial strength compared to other families in the country. FAFSA must be completed every year a student is in college.
 - FAFSA is the *Federal Methodology* (Title 4) of determining financial need.
 - The *Institutional Methodology* is used to determine financial need at some private schools, which measure family assets in a more comprehensive manner.
- **Gateway to financial aid** - Although FAFSA's calculations are designed primarily to determine a student's "need based" financial aid requirement, it is often used as a factor in determining "merit based" grants and scholarships as well.

What exactly does FAFSA measure? What are the components?

1. **Assets** – Parents' (if student is dependent) and Student's assets. Does not include equity in home or value of retirement programs such as IRA, 401K, 401b; however, 529 plans are included as applicable assets.
2. **Income** – Parents' (if student is dependent) and student's income. All sources of income, including welfare and Social Security are to be included.
3. **Number of students in college** - If parent is attending college as well as the parent's child, parent can claim student, but student cannot claim parent (true only if student is dependent).
4. **Age of oldest parent**- The closer a parent or student (if independent) is to retirement, the less effect their assets will have.

What is the process and how does it work?

- **Student should file FAFSA before March 2nd (online) each year.** This will facilitate possible acquisition of entitlement aid from *Cal Grant* (applies to California schools only). Student should file as close to January 1 as possible for the next school year.
- **An EFC (Expected Family Contribution) is established from the 4 components.** EFC is a "theoretical" description of a student's **maximum contribution** to the applicable school's annual COA (cost of attendance).

Example: 2006-2007 COA (cost of attendance) at XYZ University:

• Tuition	\$10,000
• Books/Materials	3,000
• Room & Board	8,000
• Other Fees	800
• Transportation	1,200
• Incidentals/Misc.	<u>1,000</u>
• Total COA	\$24,000

**Cost of Attendance
will vary greatly
between colleges.**

- **FAFSA information is automatically transmitted to XYZ University (as designated by student) upon student's submission of FAFSA.** Student then has an opportunity to correct any mistakes or make adjustments (e.g. if tax information was an estimate) through the SAR (Student Aid Report).

- **XYZ University issues “Financial Aid Award Letter”**

Cost of Attendance (COA)	\$24,000
<i>EFC (Expected Family Contribution)</i>	<u>- 5,000*</u>
Financial need	\$ 19,000

Awards:

Cal Grant A	4,000
XYZ Alum Grant	1,000
Redding Accountant Assoc. Grant	1,975
Federal Stafford Loan	<u>2,625</u>

Sample

Total Awards	- 9,600
<i>Unmet need</i>	<u>= 9,400*</u> + <i>EFC</i> =
Total funds for which family is responsible:	\$14,400

- **How do families address “unmet need” and “EFC”?**

1. Family resources (*examples*: savings, selling of assets, second mortgages)
2. Student Loans- Perkins, Stafford, and PLUS (Government Loans)
3. Alternative Loans

Additional recommendations that affect family resources (money for college)

Encourage career path exploration. Declaring an undergraduate major associated with a career path can save thousands of dollars compared to the potential costs of enrolling as “undeclared” or changing majors. The College Board has determined that it costs an average of \$18,000 to change majors after the sophomore year.

Encourage student to get good grades. Some financial aid experts have compared an “A” in high school to an average equivalent to \$1,000 in financial aid.

Encourage the use of a “Month at a Glance” calendar. 62% of all college drop outs occur during the freshman year, often attributed to a lack of organizational skills combined with newly found freedoms. Students need to develop and begin to use a workable system before starting college.

Apply to more than one college (5 or 6 are recommended). Not all award letters are created equal. You may receive entirely different award packages from one school to the next.

Research the freshman retention rate at the college student is considering. Poor retention rates may be clues that financial aid packages are not consistent from one year to the next.

Research graduation rates. Extra costs are incurred when it takes longer to complete a degree program. The student should also consider the income loss of entering the work force later.

Research and compare the college’s job placement assistance and track record. Most colleges assist their graduates with job placement. If one school has a 90% placement rate at an average of \$50K per year, versus another school with 70% placement at \$35K per year, you may want to consider the first school.

Special Circumstances may be considered. Significant reduction of income, death, loss of a job, abuse, divorce, one-time settlement income benefit, etc. may be presented to the college for consideration. EFC can be changed as a result of special circumstances.