

Middle-Income Families: Making the Financial Aid Process Work

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An August 2001 report from the U.S. Department of Education's National Center for Education Statistics took a close look at how middle-income families finance a college education. The report, *Middle Income Undergraduates: Where They Enroll and How They Pay for Their Education*, was one of the first detailed studies of these families. Even though 31 percent of middle-income families have the entire cost of attendance covered by financial aid, there is widespread angst among middle-income families that, while they earn too much to qualify for grant assistance, they are too financially strapped to pay the spiraling costs of higher education.

First, we have to agree on what constitutes a "middle-income" family. For the purposes of the federal study, middle income is defined as those families with incomes between \$35,000 and \$70,000. The good news is that 52 percent of these families received grants, while the balance received loans. Other sources of aid, including work-study, also helped close the gap.

So how do these families do it? Is there a magic key that will open the door to significant amounts of grants and scholarships?

The report found some interesting trends. One way families can make college more affordable is by choosing a less expensive college. In fact, in this income group, 29 percent choose to enroll in low- to moderate-cost schools. These include schools where the total cost is less than \$8,500 per year. In this sector, we find the community colleges and lower-priced state colleges and universities. But almost half of these middle-income families choose schools in the upper-level tier, with costs ranging from \$8,500 to \$16,000. The remaining 23 percent enrolled at the highest-tier schools, with costs above \$16,000. Clearly, while cost is a factor, middle-income families are not limiting their choices based on costs alone.

The report shows that families pay these higher costs with a combination of family assets, current income, and long-term borrowing. This is often referred to as the "past-present-future" model of financing. In fact, just by looking at the Expected Family Contributions, it is clear that

there is a significant gap in what families need and what the financial aid process can provide. Families are closing this gap by making the financial sacrifices necessary to pay the price at higher-cost schools, especially if they think their child is academically strong. The report concludes that parents are more likely to pay for a higher-priced education if their child scores above 1200 on the SATs.

The best place for middle-income families to start is with the high school guidance office. This office has a lot of good information on financial aid and valuable leads on local scholarships. Most guidance officers report that there are far fewer applicants for these locally based scholarships than one would expect. So read the information they send home and check on the application process. A few of those \$500-\$1000 scholarships can add up!

Second, plan to attend a financial aid awareness program. If your school does not offer one, contact your local college financial aid office and see when and where they will be speaking. You can get a lot of "inside" information on how the financial aid process works.

Next, be sure to file the correct applications for aid. Remember, each school can have a different set of requirements. For example, many higher-cost private colleges will require the PROFILE application to be filed in September or October of your senior year. Other schools will have their own institutional aid application. All schools will require the Free Application for Federal Student Aid (FAFSA). Watch the deadlines! It is imperative that you meet the school's published application deadline. Generally, schools are not flexible about this, so be sure to double-check the due date of all applications.

Finally, become a smart educational consumer. Peterson's has a wide range of resources available to help you understand the process. Be sure to also check your local library, bookstore, and of course, the Internet. Two great Web sites to check are Petersons.com and www.finaid.org.

Once admitted to the various colleges and universities, you will receive an award notice outlining the aid you are eligible to receive. If you feel the offer is not sufficient,

or if you have some unique financial circumstances, call the school's financial aid office to see if you can have your application reviewed again. The financial aid office is your best source for putting the pieces together and finding solutions for you.

The financial aid office will help you determine what the "net price" is. This is the actual out-of-pocket expenses that you will need to cover. Through a combination of student and parent loans, most families are able to meet these expenses not paid with other forms of financial aid and family resources.

Many students help meet their educational expenses by working while in school. While this works for many students, research shows that too many hours spent away from your studies will negatively impact on your academic success. Most experts feel that working 10 to 15 hours a week is optimal.

An overlooked source of aid is the recent tax credits given to middle-income families. Rather than extending

eligibility for traditional sources of grant assistance to middle-income families, congress and the president have built into the federal tax system significant tax credits for middle-income families. While it may be seven or eight months before you see the tax credit, families in this income group can safely count on this benefit, usually about \$1500 per student. This is real money in your pocket. You do not need to itemize your deductions to qualify for this tax credit.

Millions of middle-income families send their children to colleges and universities every year. Only 8 percent attend the lowest-priced schools. By using the concept of past-present-future financing, institutional assistance, meaningful targeted tax relief, and student earnings, you can afford even the highest-cost schools.

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