Make A Resolution To Be Informed – Tips To Maximize Financial Aid Eligibility

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If you're a parent of a high school student, make a resolution to gain a better understanding of how colleges determine their financial aid packages. Unlike what a typical financial aid information evening at your child's high school may lead you to believe, there are a lot more complexities that go on behind that financial aid package offer.

Don't Wait Till Senior Year – Sophomore Year is More Important

It will be to your advantage to structure your finances as early as your child's fall semester in their sophomore year to set up the best possible financial package. Parents of college bound students need to understand ***that tax years and school years do not match up***. FAFSA forms use information from a family's previous year's taxes. For example – a high school senior, entering college in the Fall of 2017, will need to fill out a FAFSA in October of 2016, and that information is based on the family's tax year of 2015 when the student was a second semester sophomore and first semester junior.

"For parents with high school sophomores and juniors, you need to understand that any financial decision you make in the tax year that ends in December of your child's junior year, will have an impact on your position for getting the best possible financial aid package when your child is a college freshman. And this thinking goes on not just for the first year, but for four years and beyond," said Fred Amrein, founding principal of Pennsylvania-based www.collegeaffordability.com. A father of three college graduates and the first financial advisor to be approved by the Higher Education Consultants Association, Fred's fee-only financial firm advises his clients to look at financing college as one would a well-planned four-year business plan.

With the right guidance and some end-of-the-year tax strategies, you can come away with the lowest possible Estimated Family Contribution number, or EFC, when you and your child sit down in early October and complete a Free Application for Federal Student Aid form, or FAFSA. Families with the lowest incomes may have an EFC of 0 – meaning no ability to pay for college – and the wealthiest families may have an EFC above $100,000. There are financial aid strategies for both these scenarios, and everyone in between "if you know how to play the game," said Amrein.

How Is Your EFC Determined?

A completed FAFSA form will calculate your EFC (expected family contribution) number. This number determines if – and how much – you qualify for need-based financial aid. While many families complete the FAFSA on their own in a little over an hour, it might be worth a consultation this time of year with a financial planner, who specializes in educational funding, to figure out which assets to liquidate or which funds to transfer for tax purposes to leverage the best EFC outcome.

The Federal Method EFC Calculation takes into consideration four main areas:

- Parent Income
- Parent Assets *(this does not include retirement funds, home equity, or small (Family) businesses with under 100 employees)*
- Student Income
- Student Assets
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"What most families don't understand is that an EFC is actually four different calculations. There is a lot that you can do to determine the outcome of filling out your FAFSA. This includes how you structure your assets before filing your taxes," says Amrein.

10 Strategies For Maximizing Eligibility

Once you have a better understanding of the FAFSA calculation, you may think twice about how to approach your savings, assets, and income, *especially before the end of the tax year of your child's first semester senior year in high school.*

Below are 10 strategies that could have a significant impact on need-based aid eligibility. These suggested strategies are meant to increase your awareness of different steps families can take to minimize their EFC, thereby increasing their eligibility for financial aid. Since each family's situation is unique, some or all of these strategies may not apply. Each family's EFC will differ based upon the four buckets discussed above (parent assets and income, student assets and income). In addition, depending upon the total cost of attendance for each school and your EFC, your college funding strategy will vary based on these two factors.

1. ***Save money in the parent's name, not the child's name*** or move money in the students' name to the parents before the second semester junior year of high school. FAFSA assesses parent's assets at 5.64% vs. 20% for assets in the student's name.
2. ***Compare your cost of money and evaluate if you have consumer debt (such as credit cards, auto loan balances or a mortgage) that you should consider paying off.*** The FAFSA does not account for debt, so if you have savings and any outstanding debt, you might be better off using that money to reduce your debt load, rather than have it incorporated into your EFC. *Remember, compare your cost of money* – how much are you earning on your money (in a savings account or investment) compared to how much interest you are being charged on your current debt vs. how much interest you may be charged on a student loan.
3. ***Put savings in a 529 college savings plan*** (or Coverdall savings accounts). Max out your contributions each year. All immediate family 529 plans are considered parental assets, assessed at the maximum rate of 5.64% and distributions have no impact on financial aid eligibility.
4. ***Spend down the student's assets and income first.*** If you have money in your child's name that you can't move away, it's better to use your student's assets first to pay for all college expenses. Then in subsequent years, parent assets will be assessed at the lower rate of 5.6% rather than 20%. (If you don't qualify for any financial aid because your EFC is too high, it may be better to keep the money your child's name for tax purposes.)
5. ***Accelerate necessary expenses, to reduce available cash.*** For example, if you need a new car or computer, buy it before you file the FAFSA. (If you won't qualify for financial aid because your EFC is too high, this may not apply. If you are considering purchasing a car, compare the cost of the car loan to a parent PLUS loan.)
6. ***Minimize capital gains.*** Any capital gains realized from January of junior year and throughout your child's college years, will be treated as income in your FAFSA calculation.
7. ***Maximize contributions to your retirement fund before junior year.*** Retirement savings and 401k accounts are shielded from the FAFSA formula. But retirement contributions made during the years applying for financial aid are considered income within the financial aid calculation. *So max out on saving for retirement before your kids get to December of their junior year in high school!*
8. ***Do not withdraw money from an IRA or 401k to pay for school***, as distributions count as taxable income within financial aid calculation, reducing next year's financial aid eligibility. If you must use money from your retirement funds, borrow the money from the retirement fund instead of getting a distribution. (Different circumstances apply to Roth IRAs.)
9. ***Consider the implications of how grandparents give money to help pay for college.*** There are several approaches grandparents can take if they would like to help save and pay for college. The implications depend upon if the student may be eligible for aid. To be on the save side, it's best to contribute to a 529 plan that is in the parent's name. Another option is for grandparents to pay for the last year of college or help pay off loans after the student has graduated*.
10. ***Make sure to fill out the FAFSA form completely.*** Mistakes on the form can delay processing of your application and put you at the end of the line to receive aid awards. Don't leave fields blank, even if they don't apply to you – make sure to put an "o" in those instances.
    Your EFC will change each year because in addition to income and assets, it also examines a family's demographic information, including family size, number of students in college, the age of the oldest parent, family structure (are parents married, separated, or divorced), the family's tax filing status, and the student's enrollment status.

Don't wait till senior year to become informed about the financial aid process. Pay it forward and tell parents of students in 10^{th} grade or younger to get involved and start understanding these calculations, then they will have time to make their own informed decisions.

*These are just 2 examples, consult a college financial planner to determine other strategies for grandparents that my apply to your situation.

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