



College Financing Insights

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Many pundits claim to be experts on the subject of Financial Aid. Most write blogs, newsletters and self-publish books. Most leave parents as confused as they were prior to reading these vehicles or even worse, they are a thinly veiled sales pitch. This month my objective is to give parents a simple understanding of this very complex, bureaucratic system. My aim is to clarify, not confuse, and to fortify you with the knowledge of the process and to direct you to positive action that will enhance your chances of obtaining Financial Aid. To this end we hope to enrich your understanding, address your concerns, point you in the right direction, acquaint you with your options and sources of aid, and arm you with sufficient knowledge so that you are able to obtain the maximum aid for which you are eligible.

This month I will give you a clear, easy to understand overview of your expected family contribution, need-based financial aid, merit aid, the FAFSA and CSS Profile college aid forms, the Federal Methodology, Institutional Methodology and the Consensus Methodology of calculating EFC.

The first step in applying for need-based financial aid is just that, applying. You do that by filling out at least one and most likely two or more forms. The first form, The FAFSA (Free Application for Federal Student Aid) is used to determine the eligibility for federal aid, and most state aid. If the school awards federal aid, and just about every school does, you need to fill this form out. The second form, the CSS Profile, is required by about 200 private schools and a smattering of publics. This form is used to determine eligibility for the schools own, institutional money. I explain the difference between the two in that the FAFSA is like going to the dentist for a tooth cleaning. If you are prepared, floss and brush every day-do your income and asset planning etc., it is not brain surgery, it is more of a nuisance than anything else. As long as you are prepared and are familiar with taxes, finances and financial aid, it is no big deal. The CSS Profile on the other hand is like a colonoscopy. The form is a lot longer and goes into much more specific detail about your family, your family's income and assets. There is also a group of 23 that make up what is known as the 568 Presidents' Group, which was formed by the presidents of those institutions for the purposes of assessing students' ability to pay for college using a "consensus" methodology. The 568 Presidents' Group schools also require the CSS Profile to be completed but they treat students' assets and parents' home equity different (more favorable to families) than the institutional methodology does. Thus, there are two financial aid forms but three methodologies of calculating a student's expected family contribution.

After you complete your required forms, you submit then electronically to each respective processing center. Your information on the form then goes through the aid calculation for each formula (Federal Methodology, Institutional Methodology, and Consensus Methodology.) The output is your EFC (Expected Family Contribution.) The processing centers then send the output to the schools you list on the forms. Your EFC is a dollar amount the government and the schools expect you to contribute to college. It is used to assess the family's ability to pay for college. Your EFC is determined by four primary factors: Student's income, student's assets, parent's income and parent's assets. It also is affected by the number of students in college at the same time. And because the three formulas calculate EFC differently, it's likely that the student's EFC under each formula will be different, sometimes drastically different!

EFC and Financial Aid Eligibility

EFC is used to determine aid eligibility in what is called the Needs Based Formula. It is a rather simplistic formula: $COA - EFC = \text{Need}$. If the total cost of the college (COA) is greater than the family's EFC than the student is eligible to receive that amount of need-based aid.

Cost of attendance is the total cost of enrolling at a college, including tuition, fees, room & board, books, travel and personal expenses. So if you know the cost of a specific college you can subtract your child's EFC from that cost to determine if your child is eligible for need-based financial aid at that college.

Quick Rough EST Estimates (2015-2016) courtesy of Troy Onick

2015-2016 Federal EFC Quick Reference Table				
AGI	Number of Dependent children			
	1	2	3	4
\$30,000	\$1,088	\$0	\$0	\$0
\$32,500	\$1,525	\$692	\$0	\$0
\$35,000	\$1,961	\$1,128	\$0	\$0
\$37,500	\$2,398	\$1,565	\$796	\$0
\$40,000	\$2,823	\$2,001	\$1,232	\$0
\$42,500	\$3,232	\$2,438	\$1,669	\$779
\$45,000	\$3,327	\$2,849	\$2,105	\$1,215
\$47,500	\$3,792	\$3,258	\$2,529	\$1,652
\$50,000	\$4,224	\$3,356	\$2,938	\$2,088
\$52,500	\$4,763	\$3,820	\$3,347	\$2,497
\$55,000	\$5,230	\$4,257	\$3,457	\$2,906
\$57,500	\$5,862	\$4,796	\$3,922	\$3,315
\$60,000	\$6,401	\$5,269	\$4,375	\$3,421
\$62,500	\$7,144	\$5,901	\$4,914	\$3,885
\$65,000	\$7,764	\$6,446	\$5,407	\$4,333
\$67,500	\$8,638	\$7,190	\$6,039	\$4,872
\$70,000	\$9,511	\$7,818	\$6,609	\$5,358
\$72,500	\$10,385	\$8,692	\$7,352	\$5,990
\$75,000	\$11,259	\$9,565	\$8,009	\$6,550
\$80,000	\$13,006	\$11,312	\$9,756	\$7,940
\$85,000	\$14,753	\$13,060	\$11,503	\$9,687
\$90,000	\$16,500	\$14,807	\$13,250	\$11,435
\$95,000	\$18,023	\$16,501	\$14,997	\$13,182
\$100,000	\$19,535	\$18,014	\$16,628	\$14,929
\$105,000	\$21,047	\$19,526	\$18,140	\$16,497
\$110,000	\$22,559	\$21,038	\$19,653	\$18,009
\$115,000	\$24,072	\$22,433	\$21,047	\$19,404
\$120,000	\$24,993	\$23,236	\$21,851	\$20,207

2015-2016 Federal EFC Quick Reference Table				
AGI	Number of Dependent Children			
	1	2	3	4
\$125,000	\$26,653	\$25,184	\$23,391	\$21,748
\$130,000	\$28,311	\$26,320	\$24,934	\$23,288
\$135,000	\$29,969	\$27,978	\$26,475	\$24,831
\$140,000	\$31,627	\$29,636	\$28,015	\$26,372
\$145,000	\$33,285	\$31,294	\$29,556	\$27,912
\$150,000	\$34,943	\$32,952	\$31,096	\$29,452
\$155,000	\$36,554	\$34,563	\$32,707	\$30,946
\$160,000	\$38,156	\$36,173	\$34,318	\$32,439
\$165,000	\$39,697	\$37,757	\$35,929	\$33,873
\$170,000	\$41,237	\$39,297	\$37,493	\$35,190
\$175,000	\$42,778	\$40,838	\$39,034	\$36,624
\$180,000	\$44,318	\$42,378	\$40,574	\$38,059
\$185,000	\$45,859	\$43,918	\$42,037	\$39,494
\$190,000	\$47,399	\$45,459	\$43,471	\$40,928
\$195,000	\$48,986	\$47,046	\$44,953	\$42,410
\$200,000	\$50,574	\$48,634	\$46,435	\$43,892
\$205,000	\$52,161	\$50,200	\$47,916	\$45,374
\$210,000	\$53,749	\$51,682	\$49,398	\$46,855
\$215,000	\$55,336	\$53,164	\$50,880	\$48,337
\$220,000	\$56,924	\$54,645	\$52,361	\$49,819
\$225,000	\$58,511	\$56,127	\$53,843	\$51,300
\$230,000	\$59,991	\$57,571	\$55,287	\$52,744
\$235,000	\$61,414	\$58,994	\$56,709	\$54,167
\$240,000	\$62,837	\$60,417	\$58,132	\$55,590
\$245,000	\$64,260	\$61,839	\$59,555	\$57,013
\$250,000	\$65,683	\$63,262	\$60,978	\$58,436
\$425,000	\$115,485	\$113,065	\$110,781	\$108,238

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- **Blue**= Amount of need-based eligible for at 2 yr. public, 4 yr. public, 4 yr. private colleges and 4 yr. elites
- **Green**= Amount of need-based eligible for at 4 yr. public, 4 yr. private colleges and 4 yr. Elites
- **Yellow**= Amount of need-based eligible for at 4 yr. private colleges and 4 yr. Elites
- **Orange**= Amount of need-based eligible for at 4 yr. Elites
- **Red**= Not Eligible for need-based aid.

How Assets Are Counted On College Aid Forms

The EFCs in the table do not take into consideration any parent or student assets that may be reportable on the financial aid forms, and counted in the aid formulas. The intent of this table is to give you a simplified quick reference to EFC.

In general, the assets that get counted are non-retirement assets, and the aid formulas assess assets in the student's name significantly more heavily than they do parents' assets, except under the Consensus Methodology. The FM assesses student assets at 20%-25% of their value. Parental assets are assessed at 5%-5.64%. For example if the student has a \$10,000 CD, his eligibility would be lowered by \$2,000-\$2,500 (\$10,000 X 20%-25%) If the same asset were held by the parents, forgetting about the asset protection allowance (see below for link to previous Newsletter) it would "only" be counted against the family in the amount of \$500-\$564 (\$10,000 X 5.00% -5.64%) The Consensus Method treats both student and parent assets at 5%.

Small business assets do not count under the Federal Methodology, but they do under the Institutional and Consensus Methodologies. Likewise, home equity counts under the Institutional Methodology but not at all in the Federal Method. So you can have 10 million dollar house with no mortgage and the Federal Method will not assess it at all. However, while home equity is assessed in the Consensus Method it is capped at 1.2 times parent's adjusted gross income (AGI). So if your parents AGI is \$100,000 the Consensus Method will cap the amount of home equity against the family at \$120,000. Therefore, when your assets are added into the overall aid calculation your actual EFC may be higher. For an in-depth discussion on assets and eligibility, and to determine if repositioning your assets will help you qualify for more college aid, read my previous Newsletters [here](#).

Using EFC to Determine Eligibility

EFC < COA= Eligible

Using the guide from above, if your income is \$100,000 and you have three dependent children, one of which is enrolling in college, your EFC is \$16,628 and is blue, which means that based on this estimated EFC using your income alone (your actual EFC may be higher), your child should qualify for need-based financial aid at all three types of colleges. As a result, your child is eligible to receive need-based grants, scholarships, work-study and student loans as part of the child's financial aid package. **Eligibility does not mean certainty, however.** You will have to wait to see what form of aid the child gets and how much it is worth.

EFC > COA = Not Eligible

On the other hand, if your income is \$250,000 and you have one dependent child, then your EFC is \$65,683 and is red, which means that your child won't likely qualify for need-based aid at any of the four types of schools used (Two-year public, four-year public, four-year private and four-year elite private colleges). *But, that doesn't mean that you have to pay \$65,683 per year if*

the “sticker prices” are less than that. It also does not mean that all is hopeless and you will not get any type of financial relief. I have written extensively and helped hundreds of “affluent parents” save money on college. Additionally do not forget about Merit Aid which I will write about below.

Two Kids in College at the Same Time

Keep in mind that if you have more than one student in college the FM EFC is cut in half. The IM applies about 60% of the Parent’s contribution to each student. So if your EFC with one student in college is \$20,000, with 2 is going to be about \$10,000 *for each student*. To give you an idea how this works let’s a school that costs \$50,000, your EFC is \$20,000, which means that you are eligible for \$30,000 ($\$50,000 - \$20,000 = \$30,000$). Now your second student is going to school. This school is also \$50,000, but with two in school your EFC for student 1 is \$10,000 and student 2 is \$10,000, So for student 1 you are now eligible for \$40,000 ($\$50,000 - \$10,000 = \$40,000$) The same equation will hold true for student 2. So while the family’s total EFC is still \$20,000, your eligibility is increased at each school. Bottom line: If you have more than one child attending a pricey private college, you may qualify for need-based aid even at a fairly high income level.

Eligibility Differs at Each School

A student’s eligibility for need-based aid is directly related to the cost of attendance of each college the student is considering. The student may qualify for need-based aid at one college and not at another. Using the guide above, based solely on the parent’s income, and forgetting all assets for the moment, parents earning \$140,000 per year in income would have an EFC of approximately \$32,000 per year under the federal formula with one child in college. At a private college costing \$65,000 per year, the student would qualify for \$33,000 ($\$65,000 - \$32,000$) per year in need-based student. However, at the state university costing \$30,000 per year, the student wouldn’t qualify for any need-based student aid because the student’s EFC is higher than the cost of attendance ($\$30,000 - \$32,000 < 0$).

Estimating the Financial Aid Award

Keep in mind that just because a student is eligible for need-based aid does not mean he is going to receive it. To get an idea of what amount of aid the student will receive from a particular school, focus on the statistic “percentage of need met.” Percentage of need met equals the average of the percentage of need that the college meets for students that had need-based eligibility in the previous year’s incoming freshman class. For example, a student has a financial need of \$10,000, if the school awards him/her \$8,000 in aid, they have met 80% of his/her need. Some colleges may only meet 70% of student’s need, and another college (like many of the elite private colleges) might meet 100% of need. That’s a very big difference in aid, especially over four years.

What to Do If Your Family Has Special Financial Circumstances

There is no place on the FAFSA to explain any extenuating circumstances that have affected or may affect your family’s finances. You should have a written explanation of these circumstances and contact the financial aid office at each college your child is applying to and ask them the process for receiving the letter. The CSS Profile, however, does have a section on the application to explain your special situation. These are situations are circumstances such as a family illness, divorce, separation, one-time spikes in income, job loss and other LEGITIMATE circumstances. Your lack of planning to pay for college is NOT a special situation. Be concise and professional in your explanations and be prepared to provide additional detailed documentation as the financial aid office will most likely not just take your word for it.

Positioning the Student to Get the Most Aid

The next thing you can do with the percentage of need met is to apply the rule of thumb that: the more the college wants the student, from an admissions perspective, or the college wants the student for a particular reason (whatever that may be), the higher percentage of need met the student will receive. It may also mean that the percentage may be higher than the published average for that school, and the student might expect the aid package to contain more grants and scholarships than student loans and work-study, especially at private colleges where they have greater flexibility to discount their tuition. If the student is in the middle or low end of the admissions pool, the college may not be all that interested in the student, but to help fill the college's seats, the student might get admitted anyway, but the student's aid award may be a very poor one. Essentially, the college is saying, you can come, but you're going to have to pay just about full price because the premium that you and others in this category are paying, goes to finance the discounts we give to the "in-demand" students. This is a clear example of how college selection and affordability are integrated. It also demonstrates why knowing not only what EFC formula and aid forms a college requires are critical, but also if your student is in-demand, mid-range or in the lower tier of the admissions pool BEFORE you apply. I cover this extensively in my previous newsletter found [here](#).

Merit Aid

Merit aid is student aid that is based, not on finances, but on one or more of the student's academic, athletic, music and other talents. The best things about merit aid are 1) merit awards are typically scholarships that don't need to be repaid, and 2) students can be awarded merit aid regardless of the family's income and assets. Academic merit aid is typically based on the student's grade point average (GPA) and standardized test scores (SAT and ACT), and occasionally on class rank. It is pretty black and white; if you have the grades – you get the aid. The one thing that astounds parents and students, often too late in the college admissions process, is to find out that **almost all of the elite colleges in the country do not offer academic merit aid. You get aid at those institutions only if you demonstrate a financial need for it, which means your EFC has to be less than the sticker price. Otherwise, you'll be writing a very large check.** Yet another reason a family needs to thoroughly research the financial aid options at each school. From legendary coaches to revered military leaders, they all say the same thing: it's all in the preparation. *Call me or e-mail me and I can give an idea about the amount merit aid you may get at just about any college you may be interested in.*

Award Letter

At the end of the college admissions and aid application process, your college list will be whittled down to the colleges to which the student has been accepted. These colleges will send the student an official financial aid award letter that lists all of the aid that he/she has been awarded, including federal grants, scholarships and loans, institutional scholarships, state grants, student loans, work-study, etc. The aid office at each college "packages" all of this aid and sends the student the award letter explaining the aid package. The award letter also includes the total cost of attendance to enroll for the upcoming academic year, including tuition, fees, room, board, books, travel and personal expenses.

The only thing left will be the sticker shock when you receive your bill. Remember, you are not going to get a free ride and regardless of how much financial aid you receive, it will never be easy to pay for college. The hard part is after all the aid is doled out, how in the world will you be able to pay for it? I will cover this and many other critical issues in future Newsletters.

Well, that's it. I hope his helps. If you have any questions or would like to discuss your individual situation please feel free to shoot me an e-mail or call me.

Until Next Time....

Best Wishes,
Michael Gaer

P.S. Please like, follow and connect with me on Facebook, Twitter and LinkedIn to get instantaneous updates and news regarding college financial planning.

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