



## How Need Based Financial Aid Works

### What's a FAFSA?

- **Free Application for Federal Student Aid** - A universal measuring tool that the Federal Government uses to determine a family's financial strength compared to other families in the country. FAFSA must be completed every year a student is in college.
  - FAFSA is the *Federal Methodology* (Title IV) of determining financial need.
  - The *Institutional Methodology* is used to determine financial need at some private schools. It measures family assets in a more comprehensive manner and may use the *CSS Profile (an alternative financial aid application)*.
- **Gateway to financial aid** - Although FAFSA's calculations are designed primarily to determine a student's "need based" financial aid requirement, it is often used as a factor in determining "merit based" grants and scholarships as well.

### What exactly does FAFSA measure? What are the major components?

1. **Assets** - Parents' (if student is dependent) and Student's assets. Assets do NOT include equity in home or value of retirement programs such as IRA, 401K, 403b; however, 529 plans owned by parents or students are included as parent assets. Also does not include specific documented assets associated with a small business, farm or ranch.
2. **Income** - Parents' (if student is dependent) and student's income. All sources of income, including child support, private disability and taxable Social Security may be included.
3. **Number of students in college** - If the student is dependent for FAFSA purposes and both the parent and the parent's child are attending college, the parent can claim the student, but the student cannot claim the parent.
4. **Age of oldest parent** - The closer a parent or student (if independent) is to retirement, the less effect their assets will have.
5. **Number in household** - May be different than your reported tax return dependents.

### What is the process and how does it work?

- **Student should file FAFSA before March 2<sup>nd</sup> (online) each year.** This will facilitate possible acquisition and renewal of entitlement aid from **Cal Grant** (applies to California schools only). Student should file as close to January 1<sup>st</sup> as possible for the next school year.
- **An EFC (expected family contribution) is established from the five components** and is a "theoretical" description of a family's financial strength. **At one time** the EFC reflected the family's maximum contribution to the annual COA (cost of attendance); now it is primarily used to determine a student's eligibility for financial aid.

*Example:* 2015-2016 COA (cost of attendance) at XYZ University:

• Tuition & Fees	\$15,800
• Books/Materials	1,500
• Room & Board	10,000
• Transportation	1,200
• Incidentals/Misc.	<u>2,500</u>
• Total COA	<b>\$31,000</b>

**Cost of Attendance  
will vary greatly  
between colleges.**

- **FAFSA information is automatically transmitted to college(s), upon student’s submission of FAFSA.** Student then has an opportunity to correct any mistakes or make adjustments (e.g. if tax information was an estimate) through the SAR (Student Aid Report).

- **College issues “Financial Aid Award Letter”**

Cost of Attendance (COA)	\$31,000
<i>EFC (Expected Family Contribution)</i>	- <b><u>\$5,000</u></b>
<b>Financial need</b>	<b>\$26,000</b>

**Awards:**

Cal Grant A	12,000
XYZ Alumni Grant	2,000
Redding Accountant Assoc. Grant	1,500
Federal Stafford Loan	<u>5,500</u>
<b>Total Awards</b>	<b>\$21,000</b>

Sample

<b><i>Unmet Need (\$26,000-\$21,000)</i></b>	=	<b><i>\$5,000* Family Funds</i></b>
<b><i>Original EFC</i></b>	=	<b><i><u>\$5,000* Family Funds</u></i></b>
<b><i>* (Total Family Funds=\$10,000)</i></b>		<b><i>\$31,000 (Cost of Attendance)</i></b>

- **How do families address “unmet need” and “EFC”?**

1. Decrease the true Cost of Attendance by reducing expenses and budgeting
2. Family resources (*examples:* income, savings, selling of assets, second mortgages)
3. Student Loans- Perkins, Stafford, and PLUS (Government Loans)
4. Alternative Loans

**Note: You can estimate your EFC by using an online EFC calculator such as the Department of Education’s FAFSA Forecaster: <http://www.fafsa4caster.ed.gov/>**

**Encourage career path exploration.** Declaring an undergraduate major associated with a career path can save thousands of dollars compared to the potential costs of changing majors or enrolling as “undeclared.”

**Encourage student to get good grades.** Some financial aid experts have compared an “A” in high school to an average equivalent to \$1,500 in financial aid.

**Encourage the use of a planner/calendar.** 62% of all college drop outs occur during the freshman year, often attributed to a lack of organizational skills combined with newly found freedoms.

**Apply to more than one college.** Not all award letters are created equal so we recommend “casting a wide net” during the application process. You may receive very different award packages from different schools.

**Special Circumstances/Professional Judgment** may be considered. Significant income reduction, death, loss of a job, abuse, divorce, one-time settlement income benefit, etc., may be presented to the college for re-consideration. EFC may be changed as a result of special circumstances.

**Be sure to fully utilize all College OPTIONS Financial Aid Tools**

**on the College OPTIONS website at**

**[www.collegeoptions.org](http://www.collegeoptions.org)**

**Click on “Financial Aid”**