

Who's Paying for This?

Financial Aid Basics

A college education can be expensive—costing more than \$100,000 for four years at some of the higher priced private colleges and universities. Even at the lower cost state colleges and universities, the cost of a four-year education can approach \$50,000. Determining how you and your family will come up with the necessary funds to pay for your education requires planning, perseverance, and learning as much as you can about the options that are available to you.

Paying for college should not be looked on as a four-year financial commitment. For most families, paying the total cost of a student's college education out of current savings is usually not realistic. For families that have planned ahead and have financial savings established for higher education, the burden is a lot easier. But for most, meeting the cost of college requires the pooling of current income and assets and investing in longer-term loan options. These family resources, together with possible financial assistance from the state, federal, and institutional resources enable millions of students each year to attend the institution of their choice.

HOW NEED-BASED FINANCIAL AID IS AWARDED

When you apply for aid, your family's financial situation is analyzed using a government-approved formula called the Federal Methodology. This formula looks at five items:

1. Demographic information of the family.
2. Income of the parents.
3. Assets of the parents.
4. Income of the student.
5. Assets of the student.

This analysis determines the amount you and your family are expected to contribute toward your college expenses, called your Expected Family Contribution or EFC. If the EFC is equal to or more than the cost at a particular college, then you do not demonstrate financial need. However, even if you don't have financial need, you may still qualify for aid, as there are grants, scholarships, and loan programs that are not need-based.

If the cost of your education is greater than your EFC, then you do demonstrate financial need and qualify for assistance. The amount of your financial need that can be met varies from school to school. Some are able to meet

your full need, while others can only cover a certain percentage of need. Here's the formula:

$$\begin{array}{r} \text{Cost of Attendance} \\ - \text{Expected Family Contribution} \\ \hline = \text{Financial Need} \end{array}$$

The EFC remains constant, but your need will vary according to the costs of attendance at a particular college. In general, the higher the tuition and fees at a particular college, the higher the cost of attendance will be. Expenses for books and supplies, room and board, and other miscellaneous costs are included in the overall cost of attendance. It is important to remember that you do not have to be "needy" to qualify for financial aid. Many middle and upper-middle income families qualify for need-based financial aid.

SOURCES OF FINANCIAL AID

The largest single source of aid is the federal government, which awards almost \$84 billion to more than 8.9 million students each year.

The next largest source of financial aid is found in the college and university community. Institutions award an estimated \$20 billion to students each year. Most of this aid is awarded to students who have a demonstrated need based on the Federal Methodology. Some institutions use a different formula, the Institutional Methodology, to award their own funds in conjunction with other forms of aid. Institutional aid may be either need-based or non-need based. Aid that is not based on need is usually awarded for a student's academic performance (merit awards), specific talents or abilities, or to attract the type of students a college seeks to enroll.

Another source of financial aid is from state government, awarding more than \$5.6 billion per year. All states offer grant and/or scholarship aid, most of which is need-based. However, more and more states are offering substantial merit-based aid programs. Most state programs award aid only to students attending college in their home state.

Other sources of financial aid include:

- Private agencies
- Foundations
- Corporations
- Clubs
- Fraternal and service organizations
- Civic associations

- Unions
- Religious groups that award grants, scholarships, and low-interest loans
- Employers that provide tuition reimbursement benefits for employees and their children

More information about these different sources of aid is available from high school guidance offices, public libraries, college financial aid offices, directly from the sponsoring organizations and on the Web at www.finaid.org.

APPLYING FOR FINANCIAL AID

Every student must complete the Free Application for Federal Student Aid (FAFSA) to be considered for financial aid. The FAFSA is available from your high school guidance office, many public libraries, colleges in your area, or directly from the U.S. Department of Education.

Students also can apply for federal student aid over the Internet using the interactive FAFSA on the Web. FAFSA on the Web can be accessed at <http://www.fafsa.ed.gov>. Both the student and at least one parent must apply for a federal pin number at <http://www.pin.ed.gov>. The pin number serves as your electronic signature when applying for aid on the Web.

To award their own funds, some colleges require an additional application, the Financial Aid PROFILE® form. The PROFILE asks supplemental questions that some colleges and awarding agencies feel provide a more accurate assessment of the family's ability to pay for college. It is up to the college to decide whether it will use only the FAFSA or both the FAFSA and the PROFILE. PROFILE applications are available from the high school guidance office and on the Web. Both the paper application and the Web site list those colleges and programs that require the PROFILE application.

If Every College You're Applying to for Fall 2005 Requires Just the FAFSA

... then it's pretty simple: Complete the FAFSA after January 1, 2005, being certain to send it in before any college-imposed deadlines. (You are not permitted to send in the 2005-06 FAFSA before January 1, 2005.) Most college FAFSA application deadlines are in February or early March. It is easier if you have all your financial records for the previous year available, but if that is not possible, you are strongly encouraged to use estimated figures.

After you send in your FAFSA, either with the paper application or electronically, you'll receive a Student Aid Report (SAR) that includes all of the information you reported and shows your EFC. If you provided an e-mail address, the SAR is sent to you electronically; otherwise, you will receive a paper copy in the mail. Be sure to review the SAR, checking to see if the information you reported is accurate. If you used estimated numbers to complete the FAFSA, you may have to resubmit the SAR with any corrections to the data. The college(s) you have designated on the FAFSA will receive the information you reported and will use that data to make their decision. In many instances, the colleges you've applied to will ask you to send copies of your and your parents' federal

income tax returns for 2004, plus any other documents needed to verify the information you reported.

If a College Requires the PROFILE

Step 1: Register for the Financial Aid PROFILE in the fall of your senior year in high school.

Registering for the Financial Aid PROFILE begins the financial aid process. You can register by calling the College Scholarship Service at 1-800-778-6888 and providing basic demographic information, a list of colleges to which you are applying, and your credit card number to pay for the service. You can also apply for the PROFILE online at <http://profileonline.collegeboard.com/index.jsp>. Registration packets with a list of the colleges that require the PROFILE are available in most high school guidance offices. There is a fee for using the Financial Aid PROFILE application (\$23 for the first college and \$18 for each additional college). You must pay for the service by credit card when you register. If you do not have a credit card, you will be billed.

Step 2: Fill out your customized Financial Aid PROFILE.

A few weeks after you register, you'll receive in the mail a customized financial aid application that you can use to apply for institutional aid at the colleges you've designated, as well as from some private scholarship programs, like the National Merit Scholarship. (Note: If you've waited until winter and a college's financial aid application deadline is approaching, you can get overnight delivery by paying an extra fee.) The PROFILE contains all the questions necessary to calculate your "institutional" EFC, plus any additional questions that the colleges and organizations you've designated require you to answer. Your individualized packet will also contain a customized cover letter instructing you what to do and informing you about deadlines and requirements for the colleges and programs you designated when you registered for the PROFILE, codes that indicate which colleges wanted which additional questions, and supplemental forms (if any of the colleges to which you are applying require them—e.g. the Business/Farm Supplement for students whose parents own a business or farm or the Divorced/Separated Parents' Statement).

Make sure you submit your PROFILE by the earliest deadline listed. Two to four weeks after you do so, you will receive an acknowledgment and a report estimating your "institutional" EFC based on the data elements you provided on your PROFILE. Remember, this is a different formula from the federal system that uses the FAFSA.

FINANCIAL AID PROGRAMS

There are three types of financial aid:

1. Gift-aid—Scholarships and grants are funds that do not have to be repaid.
2. Loans—Loans must be repaid, usually after graduation; the amount you have to pay back is the total you've borrowed plus any accrued interest. This is considered a source of self-help aid.

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3. Student employment—Student employment is a job arranged for you by the financial aid office. This is another source of self-help aid.

The federal government has two major grant programs—the Federal Pell Grant and the Federal Supplemental Educational Opportunity Grant. These grants are targeted to low-to-moderate income families with significant financial need. The federal government also sponsors a student employment program called Federal Work-Study, which offers jobs both on and off campus; and several loan programs, including those for students and for parents of undergraduate students.

There are two types of student loan programs, subsidized and unsubsidized. The Subsidized Stafford Loan and the Federal Perkins Loan are need-based, government-subsidized loans. Students who borrow through these programs do not have to pay interest on the loan until after they graduate or leave school. The Unsubsidized Stafford Loan and the Parent Loan Programs are not based on need, and borrowers are responsible for the interest while the student is in school. There are different methods on how these loans are administered. Once you choose your college, the financial aid office will guide you through this process.

After you've submitted your financial aid application and you've been accepted for admission, each college will send you a letter describing your financial aid award. Most award letters show estimated college costs, how much you and your family are expected to contribute, and the amount and types of aid you have been awarded. Most students are awarded aid from a combination of sources and programs. Hence, your award is often called a financial aid "package."

IF YOU DON'T QUALIFY FOR NEED-BASED AID

If you are not eligible for need-based aid, you can still find ways to lessen the burden on your parents.

Here are some suggestions:

- Search for merit scholarships. You can start at the initial stages of your application process. College merit awards are becoming increasingly important as more and more colleges award these grants to students they especially want to attract. As a result, applying to a college at which your qualifications put you at the top of the entering

class may give you a larger merit award. Another source of aid to look for is private scholarships that are given for special skills and talents. Additional information can be found at petersons.com and at www.finaid.org.

- Seek employment during the summer and the academic year. The student employment office at your college can help you locate a school-year job. Many colleges and local businesses have vacancies remaining after they have hired students who are receiving Federal Work-Study financial aid.
- Borrow through the Unsubsidized Stafford Loan programs. These are open to all students. The terms and conditions are similar to the subsidized loans. The biggest difference is that the borrower is responsible for the interest while still in college, although most lenders permit students to delay paying the interest right away and add the accrued interest to the total amount owed. You must file the FAFSA to be considered.
- After you've secured what you can through scholarships, working, and borrowing, your parents will be expected to meet their share of the college bill (the Expected Family Contribution). Many colleges offer monthly payment plans that spread the cost over the academic year. If the monthly payments are too high, parents can borrow through the Federal Parent Loan for Undergraduate Students (PLUS program), through one of the many private education loan programs available, or through home equity loans and lines of credit. Families seeking assistance in financing college expenses should inquire at the financial aid office about what programs are available at the college. Some families seek the advice of professional financial advisers and tax consultants.

HOW IS YOUR FAMILY CONTRIBUTION CALCULATED?

The chart on the next page makes the following assumptions:

- two parent family where age of older parent is 45
- lower income families will file the 1040A or 1040EZ tax form
- student income is less than \$2300
- there are no student assets
- there is only one family member in college

All figures are estimates and may vary when the complete FAFSA or PROFILE application is submitted.

Approximate Expected Family Contribution

		INCOME BEFORE TAXES								
ASSETS		\$20,000	30,000	40,000	50,000	60,000	70,000	80,000	90,000	100,000
\$ 20,000										
FAMILY SIZE	3	\$ 0	870	2,450	4,350	7,000	9,800	12,600	15,500	18,000
	4	0	80	1,670	3,350	5,600	8,300	11,000	14,000	17,100
	5	0	0	930	2,500	4,500	7,000	9,700	12,600	15,600
	6	0	0	100	1,700	3,350	5,500	8,100	11,000	14,000
\$ 30,000										
FAMILY SIZE	3	\$ 0	870	2,450	4,350	7,000	9,800	12,600	15,500	18,000
	4	0	80	1,670	3,350	5,600	8,300	11,000	14,000	17,100
	5	0	0	930	2,500	4,500	7,000	9,700	12,600	15,600
	6	0	0	100	1,700	3,350	5,500	8,100	11,000	14,000
\$ 40,000										
FAMILY SIZE	3	\$ 0	870	2,450	4,350	7,000	9,800	12,600	15,500	18,000
	4	0	80	1,670	3,350	5,600	8,300	11,000	14,000	17,100
	5	0	0	930	2,500	4,500	7,000	9,700	12,600	15,600
	6	0	0	100	1,700	3,350	5,500	8,100	11,000	14,000
\$ 50,000										
FAMILY SIZE	3	\$ 0	870	2,450	4,350	7,500	10,300	13,000	16,000	19,000
	4	0	80	1,670	3,350	6,000	8,800	11,500	14,400	17,500
	5	0	0	930	2,500	4,700	7,400	10,100	13,000	16,100
	6	0	0	100	1,700	3,600	5,900	8,500	11,400	14,500
\$ 60,000										
FAMILY SIZE	3	\$ 0	870	2,450	5,100	8,050	10,800	13,600	16,500	19,600
	4	0	80	1,670	3,950	6,550	9,300	12,200	15,000	18,100
	5	0	0	930	3,000	5,300	7,900	10,800	13,600	16,700
	6	0	0	100	2,150	4,000	6,300	9,100	12,000	15,000
\$ 80,000										
FAMILY SIZE	3	\$ 0	870	2,450	6,000	9,200	12,000	14,800	17,600	20,700
	4	0	80	1,670	4,700	7,600	10,500	13,200	16,100	19,200
	5	0	0	930	3,700	6,100	9,000	11,800	14,700	17,800
	6	0	0	100	2,700	4,700	7,400	10,200	13,100	16,200
\$ 100,000										
FAMILY SIZE	3	\$ 0	870	2,450	7,000	10,300	13,000	15,900	18,800	21,850
	4	0	80	1,670	5,600	8,700	11,500	14,300	17,200	20,300
	5	0	0	930	4,400	7,100	10,200	12,900	15,800	18,900
	6	0	0	100	3,300	5,500	8,500	11,300	14,200	17,300
\$ 120,000										
FAMILY SIZE	3	\$ 0	870	2,450	8,100	11,400	14,200	17,000	19,900	23,000
	4	0	80	1,670	6,600	9,800	12,600	15,500	18,400	21,500
	5	0	0	930	5,300	8,200	11,300	14,100	17,000	20,000
	6	0	0	100	4,000	6,500	9,700	12,500	15,300	18,400
\$ 140,000										
FAMILY SIZE	3	\$ 0	870	2,450	9,300	12,600	15,400	18,200	21,000	24,100
	4	0	80	1,670	7,600	11,000	13,900	16,700	19,500	22,600
	5	0	0	930	6,100	9,500	12,500	15,200	18,100	21,200
	6	0	0	100	4,700	7,600	10,800	13,600	16,500	19,600