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College Financial Aid Strategies that Make Sense

Elizabeth LaScala

Elizabeth LaScala Ph.D. guides college, transfer and graduate school applicants through the complex world of admissions. She develops best match college lists, offers personalized interview and essay coaching, and tools and strategies to help students tackle each step of the admissions process with confidence and success. Elizabeth helps students from all backgrounds to maximize merit and financial aid awards. Visit www.doingcollege.com; call (925) 891-4491 or email at elizabeth@doingcollege.com

Your student is halfway through high school and the gap between what you can pay and what a college education costs has widened. Your kid has good grades so you are hoping for as much financial aid as possible, preferably in the form of grants and awards you do not have to pay back. Your mailbox, electronic and street side, is filled with offers from financial aid consultants who claim they can help you navigate the complex financial aid process and save you thousands of dollars.

Buyer beware - there is good advice and bad advice available for a price. Some strategies have negative side effects. However, there are several strategies that make sense:

- Save in your name, not in your child's. The federal formula for financial aid assesses the student's savings at 20%, and parental assets at 5.6%. If you have already saved in your student's name, you can cash out and transfer the money to a different type of account. For example, if you saved money in a Uniform Gifts to Minors Account (UGMA) you can cash out and transfer to a 529 educational account in your child's name but over which you have supervision. If you want to avoid capital gains tax, have your child spend the money in the account that is in his name on items necessary for college life.

- Pay off debt before applying for financial aid. The Free Application for Federal Student Aid (FAFSA) requires that you report income from the prior year, however, you may report assets as of the day you submit your application. That gives you leeway to consider any major expenses and decide which ones you can use assets to pay down or pay off. This strategy results in fewer assets for you to report. However, bear in mind that income counts more than assets in the federal formula. And moving assets around can cost you money, perhaps more than you will save in college costs.

- Apply for financial aid early. The earlier you apply for aid, the better your chances to receive aid. Grant money is scarce and the old adage 'the early bird catches the worm' applies doubly to financial aid.

- Don't fudge the numbers but don't make yourself richer than you are.

Since you want to file your FAFSA as soon as possible after January 1st (the earliest date you can apply), you are not likely to have all your tax-related documents on hand to report exact income. Instead, you must estimate your income; take care not to overstate the amount. Don't rely on your last pay stub from the prior year, for example. This is likely to be one of your largest pay checks because all your social security contributions and other reductions to taxable income may not be accounted for. Income matters more than assets so make conservative estimates. You will need to adjust the numbers and update your forms once you file your current year returns.

- Special circumstances. Use the space on special circumstances and/or attach an additional letter spelling out any unusual circumstances. Your income from last year is not as relevant if you have recently lost your job. If you help to support an elderly member of the family, that individual may count as a dependent even if they do not live with you under certain circumstances (ask your trusted financial planner or tax specialist).

- Use Net Price Calculators. As of October 2011 colleges that receive federal funding must post a Net Price Calculator on their websites. While there are valid criticisms of this tool, the NPC can be useful to help you determine what kind of award families in your circumstances may expect to receive. Net price reflects grants, not loans so be sure to focus on net price. Net cost which is what you get when you subtract the entire aid package, including loans, from the cost of attendance, and loans need to be paid back.

Perhaps the most important piece of advice is to avoid an exclusive focus on getting the most aid from a college. This strategy ignores the criticality of finding good college matches for your student. A well-developed college list will include colleges that fit your student's interests and needs as well as your pocketbook. Pick colleges where your child will be an asset as well as where your child will thrive. Colleges will award more merit aid to a student they want on their campuses. The list should be balanced by probability of admission and each college should have certain factors in common, such as strong academics in your child's area of interest. That is the real secret to balancing more than your checkbook. Ultimately, you want to spend money wisely on college and that means selecting a college where you child can spend four happy and productive years without you going broke.

Reach the reporter at: info@lamorindaweekly.com

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