FPA FINANCIAL PLANNING PERSPECTIVES

MYTHS DETER STUDENTS FROM APPLYING FOR FINANCIAL AID

Millions of college students miss out on valuable financial aid every year simply because they mistakenly believe they won't qualify for aid or they are intimidated by the process, say financial planners. Yet applying for financial aid can make the difference between affording the school you want to attend, or attending the school you can afford. It can even make the difference of being able to stay in school once you're enrolled.

A study released in October of this year by the American Council on Education found that in the 1999–2000 school year half of all undergraduate students enrolled at colleges that participated in the federal financial aid program didn't bother to apply for aid. And among those who applied, some missed application deadlines, often resulting in no aid awards.

While some students would not have qualified because they had sufficient financial resources, many left money on the table. In fact, the study concluded that 850,000 low-income students would have qualified for federal Pell Grants, which is money that students don't have to pay back.

The first key for overcoming the myths about financial aid is to understand exactly what "financial aid" means. Aid is actually a mixture of loans, grants, scholarships, and work-study (the student works X hours a week at the school). To calculate how much aid your student qualifies for, start with the total cost of attending a particular school: tuition and fees, books, room and board, transportation, and miscellaneous expenses. The school then determines how much of that total cost your family can reasonably be expected to pay, known as the expected family contribution (EFC).

Typically, the calculation of the EFC starts with completion of the Free Application for Federal Student Aid, known as the FAFSA. This assesses the student and parents' income, investments, and other financial resources, and arrives at an EFC number. Additionally, some colleges, particularly private, gather additional information to see if the student qualifies for nonfederal (institutional) financial aid. Theoretically, the shortfall between what the family is expected to pay and the total cost of that institution is made up by financial aid.

Don't assume that because you are a middle-income or affluent family you won't qualify for aid. A recent study by a Harvard professor found that 22 percent of families making $100,000 or more were receiving financial aid. Also, while you might not qualify for aid from a lower-cost college, you might qualify for aid from a more expensive—and perhaps for you, more desirable—school.

The majority of financial aid comes in the form of loans, so you will have to pay it back. But the loans are often subsidized, meaning you don't have to pay interest or principal on the loan until after the student graduates or quits school. That's a big help to cash flow. Furthermore, the student may receive work-study for 15 or 20 hours a week. Many colleges, particularly private schools, kick in grants or merit scholarships from endowment funds.

Aid packages can vary substantially among schools, and even region to region, so compare them carefully—especially the nonloan portions. Don't consider the packages written in stone. Sometimes errors are made or important financial information left out. Did you overlook mentioning special financial circumstances, such as high medical bills or a disabled child at home, or that you have multiple children in college?

And just because you don't qualify for aid one year doesn't mean you won't the next. The school's aid pool or criteria may have changed, or your circumstances have changed, such as a second child entering college.

Perhaps the greatest myth about financial aid is what impact savings will have on it. *How* you save—such as a custodial account versus a 529 savings plan—will influence a family's EFC, especially for affluent families on the margin for aid. The Harvard study, for example, shows that saving in certain types of college investments reduces aid more than an identical amount saved in different types. A CERTIFIED FINANCIAL PLANNER™ professional can help you sort out which options are best for your particular circumstances.

The key, however, is to not skip saving for college because you don't want to risk reducing financial aid. Remember, the majority of aid these days is loans. It's usually better to save in advance and *earn* interest than to borrow later and *pay* interest.

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