



How Need Based Financial Aid Works

What's a FAFSA?

- **Free Application for Federal Student Aid** - A universal measuring tool that the federal government uses to determine a family's financial strength (i.e. Expected Family Contribution (EFC)) compared to other families in the country. A FAFSA must be completed every year a student is in college.
 - FAFSA is the *Federal Methodology* (Title IV) of determining financial need.
 - The *Institutional Methodology* is used to determine financial need at some private schools. It measures family assets in a more comprehensive manner and may use the *CSS Profile* (an additional financial aid application).
- **Gateway to financial aid** - Although FAFSA calculations are designed primarily to determine a student's "need based" financial aid requirement, it is often used as a factor in determining "merit based" grants and scholarships as well.

What exactly does FAFSA measure? What are the major components?

- **Income** – Student income and income of the parents if a student is considered "dependent" for FAFSA purposes. Income starts with your Adjusted Gross Income (AGI) and includes other untaxed income.
- **Assets** - Student assets and assets of the parents if the student is considered "dependent" for FAFSA purposes. Assets do NOT include equity in a home or value of retirement programs such as IRA, 401K, 401b; however, parent and student owned educational savings plan (e.g. 529 plans) are included as parent assets. Also, does not include assets associated with a small business, farm/ranch (must own at least 50% and have 100 employees or less).
- **Number in household** – The student, parents (ones reported on the FAFSA), other children of the parents, others if supported more than 50% by the parents. May be a different figure than the number of dependents listed on your tax return.
- **Number in the household in college** - If parent is attending college as well as the parent's child, parent can claim student, but student cannot claim parent (true only if student is dependent).
- **Age of oldest parent** - The closer a parent is to retirement the less impact parent assets will have on the EFC.

What is the process and how does it work?

- **Student should file FAFSA before March 2 (online) each year.** This will facilitate possible acquisition and renewal of entitlement aid from **Cal Grant** (applies to California schools only). Students may submit their FAFSA beginning October 1. Students and parents must obtain an FSA ID prior to submission: fsaid.ed.gov
- **An EFC (Expected Family Contribution) is established from the five components.** EFC is a "theoretical" description of a family's financial strength. The EFC is used to determine financial aid eligibility for the student.

Financial Aid Process Example:

- **Upon submission of the FAFSA, all information is automatically transmitted to:**
 - The federal government
 - The state government
 - All colleges listed on the FAFSA

- **Cost of Attendance (COA) is part of the financial need calculation**

- 2019-2020 COA at XYZ University:

• Tuition	\$15,000
• Books/Materials	1,500
• Room & Board	10,800
• Transportation	1,200
• Incidentals/Misc.	<u>2,500</u>
Total COA	\$31,000

Cost of Attendance will vary between colleges

- **Each college issues a “Financial Aid Award Letter”**

Cost of Attendance (COA)	\$31,000
EFC (Expected Family Contribution)	<u>-5,000</u>
Financial need	\$26,000

Financial Aid Awards:

State Grant	\$12,000
XYZ Alum Grant	4,000
Local Community Grant	1,500
Federal Direct Loan	<u>3,500</u>
Total Awards	\$21,000

Sample

Unmet Need (\$26,000-\$21,000) = \$5,000* Family Funds
Original EFC = \$5,000* Family Funds

*** (Total Family Funds=\$10,000) \$31,000 (Cost of Attendance)**

- **How do families address “unmet need” and “EFC”?**

- “Negotiate” with the college
- Decrease the true cost of attendance by reducing expenses and budgeting accordingly
- Pursue additional scholarships
- Family resources (examples: income, savings, selling of assets, second mortgages)
- Federal Student Loans- Direct Subsidized, Direct Unsubsidized, PLUS
- Private Loans

Note: You can estimate your EFC by using an online EFC calculator: Search for EFC Calculator

- 2 good calculators:
 - Taming the Highest Cost of College
 - Department of Education: fafsa4caster

Encourage career path exploration: Declaring an undergraduate major associated with a career path can save thousands of dollars compared to the potential costs of changing majors or enrolling as “undeclared”.

Encourage student to get good grades: Some financial aid experts have compared an “A” in high school to an average equivalent of \$1,500 in financial aid.

Encourage the use of a planner/calendar: Leaving college before graduating is often attributed to a lack of organizational skills combined with newly found freedoms.

Apply to more than one college: Not all award letters are created equal, so we recommend “casting a wide net” during the application process. You may receive very different award packages from different schools.

Special Circumstances/Professional Judgment: May be considered in cases of significant income reduction, death, loss of a job, abuse, divorce, one-time settlement income benefit, etc. The new financial circumstances may be presented to the college for re-consideration of financial aid. EFC may be changed due to special circumstances.

Be sure to utilize the College OPTIONS Financial Aid Tools at www.collegeoptions.org (Financial Aid)