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Cracking the Code to Financial Aid

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With prices for undergraduate tuition, room and board up 40% over the past decade, it's important for students and families in any income bracket to develop a game plan for affording college. One important piece to that plan should be financial aid. May's Wealth Management Insights looks at the financial aid process for higher education, including how you can maximize your eligibility for financial aid.

From 2009 to 2013, undergraduates took on 65% more debt to finance their education.

What You Should Know:

1. How your financial need is calculated depends on where you apply.

- Most colleges will solely use your responses from the Free Application for Federal Student Aid (FAFSA) to determine your Expected Family Contribution (EFC), the minimum you will be expected to pay toward college. If your EFC is less than the cost of attendance, you qualify for (but are not guaranteed) need-based financial aid.
- Roughly 400 selective institutions, including the Ivy Leagues and some flagship state colleges, require you to also complete the College Scholarship Service (CSS) Profile to qualify for institutional assistance.
- The 568 Presidents' Group, which includes colleges such as Notre Dame, Duke and MIT, uses a "consensus" methodology to assess students' need. These schools also require the CSS Profile but use a more family-friendly assessment.

2. The formulas that assess financial need count assets differently.

- Schools that rely solely on the FAFSA only look at non-retirement assets, weighting students' assets more heavily (20% – 25%) than parents' (5% – 5.64%). Neither small business assets nor home equity is included in FAFSA analysis.
- The CSS Profile considers income streams the FAFSA does not, such as retirement accounts,

THREE METHODS TO CALCULATING EFC

FEDERAL METHOD	INSTITUTIONAL METHOD	CONSENSUS METHOD
• 0%: small businesses, home equity, life insurance, nonqualified annuities, personal assets such as a car. • 20%: student-owned assets. • 5.64%: 529s, Coverdell ESAs and UTMA 529s.	• 0%: life insurance, personal assets such as a car. Small businesses, home equity and nonqualified annuities are included. • 25% of student-owned assets, including UTMA 529s.	• 0%: life insurance, personal assets such as a car. Small businesses, home equity and nonqualified annuities are included. • 5% of student-owned assets, including UTMA 529s.

life insurance plans, home equity, and income and assets held by a noncustodial parent.

- The consensus methodology treats both student and parent assets at 5%, and counts home equity only up to 1.2 times the parents' adjusted gross income.

3. Optimize your finances before filling out financial aid applications.

- Because the FAFSA factors in student assets at the higher rate, consider a savings vehicle treated as a parental asset, such as a 529 college savings plan or Coverdell Education Savings Account. Also, although a 529 owned by a grandparent or other non-parent is not reportable on the FAFSA, any financial support for the student is reported as student income on the following year's FAFSA.
- Consumer debt isn't counted in the needs analysis formula. Paying off credit card balances and auto loans reduces your available cash, potentially increasing financial aid eligibility.
- Capital gains are treated like income – consider selling investments producing capital gains during either your child's sophomore year in high school or junior year in college, after their last FAFSA has been filed.
- You can shelter your assets by maxing out contributions to retirement funds in the years prior to applying. Tax-deferred annuities and life insurance policies are also not considered assets when determining aid.

What you should do now:

As important as it is, applying for financial aid is only one strategy when it comes to affording college – school selection, scholarships, and the best use of the family's personal resources also need to be considered. Your Baird Financial Advisor can help make sure your college plans consider all the options available to you. ■