In the 2013-2013 academic year, more than $238.5 billion in financial aid (grants, federal loans, federal work-study, and federal tax credits and deductions) was distributed to students. However, concerns over the deficit indicate federal financial aid may not be as generous in the future as it has been in recent years. Therefore, it is important to be familiar with the various aspects of financial aid.

What you should know about aid applications

More than half of the students currently enrolled in college receive some sort of financial aid. To determine how much financial aid, if any, you are eligible for, you will first need to fill out some paperwork. The forms you’ll need to complete and submit will vary by school.

There are two common methods that may be used when determining a student’s eligibility for financial aid. The first and most common is the Federal Methodology (FM); the second is known as the Institutional Methodology (IM). There are differences between the two, and they normally result in varying Expected Family Contribution (EFC) amounts. The EFC is a measure of the amount your family is expected to contribute toward your child’s education. For planning purposes, it is essential you know which method the school uses so you have no surprises.

Federal Methodology

Regardless which school you’re planning to attend, you will need to complete the Free Application for Federal Student Aid (FAFSA) if you are interested in receiving federal financial aid. The FAFSA is used to apply for federal and state aid, which includes grants, work study and student loans. Students apply online at fafsa.ed.gov. When determining if you are eligible for federal financial aid, the information you supply about your finances is included in a formula established by Congress that calculates your federal EFC. This calculation takes into consideration family size and the number of children in college in addition to the following information:

<table>
<thead>
<tr>
<th>Parents</th>
<th>Students</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>22% to 47% of income</td>
</tr>
<tr>
<td>Assets</td>
<td>Up to 5.64% of certain assets</td>
</tr>
</tbody>
</table>

1. 2012-2013 Trends in Student Aid, 2013 collegeboard.org, Inc. Reprinted with permission. All rights reserved. collegeboard.org.
The EFC is then used in the following equation to determine your family’s financial need:

\[
\text{Cost of college attendance} - \frac{\text{EFC}}{\text{Financial need}} - \text{Resources of the student (i.e., private scholarships)} = \text{Adjusted financial need}
\]

Keep in mind that having a financial need does not guarantee financial aid. You can find more information regarding the FAFSA at fafsa.gov or by calling 1-800-4-FED-AID.

This table illustrates the impact of various education savings vehicles on federal financial aid.

<table>
<thead>
<tr>
<th>529 savings account</th>
<th>Education Savings Account</th>
<th>Account in parent’s name</th>
<th>Custodial account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets of parents</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Income of parents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets of student</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income of student</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Institutional Methodology**

Depending on where you apply, the IM formula might come into play. Many schools and scholarship programs collect additional information before awarding their own funds, i.e., institutional student aid. The IM usually relies on information collected on the College Scholarship Service (CSS)/Financial Aid PROFILE® for its calculations, but some schools may use their own forms.

The PROFILE form is used by a financial-aid application service provided through the CSS, a division of the College Board. You can register by visiting Collegeboard.org, selecting the “College Planning” tab and then the “Pay for College” tab and completing the online form. The College Board’s website also lists the institutions that use PROFILE and the due dates for each. Allow for processing time, and be sure to submit your application prior to the deadline to make sure you are eligible for the available grant dollars.

PROFILE applications are customized for each student based on information pertaining to you, your family and your financial situation supplied during the application process. Even among schools that use IM, there are differences in how each institution weights information gathered on the PROFILE form. There are also variances in the financial resources that institutions can draw upon when awarding aid.

In general, IM is more comprehensive than FM and may take into account other financial factors not included in the FM process. Examples of additional inclusions may be equity in your personal residence, nonqualified annuity values, assets of siblings, and information pertaining to a noncustodial parent and step-parent, if remarried. There are many other differences between the two methods that you should understand, but the bottom line is that the IM assumes more family assets may be used to pay for college expenses.

1. 529 plans owned by someone other than the parent or student are not considered assets in the EFC formula, but distributions from them may be considered income to the student.
Different types of aid may compose your financial support mix

Financial aid comes in many forms. Below is a description of the more common forms:

**Grant.** A grant is money given freely to a student with no repayment requirement. Although grants generally are funded by state or federal governments, the grant is awarded by each institution. Two common types of grants are:

- **Federal Pell Grants** are offered to undergraduate students who have not yet earned a bachelor's or professional degree. Recipients typically demonstrate a financial need by meeting criteria set by the U.S. Department of Education. The Department of Education generally considers such items as the EFC, total cost of attendance, full- or part-time status, and attendance period. Students can receive the Federal Pell Grant for up to the equivalent of 12 semesters.

- **Federal Supplemental Educational Opportunity Grants** may be available to undergraduate students with the greatest financial need. Typically, recipients fall in the lowest range of EFC calculations.

**Work-study.** The federal work-study program may be able to offer a subsidized job on campus at which the student can earn money that can be used to help pay education expenses.

**Federal loans.** Federal loans make up a large portion of the total aid awarded to undergraduate students each year. They come in two forms.

- **Need-based loans** generally provide lower interest rates, delayed repayment features and an in-school interest subsidy paid by the government. The interest subsidy means that the government pays the interest accruing on the loan during the time the student is in school (and sometimes up to six months after). This reduces the loan's total cost.

  You may hear about different types of need-based loans, such as Perkins Loans and Direct Subsidized Loans. The school's financial-aid office will explain the differences along with loan terms and other requirements.

- **Non-need-based loans** may be available for families who find they cannot pay their expected family contribution from savings or current income. These types of loans generally have higher interest rates, do not have an in-school interest subsidy (meaning that interest payments are due while the student is still in school) and may require speedy repayment.

  You may hear terms such as Direct Unsubsidized Loans and Direct PLUS loans in relation to these loans. Like the need-based loans, the school's financial-aid office will provide more details in its financial-aid letter.

Federal student loans are available for all full-time students, regardless of credit history, offer a fixed rate and have flexible repayment schedules.
Private loans. Private student loans may be necessary if further financial assistance is needed to attend your school of choice. Private loans are provided by a private lender, such as a bank, credit union or other financial institution. Rates will vary depending on the lender and the borrower's credit rating. Usually a cosigner is required on private loans unless you have excellent credit. These loans may be fixed or variable depending on the lender and may offer relationship discounts, discounts for automatic payment or a graduation benefit.

When deciding on a federal or private loan, students and parents should evaluate not only the fees and interest rates but also the terms of the loan and repayment flexibility. Regardless of which type of loan you choose, never borrow more than necessary.

For more information about federal aid for college, visit FederalStudentAid.ed.gov.

Financial aid tips

With ever-increasing education costs, the role of financial aid is becoming more important than ever. These tips may help you and your student improve your eligibility for financial aid.

Start planning for aid during the student’s high-school years

Pay particular attention to your child’s junior year of high school and consider repositioning assets or adjusting income before that year begins. When financial-aid officers review a family’s need, they analyze the family’s income in the calendar year that begins in January of the student’s junior year of high school, otherwise known as the “base year.” With this in mind, try to keep income, interest and capital gains to a minimum. Your best scenario would be to sell assets and incur capital gains in earlier years or defer selling until after college graduation, if possible.

Reassess assets held by your children (in the child’s name)

As indicated previously, institutions expect children to contribute a higher percentage of their savings toward their education costs each year as compared to their parents. As a result, assets held in custodial accounts, as compared to assets held in Education Savings Accounts (ESAs) or 529 plans (including student-owned 529 plans), may have a larger impact on whether the family may qualify for financial aid. ESAs and 529 plans will be factored into the EFC formula at the lesser parental rate, which may be more beneficial than the custodial account.

Steer grandparents’ or third-party gifts in the right direction

Grandparents’ hearts often lead them toward gifting directly to grandchildren or paying the student’s tuition expenses. Even though payments made directly to the institution avoid gift taxes, institutions generally count any third-party payments as an additional resource the family has available to pay for college expenses. Distributions from grandparent-owned or other third-party owned 529 plans or gifts from other individuals to the child are reported and assessed as the student’s income, which can reduce the amount of eligible aid.

Something to keep in mind

Although financial aid can be helpful, it’s usually not wise to depend on it. Your financial professional can work with you on more reliable sources, such as ESAs, 529 plans and custodial accounts, for the funds your student will need to pay higher-education expenses.
A better idea for grandparents or other relatives may be to gift to a 529 plan owned by the parent or student. The financial-aid treatment of gifts to a parent- or student-owned 529 plan are generally more favorable than that for gifts made directly to the student or the school. In addition, grandparents may realize estate-tax and gifting benefits by taking advantage of an accelerated gifting technique available only through 529 plans.

Assume you are eligible for aid — until told otherwise

There are no specific guidelines or rules of thumb that can accurately predict the aid you and your student may be offered. Because each family's circumstances are different, you'll want to keep an open mind as you consider various financial-aid alternatives. A number of factors — such as the age of the older parent or having several children in school at the same time — could increase your eligibility. Also, in some cases, unless you fill out the necessary forms, you will not be considered for any of the institutions’ scholarships.

Apply to more than one school

Apply to multiple schools and compare financial-aid awards. You may also want to consider asking the financial-aid officer for more aid if the current award is not enough for attendance — all he or she can say is "no." If there are extenuating circumstances, be sure to attach a letter of explanation to the application.

This brief report is certainly not comprehensive in scope, nor does it provide all the details behind each of these alternatives. As you can tell, many of the programs are government-sponsored and could change through the years. Although financial-aid avenues are worth pursuing, there is no guarantee that agencies will grant the aid you want or expect. In addition, most financial aid is provided in the form of loans — which must be repaid.