Empowered Academic Success

PERSONALIZED COLLEGE ADMISSIONS CONSULTING

Understanding Financial Aid

No part of the college application process is more daunting than trying to figure out how to pay for it. Many parents don't know if they saved enough to help their child, where to start when applying for financial aid, or even if they qualify. Let's start with the basics and options available.

IMPORTANT TERMS TO KNOW

FAFSA (Free Application for Federal Student Aid)

This is a government form that many colleges and universities use to determine how much financial aid a student can receive per year. To access the FAFSA form, go to www.fafsa.gov

FAFSA ID

You'll need an ID to access the FAFSA online system. Once you create an ID, you will use it to log in and start the financial aid process. There's usually a one-to-three-day turnaround for the ID to be created and sent to you via email. Your FAFSA ID is important. Make sure you make a record of it somewhere you won't forget.

COA (Cost of Attendance)

The COA is the total price it will cost to attend college. Tuition is only part of the price tag. There's also the cost of books, supplies, transportation, personal expenses, room and board, etc.

EFC (Estimated Family Contribution)

The EFC is the amount a family is able to contribute per year of college. EFC is calculated by filling out the FAFSA form and the amount is assigned to you. COA – EFC = Need. EFC is not the amount of money you will pay for college or the amount of aid you will receive. Financial aid and grant providers will use your EFC to calculate what kind of need-based aid to provide (if any).

SAVING FOR COLLEGE

529 Savings Plan

A 529 is a savings account specifically designed to help save for education in a tax-advantaged way. You make contributions to the account using after-tax dollars, and any earnings you accrue are tax-deferred and tax-free. You can use the full balance for expenses like tuition and fees, room and board, and books and supplies at any eligible college or vocational school in the U.S. 529s are available in all 50 states and can also be used tax-free to cover tuition at certain K-12 public, private and religious schools. They have minimal impact on your EFC.

529 Pre-paid College Plan

These plans offer parents the chance to purchase future tuition at current prices. Currently, about 13 states offer some type of this plan for in-state use and almost 300 private colleges participate in a Private 529 pre-paid program. But be aware that these are considered a “resource” and will be counted heavily against your EFC.

Coverdell Savings Account

This is a savings account plan made for education-related expenses, whether that’s for college, elementary or secondary education. Contributions can be made only until the beneficiary turns 18, and unused funds need to be withdrawn or rolled into a new account before the beneficiary turns 30 years old.

TYPES OF AID

Grants

These can be need-based or merit-based, with the latter often offered based on a certain level of GPA. Grants are “free” money and do not need to be paid back. Some are only available for one year, so make sure to read the fine print in case you need to reapply.

Scholarships

These are also need-based or merit-based and do not need to be paid back. They may also only be for a year, so you’ll need to reapply. There are a lot of websites offering help with scholarships (FastWeb, Unigo Scholarships, Merit Aid, CollegeBoard Scholarships). Also, check out high school and college websites and local community organizations and businesses.

TYPES OF AID CONT'D

Loans

There are many types of loans, with varying advantages and disadvantages. Keep in mind loans need to be repaid. Usually, payments begin six months after graduation.

Subsidized Loans – The government pays any interest that accrues while the student is in school.

Unsubsidized Loans – The borrower pays the interest on the loan while in school.

Need-Based Loans – You need to prove you don't have the money for college and need aid to pay for school. Need-based loans are subsidized and less expensive to repay.

Parent PLUS Loans – Stands for Parent Loan for Undergraduate Students. It allows you to borrow up to the full cost of college, minus any other financial aid. PLUS loans offer a variety of repayment plans.

Federal Perkins Loan – Fixed-rate, low-interest loan funded by the government, but given to students through the school. When it's time to repay the loan, the payment goes to the school.

Federal Subsidized Stafford Loans – Fixed-interest rates, awarded to students based on their financial needs but only available to undergraduate students. The amount you can borrow increases each year of your college degree.

Federal Unsubsidized Stafford Loans – Fixed-interest rates, not based on financial need, and available to all students. It accrues interest from the time it is extended until the student leaves school. It also has a higher interest rate than subsidized Stafford loans.

Work-Study Options – These programs can be run by the government, state, or university. Students agree to work part-time on or off campus to help meet their financial need.

Private Loans – These are non-federal loans and given out by independent lenders, credit unions, or banks. Private loans are a greater risk for the lender, so the loans tend to have higher interest rates.

Even with all the above information, financial aid is a BIG topic to tackle. For best results, sit down with your child and discuss the options before choosing a college. Make sure they understand the implications of borrowing money, and what and how long it will take to repay it. It will help make a more informed and realistic investment in their future.

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