A STEP-BY-STEP

COLLEGE GUIDE to Help Families CUT THEIR COLLEGE COSTS

By Lynn O’Shaughnessy

THE COLLEGE SOLUTION

The Economics of College Pricing

STEP 1

Explain to families that popular schools with great brand name recognition (nearly all of them located on the coasts and in major metro areas) don't have to discount their prices in the same way as the vast majority of colleges and universities must. The sticker prices of schools with coveted brand names can also be higher—$15,000 to $20,000 or more—than most schools before any scholarships are applied.

You also need to convey to families that it's not always the smartest students or the most financially needy who receive the best awards. You can have two equally accomplished teenagers whose parents have the same financial wherewithal and the awards can be starkly different. You should explain to your families that the best way to make college more affordable is to understand pricing discrimination (enrollment management strategies) that happens behind closed doors on all college campuses. Families need to understand that most students will be "gapped." This just means that the money the financial aid formula suggests that they need to attend college is less than what they are offered.

If money is an issue, it's important that families understand these concepts at the beginning of the college-search process. Reading the lessons in the following three modules will provide the background you need to have these conversations:

- Targeting Schools for the Most Money
- Targeting Schools for the Most Money, Part II
- Tools to Find Generous Colleges

STEP 2

Give families copies of these articles, along with any of your favorites, to reinforce the messages above:

The Invisible Force Behind College Admissions

The Real Deal on Financial Aid

The Best Class Money Can Buy

STEP 3

Explain to families what the main sources of college money are and who qualifies for what. You don't want your families chasing the wrong pots of money.

Here are the main money sources and the percentage of grants that they represent.

Federal	40%
Colleges	35%
State	11%
Private scholarships	7%

I provide an overview of this cash breakdown in my lesson "Four Major Sources of College Money" in the module entitled Sources of College Money. You will see separate lessons on each of these four money sources in the class.

I think it would be especially helpful if you dissuade families from assuming that private scholarships are the biggest source of aid. They are the smallest.

I recommend that this discussion segue into a primer on the concept of *Expected Family Contributions*.

Introduce the Concept of the EFC

STEP 4

Explain the concept of *Expected Family Contribution* to parents/teenagers. Without knowing what a family's EFC is (institutional and federal methodology), you as a professional can't generate a list of schools that will be more affordable for your clients.

Families with low/moderate EFC's should focus on schools that provide generous need-based aid while affluent families with high EFC's, who can't or won't pay full price, should look for schools that provide institutional awards not tied to need.

Obtaining their EFC's will also give families an idea of whether they will qualify for state and federal aid.

STEP 5

Explain to parents how they can use the **College Board's EFC calculator**. Parents should use the calculator's institutional and federal methodologies to cover both private and state schools. By using both methodologies, they will generate two different EFC's.

Refer your families to my EFC calculator video for further instructions on how to use the calculator. Here is the **link** for families. You can watch the "How to Use an EFC Calculator" video in the module entitled Your Families' First Step.

STEP 6

Provide your families with the **list of schools** that use the Institutional methodology. These will be the institutions that require the CSS/Financial Aid PROFILE. Tell your clients that every PROFILE school can modify its financial aid formula in countless ways. So in reality, a student who applies to 10 PROFILE schools could end up with 10 EFC's that are all different.

STEP 7

Give the family the ***EFC Cheat Sheet*** that I provide in this course. This will reinforce your explanation about why the EFC is such an important first step.

STEP 8

Most importantly . . . tell your clients that you need to know what their federal and institutional EFC's are before you can draw up a list of potential schools!

Asking for a family's EFC numbers will be less intrusive than asking how much a family earns and what is the value of their non-retirement assets, which can significantly impact financial aid.

Explain How Investments Impact Financial Aid

STEP 9

Many parents are worried that their investments will hurt their chances for financial aid. I've heard from parents, often dads, who are quite resentful because they anticipate getting shut out of financial aid due to being diligent college savers. You can tell your clients, however, that only 7% of families or so who file for financial aid have their aid eligibility reduced because of their assets. This fear for most families is overblown and you will provide a great service to your families by sharing this reality.

The 7% figure comes from Mark Kantrowitz, the nationally recognized financial aid expert and the creator of FinAid.com. He is now the publisher at Edvisors.com.

A big reason why investments usually don't hurt aid chances is because the aid formulas ignore assets in qualified retirement accounts such at IRA's, 401(k)'s, 403(b)'s, SEP-IRA's.

STEP 10

Explain how investments actually impact financial aid.

To back up your explanation about assets and aid, give your families the class PDF of my lesson "How Investments Hurt Financial Aid Chances." Also give your families a copy of the federal ***EFC Formula 2015-2016 Education Savings and Asset Protection Allowance*** that will show them how many taxable assets they can have without impacting financial aid. The chart is on page 19. The amount that can be sheltered is adjusted either up or down each year and has declined several years in a row because the federal formula is tied to inflation/interest rates.

As an example, a married couple can shelter up to $35,400 in taxable assets if the oldest parent is 54. Any amount above $38,500 would be assessed at the parent rate that tops out 5.64%.

Let's say this hypothetical family has $100,000 in college accounts.

$$\$100{,}000 - \$35{,}400 = \$61{,}500$$

$$\$61{,}500 \times 5.64\% = \$3{,}643$$

In this example, the EFC would rise by just $3,643. This example clearly illustrates that it's always good to save for college!

Also, explain to families that 529 plans and Coverdell Education Savings Accounts are treated as parent assets.

Explain How Home Equity Impacts Financial Aid

STEP 11

Parents also worry about how home equity impacts aid. Tell your families that FAFSA schools don't care about equity in a primary home, but PROFILE schools do. Refer them to the list of PROFILE schools that I mentioned in Step 6.

Explain to families that the **College Board's EFC calculator** assesses home equity at 100% for PROFILE schools, even though many schools aren't that harsh with their formula. Consequently, the institutional EFC that the calculator generates can be artificially high. You can see how home equity impacts an EFC with the College Board calculator by including home equity one time and leaving it out on a second try.

Watch my video in the lesson **Home Equity and Financial Aid** in the Financial Aid Basics module. Paula Bishop, a financial aid expert, whom I interviewed in the video, advises her clients to use whatever source provides the lowest home valuation estimate including property tax assessment, recent neighborhood comps and Zillow and other online real estate websites.

STEP 12

Give parents the spreadsheet that details how 110 PROFILE colleges and universities assess home equity. Explain that how schools treat home equity can change yearly, but at many schools it does not. You can find the spreadsheet in the Bonus Material section and in the "Home Equity and Financial Aid" lesson in the module entitled A Closer Look at Financial Aid Formulas.

If you want to know how a school, which isn't included in the list, treats home equity, email the financial aid or admission office. Then you will have a written record of the response.

Tell your families that many schools that assess home equity at 100% say they will entertain appeals on this from parents.

What Does Impact Financial Aid?

STEP 13

Explain what the main factors are for financial aid:

- Parents' income
- Number of students in college
- Marital status of parents
- Nonretirement income
- Student assets/income

Refer to two modules—Financial Aid Basics and A Closer Look at Financial Aid Formulas—before having this discussion. Here are brief highlights of each of these factors . . .

INCOME

The biggest driver in financial aid formulas is often the parents' income and there is little that parents can do to adjust that. If parents enjoyed a good income during the calendar year covered by the FAFSA and PROFILE, but have since lost a job or have dropped down to part-time status, tell them that they need to ask for a professional judgment from a college for financial aid purposes.

NUMBER OF CHILDREN IN COLLEGE

Tell your parents that the number of children in college can also be hugely significant. When two children are in college simultaneously, the EFC will drop by 50% with the federal formula and by 40% for the institutional formula.

With three children in college, the federal EFC will drop by 66% and institutional EFC will drop by 55% for PROFILE schools.

Some schools will ask where the other children are attending college. If it's a community college or a military academy, they might eliminate that college-going sibling from having an impact on this aspect of the EFC.

TAXABLE INVESTMENTS

This topic is covered in Step 9 and 10.

DIVORCE AND SEPARATION

When applicable, explain the rules regarding divorce and separation for financial aid purposes. The FAFSA only considers the income/assets of the custodial parent. The custodial parent is the one where the child has physically lived the majority of a 12-month period ending on the day the FAFSA is filed. Which parent claims the child on taxes or pays child support is irrelevant in determining who is the custodial parent. Tell families that they will increase their chances for need-based aid if the child lives with the parent with the lower income and assets.

The FAFSA treats divorce and separated parents the same. Parents do not have to be ***legally*** separated, but they can't be living in the same residence. Separated couples can be filing taxes jointly.

PROFILE schools will vary in how they handle divorce. Many will require both parents to submit financial information. Some schools will make the noncustodial parent submit the Noncustodial PROFILE. Parents can see which schools use the noncustodial form by using this **link**. The illustration on the following page shows what column to look at for this information.

PROFILE Online 2015-16

CLOSE WINDOW

Participating Institutions and Programs

The following colleges, universities, and scholarship programs use PROFILE, Noncustodial PROFILE, and/or IDOC as part of their financial aid process for some or all of their financial aid applicants. Please contact the institution for more information.

CSS Code	Name	State	PROFILE	PROFILE for International Students	Noncustodial PROFILE	IDOC
0690	10,000 Degrees	CA	Yes	Yes	No	No
1001	Adrian College	MI	Yes	No	No	No
5002	Agnes Scott College	GA	Yes	Yes	No	No
1003	Alabama A&M University	AL	No	No	No	Yes
2013	Albany College of Pharmacy	NY	Yes	No	Yes	No
7041	Albany Law S of Union U	NY	Yes	No	No	No
2995	Albert Einstein C of Medicine	NY	Yes	No	No	No
2004	Albright College	PA	Yes	No	No	No
2005	Alfred University	NY	Yes	No	No	No
1010	Alma College	MI	No	Yes	No	No
7363	Amer Assoc of C of Osteo Med	MD	Yes	No	No	No
2707	American Councils for Intl Edu	DC	Yes	No	No	No
0540	American Foreign Srvc Assoc SF	DC	Yes	No	Yes	No
5007	American University	DC	Yes	No	Yes	No
0866	American University of Paris	CO	Yes	No	No	No
3003	Amherst College	MA	Yes	Yes	Yes	Yes

Refer families to this video where Paula Bishop, a CPA, and financial aid expert in Bellevue, WA, discusses divorce considerations with me.

Divorce and Financial Aid

Child's Assets and Income

Explain to parents how a child's money impacts financial aid.

The **federal financial aid formula** allows students to shield up to $6,310 in income for the 2015–2016 school year. (You'll find this figure on page 10 of the **EFC Formula 2015–2016**.) The aid formula will assess any income above that ceiling at 50%. So if a child makes $7,000, $740 would be unprotected from the aid formula.

$740 × 50% = $345

In this example, the aid eligibility would decrease by $345. Or, put another way, the family's EFC would rise by $345.

As you can see from the above example, a student job will rarely impact financial aid.

The PROFILE assumes that students have jobs whether or not they do. They will typically create an EFC for a student that can be in the range of $2,000 to $2,500.

STUDENT ASSETS

Student assets are assessed at 20% (federal formula) and 25% (institutional formula) and students do not receive an asset protection allowance like their parents. Here's an example of how aid would be impacted if the child had $1,000 in her savings account:

$1,000 × 20% = $200 (federal calculation)

$1,000 × 25% = $250 (institutional calculation)

In these examples, the EFC would rise $200 and $250 respectively.

Most students don't have much money, but notable exceptions are UGMA and UTMA custodial accounts. This money is assessed as the child asset (20% or 25% of value) versus a maximum of 5.64% for parent assets.

Stress to your parents that the value of their assets and their children's assets are the values on the day the FAFSA and PROFILE are filed. Consequently, it's a smart idea for parents to file financial aid applications on a day the stock market is down or after they have paid the monthly bills or made major purchases by paying cash. (Credit card debt is irrelevant in aid calculations).

Have Your Parents Use Net Price Calculators

STEP 14

Before talking to your clients about why they should be using net price calculators, read the lesson "Net Price Calculators" that is in the module entitled Your Families' First Step.

Explain to your families what net price calculators are, how to find them and why they should be a critical part of their college search. These calculators represent what a student will have to pay after scholarships and grants from the federal and state governments and the school itself are subtracted.

Explain that roughly half of net price calculators (those that use the federal calculator template) do a poor job of generating estimates of what a school will cost a family and can't be trusted. Share how you can spot good and bad calculators.

Encourage your parents to play detective with these calculators. Have your families tinker with good net price calculators (non-federally inspired ones) to see how such factors as test scores, grade point average, home equity and business equity can impact a school's net prices.

STEP 15

If cost is an issue, explain to parents why it's important to obtain these net prices BEFORE a child finalizes his or her list.

Have your clients/parents complete the net price calculator for schools that interest their children and those that you suggest. Have them write down the net prices. Discuss the results.

Provide your families with the PDF of my cheat sheet ***Net Price Calculator Primer***. You can find this in the Bonus Material module.

Tools to Evaluate the Generosity of Schools

STEP 16

COLLEGE BOARD'S TOOLS

When researching potential schools for a student, use the College Board's tools to get a quick sense of how generous a school might be for your clients. You should also urge your parents to use the tool.

Call up the profile of any school on the College Board's home page and click on the ***Paying*** hyperlink. In addition to seeing the cost of attendance, you will see this important link: *Financial Aid by the Numbers*.

You will find what percentage of financial need a school says it typically meets, as well as what percentage of students who have need get financial help. It's also important to look at the percentage of students who have their full demonstrated financial need met.

To get a refresher on this important College Board tool, watch this course video:

Evaluating the Generosity of a College

STEP 17

Where applicable, give families the handout of the schools that meet 100% of need or close to it and the list of schools that don't provide merit scholarships to wealthy students. You can find these handouts in the Bonus Material module.

Emphasize to parents that the definition of full need met will vary by PROFILE schools since their underlying aid calculations can be quite different.

STEP 18

USE COLLEGEDATA'S TOOLS

You and your clients can discover much of the same information as provided by the College Board by looking up school profiles on **COLLEGEdata.com**. Click on the ***College Match*** hyperlink on the home page to access a school's profile and then click on the institution's ***Money Matters*** link.

What you will find on COLLEGEdata, but not on the College Board is the number and percentage of students who receive non-need based aid at a particular school. That's an important figure when determining what the chances are that a wealthy child will receive a merit award.

Using COLLEGEdata's search tool, you can also sort schools by percentage of financial need that they say that they meet. You can also sort institution by percentage of students who receive merit aid. Watch this course video to learn how to use the tool and share it with your clients:

COLLEGEdata: Looking for College Money

STEP 19

Discuss graduation rates with your clients. Look up grad rates via **College Completion**, a microsite of *The Chronicle of Higher Education* or ***College Results Online***, which is a service of the Education Trust.

The most elite schools will have the highest four-year grad rates because the students are usually well prepared for college and have the financial resources to attend. Within peer institutions of the same selectivity however, there can be significant differences. Families need to explore what it takes to graduate in a timely manner from the schools on their lists.

Completing the FAFSA and PROFILE

STEP 20

Explain to families why they should apply for financial aid. Without completing the FAFSA, parents and students will not be eligible for:

- Federal student and parent loans.
- Campus work-study jobs.
- Need-based aid from the federal and state governments.
- Financial aid from the college or universities.
- While not common, some schools won't provide merit scholarships without a FAFSA filing.

STEP 21

Explain to families, when applicable, why they need to file the FAFSA and the PROFILE. PROFILE schools require this extra application that is more detailed because they use it to determine if a student qualifies for institutional aid at their schools. The FAFSA is used at PROFILE schools strictly to determine state and federal aid eligibility. Nearly all public universities and many private colleges also rely on the FAFSA to determine institutional aid eligibility.

STEP 22

Make sure your families know what the financial deadlines are at each school. Early decision and early action schools will typically need the PROFILE filed in the fall. When filing applications early, they will need to estimate their taxes.

STEP 23

Provide your families the FAFSA resources in the lesson entitled "7 Ways to Get Help With the FAFSA." It's relatively easy to make mistakes on the FAFSA and the PROFILE.

To bone up on the FAFSA, download a free copy of ***Filing the FAFSA, 2015–2016 edition*** by Mark Kantrowitz, the creator of FinAid, who is now with Edvisors.com, and Mark Levy, the former financial aid director at Cal Tech.

You and your clients can receive this detailed guide without having to register on Edvisors.com. You can also buy a **paperback copy** on Amazon for just $9.95.

Reading Financial Aid Award Letters

STEP 24

When evaluating your clients' award letter, look for these four pieces of information:

- Cost of attendance
- Expected Family Contribution
- Grants and scholarships
- Loans

Ignore loans when determining what the net price will be.

If the aid award doesn't provide the EFC upon which this award was based, have the parents call the school and obtain it. Parents can't know if the award is a good one or not without knowing what this critical figure is. Once they have the EFC that the school used, you will be able to see if there is a gap between the cost of attendance and a student's financial award/EFC.

STEP 25

APPEALING A FINANCIAL AID AWARD

It is possible to appeal an aid award and it doesn't always have to be strictly for such traditional reasons as a death in the family, divorce/separation, large medical bills and loss of a job.

How successful a family will be depends, in part, on how much a school wants a student and how successful the institution has been in filling its freshmen slots.

More schools will be willing to take a second look at an award if it's for a student who requires need-based aid. Other schools will reevaluate merit scholarships for affluent students, who have no financial need on paper. Ideally, a student will have better awards from other institutions that they can show a college when looking for a fatter package.

STEP 26

EXPLAIN COLLEGE LOAN OPTIONS

The best loan will typically be the federal student loans. The biggest and most accessible is the federal direct subsidized and unsubsidized loans. (This was traditionally referred to as Stafford Loans.) The federal Perkin Loan isn't available at all campuses.

The school will determine if a child is eligible for a subsidized loan or just an unsubsidized loan and will notify the family in its financial aid award letter.

Refer to the lessons on loans to learn more about other options including the federal PLUS Loan for parents that imposes a high interest rate and fees and private loans. Parents with excellent credit should explore private loans through credit unions. Parents can look for private student loans offered by credit unions across the country via **Credit Union Student Choice**.

Students will take out the private loan, but will almost always require cosigners, which will usually be parents.

Your families won't be able to apply for federal loans until July 1 of the year the child heads to college.

STEP 27

Tell parents to explore their eligibility for education tax credits. The most valuable is the **American Opportunity Tax Credit**, which gives parents a $2,500 tax credit (not a deduction!) for each child in college for spending at least $4,000 for a year of qualified college expenses.

Claiming this credit and other education tax benefits can be tricky. The best advice that I've seen on the issue comes from this post on Edvisors.com:

Picking the Best Mix of Education Tax Credits and Deductions

Here is a blog post I wrote about this topic:

Claiming Valuable Education Tax Credits