

What is Financial Aid?

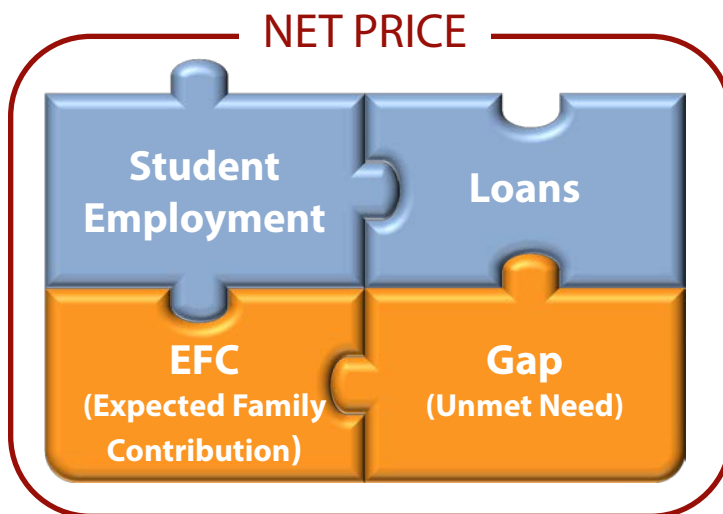
- The purpose of financial aid is to make college more affordable, by reducing college costs according to the student's and family's ability to pay. The amount of financial aid is based on the student's demonstrated financial need.
- *Demonstrated financial need* is the difference between the college's cost of attendance (COA) and the expected family contribution (EFC). $\text{Need} = \text{COA} - \text{EFC}$.
- The *cost of attendance* is the total college costs, including tuition and fees, room and board, books and supplies, transportation and miscellaneous/personal expenses. It includes both direct expenses paid to the college and indirect expenses that may be paid to a third party, such as rent on an apartment. The cost of attendance is sometimes called the student budget or sticker price.
- The *expected family contribution* is a measure of the family's ability to pay or financial strength. The EFC is calculated after the family submits a financial aid application form, such as the Free Application for Federal Student Aid (FAFSA) or the CSS/Financial Aid PROFILE. The EFC calculated using the FAFSA's Federal Methodology (FM) may differ from the EFC calculated using the PROFILE's Institutional Methodology (IM). In fact, each college that uses the PROFILE may have a different version of the IM.

Flaws with Financial Aid Formulas

- Despite being called the expected family contribution, the EFC does not really estimate the amount the family will have to contribute. More realistically, it is a rationing system and not a true measure of ability to pay. Most families will pay more than the EFC to send their child to college.
- Federal and institutional financial aid formulas do not consider most forms of consumer debt at all, even though debt reduces the family's net worth and acts as a drag on cash flow.
- The financial aid formulas do not allow the EFC to go below zero, effectively capping financial aid to students with exceptional or high financial need.
- Very few colleges meet the student's full demonstrated financial need, often leaving the student with a gap of unmet need. Most of the colleges that claim to meet full demonstrated financial need do so by using their own definition of financial need that might require a minimum student contribution, summer work expectation or other mechanisms for artificially reducing financial need.
- Most colleges include loans in the financial aid package, not just grants and scholarships. Regardless of whether a loan is need-based or not, a loan is a loan is a loan. It must be repaid, usually with interest. It does not cut college costs.
- Demonstrated financial need increases both with decreases in the EFC and increases in the cost of attendance. While financial need may be higher at a higher-cost college, the extra aid may often be in the form of student employment and loans, not grants.

What is Gift Aid?

- Gift aid is money that does not need to be repaid, such as grants and scholarships.
- Gift aid does *not* include money that must be earned, such as student employment.
- Gift aid does *not* include money that must be repaid, such as student loans.
- Gift aid reduces college costs, serving as a discount on the sticker price.



Understanding True College Costs with the Net Price

- The net price is a more realistic measure of college costs. The net price subtracts just gift aid from the total cost of attendance.
- The net price is the amount the family will have to pay from savings, income and loans to cover college costs.
- Loans are a way of financing the net price and do not reduce the net price.
- The net price can vary significantly from college to college, even at colleges with the same sticker price.



Displacement

- When a student wins a private scholarship, it reduces the student's demonstrated financial need. The student is considered to be *overawarded* if total financial aid, including the private scholarship, exceeds demonstrated financial need.
- If a student is overawarded, the college must reduce the need-based financial aid to compensate. The reduction in financial aid is called *displacement*.
- Each college's *outside scholarship policy* specifies how receipt of a private scholarship displaces other forms of financial aid.
- If the college allows the private scholarship to fill the gap (unmet need) or replace loans, the net price will decrease.
- If the college uses the private scholarship to replace grants, the net price will remain unchanged and the student derives no net financial gain from winning the private scholarship.

Front-Loading of Grants

- Front-loading of grants provides incoming freshmen with a better mix of grants vs. loans than upperclassmen.
- About half of all colleges practice front-loading of grants.
- Front-loading of grants causes a student to have a lower net price as a freshman than during subsequent academic years.
- To tell whether a college practices front-loading of grants, use CollegeNavigator.gov to compare the college's average grants and percentage receiving grants for first-year students and for all undergraduate students. Front-loading causes the average and/or percentage to be lower for all undergraduate students.

Flaws in Net Price Calculators

- Every college is required to have a net price calculator on its web site. A net price calculator provides students and families with a personalized estimate of the net price.
- But the net price figures for different colleges may not be comparable. Some net price calculators use two-year-old college cost and financial data and some use more current data. Some net price calculators ask more questions, yielding a more accurate estimate of the net price.
- The net price calculator may present an average net price for just the students who receive grants, not all students.
- Colleges may use different definitions of income when calculating the average net price by income.
- Net price calculators and financial aid award letters may highlight a net cost figure in addition to the net price. The *net cost* subtracts the entire financial aid package, including loans and work, from the cost of attendance, not just gift aid.

How to Calculate the Net Price

1. Identify the total cost of attendance for each college and university. Make sure that all direct and indirect costs are included in the cost of attendance. Beware of unrealistic cost figures, especially for textbooks and transportation.
2. Add together all of the gift aid listed on the award letter. Beware of student loans masquerading as gift aid.
3. Subtract the total amount of gift aid from the total cost of attendance. This is the net price.

Ten Questions to Ask the Financial Aid Administrator

This list of questions can help students and their families make more informed decisions about college costs and financial aid.

1. Do you meet full demonstrated financial need? Or is there a gap (unmet need)?
2. What is your outside scholarship policy? How does the college reduce the need-based financial aid package when a student wins a private scholarship? Does the scholarship first reduce the student debt and student employment burden (and unmet need, if any) or does it replace the college's grants first?
3. Do you practice front-loading of grants? If yes, how much will grants change each year, if the family's financial circumstances remain the same?
4. How much has your COA increased in the last three years?
5. What percentage of students graduate with debt and what is the average cumulative debt at graduation?
6. What are the requirements for keeping my grants and scholarships in future years? Do I need to maintain a minimum grade point average? Do I have to enroll full-time or take a particular number of units? Do I need to participate in any special activities such as community service?
7. What are the residency requirements for in-state public college tuition?
8. How many hours will I need to work to earn the full work-study award I've been offered? How much will I be paid per hour? Are student employment opportunities readily available, or are they hard to get? Are there positions related to my academic major? Am I guaranteed a job? What types of jobs are available? How often will I be paid? How will I be paid? (Am I paid directly, or is my student account credited?)
9. How does one appeal for more financial aid if the financial aid award is insufficient or the family's financial circumstances have changed or will change?
10. What is the impact of possible budget cuts and future cost increases on my financial aid package?

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