



Fafsa and Financial Aid

HOSTED BY TOM DICKSON
FINANCIAL EXPERTS NETWORK
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Would you like a copy?

**The Top 12 Things Every Parent &
Grandparent Should Know About
the FAFSA**



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Tom's Loan Officer Clients

Joe Damo, AAG (Multiple States)
 Mac Tennant, Access Reverse Mortgage (FL)
 Hank Rhoads, RMF (CA)
 Steve Kaye, C2 Financial (CA)
 Harbor Mortgage (MA and RI)
 Phil Chenier, NAF (CA)

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Upcoming Webinars

WWW.FINANCIALEXPERTSNETWORK.COM

Changing How Clients Pay for College

Thursday, October 24, 2019 at 4:00 PM ET

Presented by Joe Messinger, CFP®, ChFC®, CLU®

Today's LTCi Options for Financial Advisors and Planners

Thursday, November 7, 2019 at 12:00 PM E

Presented by Tom Riekse

Tentative:

Ethics CE on Dec. 12

Must-See FinTech on Jan. 18th

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College Affordability: Financial Aid in the 21st Century

MARK KANTROWITZ

PUBLISHER AND VP OF RESEARCH, SAVINGFORCOLLEGE.COM

OCTOBER 10, 2019

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Financial Aid Myths

The unclaimed aid myth falsely claims that billions of dollars went unclaimed last year.

There's a penalty for savings, so you will get more financial aid if you don't save.

My son or daughter will win a free ride through scholarships.

We're too wealthy to qualify for aid but too poor to afford college.



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Types of Financial Aid

Gift Aid

- Grants
- Scholarships
- Tuition Waivers
- Education Tax Benefits

Self-Help Aid

- Student Employment (Work-Study)
- Student and Parent Loans
- Tuition Installment Plans

Other Aid

- Military Student Aid
- College Savings Plans
- Employer-Paid Tuition Assistance
- Loan Forgiveness and Loan Repayment Assistance Programs

Sources of Financial Aid

Federal Government

- Financial Aid
- Education Tax Benefits

State Government

Colleges and Universities

Private Foundations

Philanthropists

Corporations

Education Lenders

Employers

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How to Apply for Financial Aid

File the Free Application for Federal Student Aid (FAFSA) every year, starting with October 1 of the senior year in high school

- The FAFSA is used to apply for financial aid from the federal government, state governments and most colleges and universities
- File the FAFSA every year, even if you did not get any grants last year
- File the FAFSA as soon as possible after October 1. Students who file the FAFSA early tend to get twice as many grants, on average, as students who file the FAFSA later
- The FAFSA is available online at fafsa.ed.gov

Search for scholarships on free scholarship matching web sites

- Start searching immediately, to avoid missing deadlines
- There are scholarships for elementary and secondary school students and scholarships available to students who are already enrolled in college
- www.savingforcollege.com/article/how-to-find-scholarships-for-college

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How to Apply for Financial Aid in 2020-2021

Student and parent should each get a FSA ID at fsaid.ed.gov

Complete and submit the 2020-2021 FAFSA (Free Application for Federal Student Aid) at fafsa.ed.gov

After submitting the completed and electronically signed 2020-2021 FAFSA online, the Confirmation Page will show

- Estimated Federal Pell Grant eligibility
 - a federal grant worth up to \$6,195 (in 2019-2020) based on the student's calculated federal need and enrollment status
- Estimated Federal Direct Student Loan eligibility

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FAFSA Information & Tips



The FAFSA start date is October 1

File as soon as possible. Students who file the FAFSA in the first three months tend to get more than double the grants, on average, of students who file later

Most people will have filed their 2018 federal income tax returns by October 15, 2019

Do not substitute 2019 income and tax information for 2018 income and tax information

If your income has changed, file an appeal with the college financial aid office

Student and at least one parent whose information is reported must complete and sign the FAFSA



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Impact of Income and Assets on Federal Aid

Item	Protected Portion	Reduction in Aid
Parent Assets	<ul style="list-style-type: none"> • Family Home • Retirement Plans • Small Family Businesses • Asset Protection Allowance • Simplified Needs Test 	2.64% to 5.64% of net asset value for reportable assets above the asset protection allowance
Student Assets	<ul style="list-style-type: none"> • Family Home • Retirement Plans • Small Family Businesses • Simplified Needs Test 	20% of net asset value for reportable assets
Parent Income	Income Protection Allowance (IPA) (\$19,000 to \$40,000)	22% to 47% of available income after IPA
Student Income	Income Protection Allowance (IPA) 2019-20: \$6,660 2020-21: \$6,840	50% of available income after IPA
Number in College	The Parent Contribution is divided by the number of children in college, increasing need-based aid eligibility	

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Special Financial Aid Treatment of 529 Plans

Account Owner	Treatment of Assets	Treatment of Qualified Distributions	Treatment of Non-Qualified Distributions
Dependent Student	Parent Asset	Ignored	Taxable income to beneficiary
Custodial Parent of Dependent Student	Parent Asset	Ignored	Taxable income to beneficiary
Independent Student	Student Asset	Ignored	Taxable income to beneficiary
Grandparent and everybody else	Ignored	Untaxed income to the beneficiary	Taxable income to beneficiary

Low Impact: Parent Assets

High Impact: Student Assets, Income

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How to Increase Aid Eligibility (1/3)

Avoid increasing income during the base year

- Avoid capital gains or offset them with capital losses
- Do not exercise stock options
- Defer bonuses
- Avoid taking a distribution from a retirement plan, even a tax-free return of contributions from a Roth IRA
- Gifts to the student are treated as income, but gifts to the parent are not



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How to Increase Aid Eligibility (2/3)

Spend assets strategically

- Spend down student assets before touching parent assets
- Spend on necessary expenses before filing the FAFSA instead of after
- Use assets to pay down credit card debt, auto loans and, in some cases, mortgages
- Carve out \$4,000 in tuition and textbook expenses to qualify for the American Opportunity Tax Credit before relying on tax-free distributions from a 529 plan

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How to Increase Aid Eligibility (3/3)

Demographic changes can affect aid eligibility

- Increase the number of children enrolled in college at the same time
- When a dependent student becomes independent, sometimes it will increase the student's aid eligibility
- If the parents are divorced or separated, choose the custodial parent carefully to maximize aid eligibility
 - Usually this is the parent with lower income, but a stepparent can affect income, assets and number in college

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Appeal for More Financial Aid

If you have unusual financial circumstances, such as a big drop in income or high unreimbursed medical expenses, ask the college for a professional judgment review.

Special circumstances include:

- Changes from the base year (job loss, salary reduction)
- Anything that distinguishes the family's finances from the typical family (high unreimbursed medical costs, high dependent care costs for a special needs child or elderly parent, parents enrolled in college)
- One time events that are not reflective of ability to pay

You can appeal for more financial aid even in the middle of the academic year.

The professional judgment review process is driven by documentation.

Colleges more likely to make adjustments when the special circumstances are due to factors beyond the family's control

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Search for Scholarships Online

Use a free scholarship matching site to find all of the scholarships for which you are eligible.

Start searching for scholarships ASAP. The sooner you start, the fewer deadlines you'll miss.

The odds of winning a scholarship are about 1 in 8 and the average amount received is about \$4,000.

Answer the optional questions for more matches

Free scholarship matching sites include:

- Fastweb.com
- College Board's Big Future



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Apply for Scholarships

Apply to all the scholarships for which you are eligible. It's a numbers game. But only apply for a scholarship if you satisfy all the requirements.

Pursue less competitive scholarships, such as small awards and essay contests

Read and follow the directions carefully. Do not leave any question blank. Be specific and avoid vagueness and generalities. Tailor your application to the sponsor's goals.

Proofread the application for spelling and grammar. Don't miss deadlines. Keep a photocopy of the final application.

If you have difficulty writing essays, record yourself as you answer the question out loud and transcribe the recording.

Maintain a professional presence online.

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Education Tax Benefits

Education tax benefits provide money for college when you file your federal income tax returns.

There are two overlapping education tax benefit programs: the American Opportunity tax credit (Hope Scholarship) and the Lifetime Learning tax credit.

- You cannot double-dip.
- The American Opportunity Tax Credit is best for most families
- The Lifetime Learning Tax Credit benefits graduate students who are ineligible for the American Opportunity Tax Credit.

There is also a student loan interest deduction.

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Compare College Costs using the Net Price

Net price is the difference between the cost of attendance and gift aid

Think of the net price as a discounted sticker price.

The net price is the amount you will pay from savings, income and loans to cover college costs

Students may have greater financial need at higher-cost colleges, but the extra aid may be loans, not grants

Every college has a net price calculator that can be used to get a personalized ballpark estimate

- Some calculators use 2-year old data, some current
- Tradeoff between simplicity and accuracy
- Some add a “net cost” figure that subtracts loans

$$\text{Net Price} = \text{Cost of Attendance (COA)} - \text{Gift Aid}$$

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Impact of Differences in the Net Price

Most colleges will have a similar net cost, but the net price will be different

- If the net price differs by less than \$1,000, it should not affect the choice of college
- If the net price differs by more than \$5,000, most families will choose the less-expensive college

The net price correlates well with the total amount of student loan debt at graduation

The net price is lowest at in-state public colleges and colleges with generous “no loans” financial aid policies



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Measuring College Affordability

Compare total family resources with net price

- Family resources include savings, income and reasonable debt
- Resources may also include education tax benefits
- Estimate net price for entire education, not just one year
- College is affordable if total resources exceed the net price

College Affordability Index = Ratio of Net Price to Total Income

- Total Income includes taxable and untaxed income and benefits
- This index is focused on cash flow, so net price is for just one year
- Aim to have a college affordability index less than 25% (lower is better)

Caveats about predicting four-year net price

- It may take more than four years to graduate
- Front-loading of grants
- Scholarship displacement



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What is Reasonable Debt?

Your total student loan debt at graduation should be less than your expected annual starting salary and, ideally, a lot less

If total student loan debt is less than annual income, you should be able to repay your student loans in ten years or less

Student loan debt is considered reasonable if you can afford to repay it in ten years or less

If total student loan debt exceeds your annual income, you will struggle to make your monthly student loan payments

- You will need an alternate repayment plan, like extended repayment or income-driven repayment, to afford the monthly loan payments
- These repayment plans reduce the monthly payment by increasing the loan term, which increases the total cost of the loan
- It also means that you'll still be in debt when *your* children enroll in college

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How to Borrow for College

Borrow federal first, as federal student loans are cheaper, more available and have better repayment terms than private student loans

- More than 90% of private student loans require a creditworthy cosigner
- Interest rates and fees on private student loans are based on credit underwriting and in-school payments
- Some private student loans do not offer death and disability discharges
- Deferments and forbearances are shorter on private student loans
- Private student loans do not offer income-driven repayment and public service loan forgiveness

Federal Stafford loans have low, fixed interest rates and are a good way for the student to have skin in the game

Needing to borrow from the Federal Parent PLUS loan or private student or parent loans may be a sign of over-borrowing

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How to Cut Borrowing Costs

Try to minimize your debt by taking advantage of grants, scholarships and other forms of free money first

Tuition installment plans are a reasonable alternative to long-term education debt

Live like a student while you are in school, so you don't have to live like a student after you graduate

Borrow federal first, as federal student loans are cheaper, more available and have better repayment terms

- The unsubsidized Stafford loan and the PLUS loan do not depend on demonstrated financial need
- Even wealthy students can qualify for these loans

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How to Cut College Costs

Attend a cheaper college, such as an in-state public college or an elite "no loans" college.

Graduate in three years instead of four. Double major to get two degrees for the price of one.

- Take an extra class each academic term.
- Take classes during the summer session.
- Get credits through AP, CLEP and PEP tests.

Buy used textbooks or sell textbooks back to the bookstore at the end of the academic term.

Live at home or get a roommate to cut housing costs.

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Thank You

Visit Savingforcollege.com for free information and insights about saving and paying for college

Follow Mark Kantrowitz on Twitter at [@mkant](https://twitter.com/mkant)

For free help completing the FAFSA

- Call the U.S. Department of Education's Federal Student Aid Information Center at 1-800-4-FED-AID (1-800-433-3243)
- Many states run College Goal Sunday programs in the fall to provide free help completing the FAFSA. Visit formyourfuture.org for more information

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Meet Matt
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1 Year Net Cost Comparison

College ▾	COA ▾	EFC ▾	Need ▾	Total Need Met % ▾	Need Met with Grants % ▾	Need Based Grants ▾	Merit Scholarship ▾	First Year Net Cost ▾
Miami University	\$32,783 <i>I</i>	\$21,000 <i>F</i>	\$11,783	59%	80%		<u>\$20,000</u>	\$12,783
The Ohio State University	\$28,159 <i>I</i>	\$21,000 <i>F</i>	\$7,159	72%	78%		<u>\$2,000</u>	\$26,159
University of Dayton	\$62,037 <i>P</i>	\$21,000 <i>F</i>	\$41,037	82%	94%	\$31,631	<u>\$18,655</u>	\$30,406
Columbia University	\$82,806 <i>P</i>	\$46,000 <i>C</i>	\$36,806	100%	94%	\$34,594	<u>\$0</u>	\$48,212
Denison University	\$66,610 <i>P</i>	\$49,000 <i>I</i>	\$17,610	100%	96%	\$16,904	<u>\$17,390</u>	\$49,220
Penn State University Park	\$54,971 <i>O</i>	\$21,000 <i>F</i>	\$33,971	64%	68%		<u>\$5,444</u>	\$49,527

P Private *I* In-State *O* Out-of-State
C Consensus *I* IM *F* FAFSA

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4 Year Net Cost Comparison

College	Four Year Net Cost	Pre-Approval Amount	Funding Gap (Loans)	10-Year Loan Payments	10-Year Total Payments	25-Year Loan Payments	25-Year Total Payments
Miami University	\$57,150	\$98,000	\$-40,850				
The Ohio State University	\$109,805	\$98,000	\$11,805	\$131	\$15,727	\$76	\$22,818
University of Dayton	\$110,361	\$98,000	\$12,361	\$137	\$16,468	\$80	\$23,893
Columbia University	\$164,624	\$98,000	\$66,624	\$740	\$88,760	\$429	\$128,778
Denison University	\$167,151	\$98,000	\$69,151	\$768	\$92,126	\$446	\$133,662
Penn State University Park	\$208,201	\$98,000	\$110,201	\$1,223	\$146,815	\$710	\$213,008



How to Pay

Penn State University Park

AWARDS

PROJECTED

RESET

\$110,005

Total Loans at Penn State University Park

\$1,221/m

Total Repayment for 10-year plan

\$709/m

Total Repayment for 25-year plan

\$2,389/m

Estimated Monthly Take-Home Pay for Social Sciences

	'20/'21	'21/'22	'22/'23 ⁺¹	'23/'24 ⁺¹	Total
Net Cost	\$49,528	\$51,177	\$52,875	\$54,625	\$208,205
Pre-Approval Amount	\$24,550	\$24,550	\$24,550	\$24,550	\$98,200
Funding Gap	\$24,978	\$26,627	\$28,325	\$30,075	\$110,005
Loan Total	\$5,500	\$6,500	\$7,500	\$7,500	\$27,000
Remaining Funding Gap	\$19,478	\$20,127	\$20,825	\$22,575	\$83,005



How to Pay Miami University AWARDS PROJECTED RESET

\$0 Total Loans at Miami University
\$0/m Total Repayment for 10-year plan
\$0/m Total Repayment for 25-year plan
\$2,389/m Estimated Monthly Take-Home Pay for Social Sciences

	'20/'21	'21/'22	'22/'23 ^{*1}	'23/'24 ^{*1}	Total
Net Cost ▾	\$12,783	\$13,767	\$14,780	\$15,823	\$57,153
Pre-Approval Amount ▾	\$24,550	\$24,550	\$24,550	\$24,550	\$98,200
Funding Gap	\$-11,767	\$-10,783	\$-9,770	\$-8,727	\$-41,047
Loan Total ▾	\$5,500	\$6,500	\$7,500	\$7,500	\$27,000
Remaining Funding Gap	\$-17,267	\$-17,283	\$-17,270	\$-16,227	\$-68,047

