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College Financing Insights

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Last-Minute Strategies for Maximizing Your Eligibility for College Funding

If your child is a college-bound high school senior, there are some last-minute strategies you can implement immediately to ensure you get the maximum amount of funding for your child's college education.

So, here's a list of vital actions you must take immediately:

Action #1 – Finalize The List Of Colleges And Universities Your Child Will Be Applying To.

I'm consistently amazed by how many families literally wait until the absolute last minute to decide which schools to apply to. Further, I am also flabbergasted by the process parents and students use to select their colleges. Most do not even consider the financial implications of such a move. They listen to advisors who tell them to “Get in and worry about paying for it later.” Huh? We are talking in excess of $60,000 a year in some instances! Is it any wonder we have a student debt crisis on our hands?

Without knowing which schools your child is going to apply to, it's virtually impossible to do research and find out which schools have the best history of giving "top-notch" college funding packages.

Last month I mentioned my “Positioning Strategy” which will show you which colleges will give the student scholarships and grants as well as how much of these awards. If you missed last month’s letter or would like a refresher, shoot me an e-mail or feel free to call.

Bottom Line: Finalize your list of colleges and universities immediately, and make sure you have 4-5 of the choices will be able to offer the student a substantial award letter.

Action #2 – Find Out "Priority Filing Deadlines" And Which Financial Aid Forms Each School Requires.

Priority filing deadline dates for submitting financial aid forms vary from school to school. It's critical that you find out what the deadlines are at each school your child is applying to, and make sure you get your financial aid forms in before the deadline.

It's also important to find out which financial aid forms each school requires. Some schools (mostly state colleges) require only the FAFSA form, which cannot be submitted before January 1st. Of course this changes next year with the advent of the new timelines. Again, this was covered last month. If you missed it e-mail me and I will get you another copy. Other colleges (mostly private universities) also require you to fill out a CSS Profile form as well. The priority filing dates for submitting a CSS Profile form can be as early as November.

Additionally, some schools require you to fill out their own Financial Aid Forms and there also may be verification forms tacked on to the total. Sounds fun right? The trick is keeping track which schools require which forms and the dates they are due.

Bottom Line: Find out which forms each school requires and what their "priority filing dates" are, and then make sure you get your forms in on time.

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Action #3 - Implement Last Minute "Income & Asset Planning" Strategies Before You Fill Out The Financial Aid Forms.

With the cost of some private colleges approaching $70,000 families who earn over $200,000 and have substantial assets, may be shocked to learn that they may qualify for financial aid. A family may also be surprised to learn how much more of the Colleges own money they may be eligible for if they structure their assets correctly and apply to the right schools.

Take for example stark differences in the assets reported on each form. You can own a $10 million house with no debt on it and the FAFSA does not even ask about it. The same goes for a small business. The FAFSA does not ask. The CSS Profile will ask about all of these and much, much more. A 529 plan titled in the student's name is counted as parental asset on FAFSA, but a student asset on CSS.

With so many manifestations of financial aid rules, you may think you are doing the right thing in certain planning situations but it may come back to hurt your aid eligibility for aid and thus raise your out-of-pocket expenses and deplete your hard earned assets you thought you were protecting. That is why it is imperative you seek a qualified professional who is adept in all the Financial Aid regulations to help you.

This is also why you MUST know how your assets will affect your eligibility and if there is anything you can and/or should do to help you BEFORE YOU FILL OUT THE FORMS. In particular you should determine the following as soon as possible:

1. Which colleges use which forms and if there are any additional forms such as verification or the schools own forms. This will also tell you which formula each school uses
2. You should do a dry run and figure you're your EFC according to each formulas (IM, FM, and CM)
3. The above 2 steps will help you determine if you will qualify for Financial Aid. You will also be able to see if your income alone throws you out of the eligibility for aid. If this is the case, you probably do not want to reallocate your assets.

Thanks but No Thanks: While friends, family and coworkers have good intentions, they are usually the worst source of financial aid advice. Your planning needs to be based on your family's unique situation only!

Need based out is determined by what's called a Needs Based Formula. NEED = (COA (Cost of Attendance)-EFC (Expected Family Contribution). The Expected Family Contribution (EFC) is the minimum amount the family is expected to contribute toward the cost of college, and is calculated using three different methods: Federal Methodology (FM), Institutional Methodology (IM) and Consensus Methodology (CM). All three EFC calculations are based on the income and assets of the parents and student as reported on the two financial aid forms, the FAFSA (FM) and the CSS Profile (IM and CM).

The Financial Aid process starts with completing the FAFSA and the CSS Profile forms. Depending on the schools you are applying to will determine if you have to file one or both forms. The FAFSA is used for Federal Aid and calculates your FM. All students must complete this form. The CSS Profile is used for the schools own money (Institutional Aid) and about 300 schools require this form in addition to the FAFSA. The CSS is used to calculate the IM. There is also a group of 26 colleges that make up what is known as the 568 Presidents' Group, which was formed by the presidents of those institutions for the purpose of assessing students' ability to pay for college using a (CM) "Consensus" methodology. The 568 Presidents' Group schools also require students to complete the CSS Profile, 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 (EFC). Got it? Ok good.

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Which Assets Count

Retirement assets such as 401k, 403b, IRAs, SEP, SIMPLE, Keogh, profit sharing, pensions and Roth IRAs are not included in the calculation of EFC under any of the three EFC methodologies. Assets that aren't in retirement accounts — balances in checking, savings, CDs, brokerage accounts, money market, investment real estate, stocks, bonds, mutual funds, ETFs, commodities and 529 college savings and prepaid plans—do get included in the EFC formulas. Trust funds must be reported regardless of whether or not the funds are currently available to you or your child. On the FAFSA, if only interest or principal will be available, the present value should be calculated by the trust officer and reported accordingly.

Parents receive an "Asset Protection Allowance" which enables the parents to keep from assessment, an emergency preserve of around $30,000 to $50,000. Any assessable assets above this amount would be the parent's available asset value. Parents are expected to use up to 5.64% (Federal) and 5% (Institutional and Consensus), of those available assets each year on college. *Small businesses, home equity and non-qualified annuities are not counted in the FM, but they are in the IM and CM, although, under the CM home equity is capped at 1.2 times the parent's adjusted gross income.*

Retirement assets do not get counted, but your prior year's contributions to qualified retirement accounts do get counted as untaxed income, and are added back to your adjusted gross income in the income portion of the aid formula. Life insurance cash values are not counted under any of the formulas, but a few highly selective colleges will ask about policy cash values in their supplemental questions on the CSS Profile. Personal assets like cars, clothes and household items do not count under any of the formulas, but collectibles do.

Parent Assets: Do the Math

If there is $25,000 in reportable assets that you own, and your asset protection allowance is $35,000, then there will be no contribution expected from the assets because the total reportable assets do not exceed the asset protection allowance. If you have $200,000 in reportable assets, you would be expected to make a 5.64% contribution from $165,000 of those assets ($200,000 – $35,000 =$165,000 times 5.64% = $9,306 each year).

Student Assets: Do the Math

If your child has $25,000 in savings account, the child will be expected to contribute 20% of the asset ($5,000) each year toward the cost of college under the federal methodology, 25% under the IM ($6,250) and only 5% under the CM ($1,250). If your child owns a 529 college account of Coverdell ESA the aid treatment is more favorable under the federal calculation. The same $25,000 in a 529 account will only be assessed at a maximum of 5.64%, and sometimes it may not be assessed at all. Legislation was passed several years ago that changed the treatment of student-owned 529 and ESA assets for federal financial aid purposes. Now, under the federal need analysis formula only (not the IM or CM), 529 and ESA assets owned by students are considered assets of the parent for federal aid purposes, therefore they get more favorable aid treatment than other assets like savings accounts, mutual funds, stocks and bonds. So, for federal aid purposes (i.e. Pell grants, Subsidized Stafford loans, etc.), if money is saved for college in 529 plans and ESAs in the child's name, it has the same financial aid impact as saving in parents' names. Remember, parents get an asset protection allowance. So if parental assets + student 529 assets combined are less than the asset protection allowance, the child's 529 assets will not be counted at all.

Saving In Your Child's Name Isn't Always Bad

Based on your income alone, if your child's EFC is high enough to prevent him from qualifying for need-based financial aid, then it doesn't matter if your child has a pile of assets in his name or not. In fact, in some cases it can be a tax benefit to shift appreciated assets to your child, even under the so-called kiddie tax rules. The reason is so you can implement a variety of tax-saving tactics that employ the use of the standard deduction, personal exemption and the $2,500 American Opportunity Tax Credit on your child's tax return during the college years, and minimize or eliminate the federal tax your child will owe. You'll pay less tax this way than if you sell appreciated assets in your tax bracket, even with the kiddie tax. I use this strategy plus several others in my Affluent College Planning. Remember, before you pay the cost of college you have to pay taxes first, so reduce the tax cost of college reduces the overall cost of college. It is what I call "tax aid."

I will reiterate two of the most critical factors in college aid eligibility: 1) Knowing ahead of time which colleges use which aid formulas, and 2) knowing how your family's finances will be assessed under each formula and, therefore, each college.

SHOULD YOU REPOSITION YOUR ASSETS?

Once you fill out the financial aid forms, it's going to be awfully difficult to convince the colleges that your information has changed. Therefore, it's imperative you do your "income and asset planning" before you commit your financial data to writing.

Things like – how to value your home and other properties, whether or not to keep assets in your child's name, whether to shift assets, gift assets, or spend assets down should all be thought through and done before you fill out the forms.

That brings us to one of the most misunderstood topics in College Financial Planning: Should You reposition Your Assets In Order To Qualify for More Financial Aid?

The best advice on positioning clients' assets for financial aid is based on several factors. First in order to fully understand the concept let's clarify what type of financial aid the asset question pertains to. There are two types of college aid, need-based aid and academic merit aid. Merit aid is based on academics: standardized tests and GPA. If you have the grades, you get the aid. For example, a student might have a 3.8 GPA and an ACT score of 32 and receive a $15,000 per year Dean's Scholarship.

Need-based aid eligibility is based on the formula (Cost of attendance – Expected Family Contribution) (SEE ABOVE)

So this is how I arrive at if a family should consider repositioning their assets.

If the expected family contribution based on parental income alone is higher than the cost of the college, the student won't qualify for need-based aid regardless of the amount of family assets. Therefore, unless the parents can lower their income, neither the parent's nor student's assets impact aid eligibility.

However, if the income-only EFC is less than the college's cost, then depending on family assets the student may qualify for need-based aid. If the student has assets, they will impact aid eligibility, and if the parent's reportable assets exceed their savings allowance, their "excess" assets will impact eligibility too. So then I look at reasonable options the family has to decrease reportable assets and increase aid eligibility, knowing that they *still have to pay their share of the cost out of their income, assets and loans (if necessary)*.

If a family doesn't qualify for aid, I focus on tax savings, merit aid and how they will pay their share of the cost.

Paying for college doesn't happen in a financial vacuum. What are the tax ramifications? The Retirement ramifications? You have to consider the tax cost of moving an asset. Will it spike your income this year and ruin all chance of aid next year? Does it make overall financial sense for college funding and retirement savings?

What if one of your biggest assets is your home equity, is your child looking at colleges that don't count home equity, count 100% of it against you or does the college base how home equity is counted against you on how much income you have? You MUST know this if you plan to be able to afford to pay for college.

Your focus should not center on financial aid alone! The consultative approach to college planning integrates college selection, financial aid, "tax aid" and the best use of the family's personal resources into a best strategy that will allow the family to pay for college and grow assets for retirement. It's all interconnected and each family's strategy should be too. Unfortunately, parents can have a financial advisor, CPA, admissions consultant, insurance and legal professionals and not get good advice at all on paying for college. It happens all of the time. That is because they are experts in their own areas, not how all those areas come together to pay for college based on college selection, financial aid, tax strategies and wealth management – ultimately preserving parents' hard earned assets and income. This is also why most of what you read about paying for college in the media, at college aid nights, and from most financial firms, is often misleading or only correct in some cases or at some colleges. The answer to almost every college planning question is, it depends. It depends on you and your family.

Every family's best strategy is unique to them, their college selection choices, financial resources and what sacrifices they want to make. With the price of college soaring to $100,000 – $250,000 in today's prices per child (after tax), parents are looking for savvy ways to pay the best price for the best colleges. That requires a strategy – your strategy.

Bottom Line: If you haven't already done so, find a competent college financial planning consultant, like myself, to help you implement as many last-minute strategies as possible before you fill out the forms. By the way, e-mail or call me anytime and I'd be happy to let you know if I can help you.

Action #4 – Make Sure Your Financial Data Is Consistent When You Fill Out The Forms.

As mentioned above, many schools require you to fill out multiple financial aid forms, which ask many of the same questions.

The reason they do this is because they want to make sure you're being consistent with your data from one form to the next.

Nothing will slow down the process more than when a college financial aid officer discovers an inconsistency on your forms.

Bottom Line: Make sure you keep copies of each form so you can check one against the other to make sure the information is the same on all forms.

Action #5 – Let Your Child Apply To Private Universities Even If You Think You Can't Afford It!

Most parents wrongly assume they can't afford to send their child to an expensive private college. In many cases, this is untrue. You see, many private colleges and universities are "well-endowed" by their generous alumni, and therefore have the ability to meet more of your "Financial Need" at their school. Believe it or not, it may actually end up costing you more "out-of-pocket" to send your child to a local state college than an expensive out-of-state private university since the private school is able to meet most or all of your family's need above your "Family Contribution." Don't believe me? I have personally witnessed this happen more times than not. And if I am wrong? What's the harm? If the Private School does not offer the amount of aid needed so you can afford this school, you are always able to attend the Public that you were banking on.

Bottom line:

"It is not the Price Tag, but the PRICE YOU PAY that matters!"
Never discount a Private School because of the price tag!

I also want to warn you about Out-of –State Public Schools. University of Delaware, UConn, UMaryland, Penn State, etc… These schools will be THE most expensive schools you will apply to! The reason, these schools are already $10-$12K more than your inexpensive In-State Public schools. Also, like I said above, these Public schools do not have money to give out in aid, they are publicly funded by yours and mine tax dollars so the pickings are slim. That being said, and every school will admit this, the money they give out is usually reserved to “Keep the best and brightest in-state.” That is what NJ STARS program is all about.

Bottom Line: *Make sure you let your child apply to any school they think they have a shot of getting into even if it's got a high price tag since it may end up costing you the same or less than a state school.*

Action #6 – Look into Alternate Ways to Pay for Your Child's College Education If You're Not Eligible to Receive "Need-Based" Funding.

Just because you make too much money to qualify for "need-based" aid doesn't mean you don't need help paying for your child's college education.

Even families making over $200,000 a year are going to have a tough time coming up with $60,000 per year per child after taxes. If you're in the highest tax bracket, that means the Federal, state, and local government takes about 50% of your earnings, so you actually have to make $120,000 before taxes, before you pay your mortgage, car payments, electric, food etc... to pay for a $60,000 a year education after taxes.

There are few people in the country that can just write a check for $60k. If your name is not Gates, Rockefeller, Trump etc... odds are you cannot just write that check! Therein lies the rub. You may be well off in the eyes of the Financial Aid powers making over $250,000 thus getting zippo in aid. But if you live in an expensive part of the country like Northern NJ and NY, $250,000 is NOT rich and you certainly cannot write a check for $60k. So what’s a person to do? Luckily, there are some tax-advantaged strategies you can use to help pay for college. I have helped several families use specific strategies designed for this exact purpose. Call me or e-mail me to find out more.

One of the best strategies is using some of the equity you have built up in your home to pay for college. As far a pure financial recommendation, the Home Equity is your best source. The rates are going to be significantly lower and unlike commercial educational loans, home equity loans are tax-deductible and allow you to fund college on a tax-favored basis. That being said, I realize that most of you have spent the majority of your adulthood paying your mortgage and may be all paid off or just about done and the thought of risking your home sends chills down your spine, I understand that and thus a home equity may not be for you.

If you feel confused or overwhelmed by this process and want more information on how to get started, or if would like to discuss your specific situation, please do not hesitate to call or e-mail me at the numbers listed.

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.

ATTN ALL CLIENTS: IF YOU RECEIVE ANYTHING FROM THE COLLEGES YOU ARE APPLYING TO REGARDING FINANCIAL AID, MAKE SURE YOU FORWARD THAT TO ME IMMEDIATELY!!!

Also, if you have updates or adjustments to make to your income or assets, please contact me to let me know ASAP