

HOW TO SEND YOUR KIDS TO THE COLLEGE OF THEIR DREAMS WITHOUT GOING BROKE

A MENTOR MOM © CLASS

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FINANCIAL AID FORMULA - EFC

Introduction

College financial aid is money given by the Federal and State governments and the colleges to help students pay for the cost of a college education. *The two basic types of financial aid are:*

Self-help aid, consisting of interest-subsidized loans and work study; and,
Gift aid, consisting of grants and scholarships.

The amount and type of financial aid is based on two factors:

The merit of the student (scholastic, athletic, musical, community involvement, etc.); and,
The financial need of the student. By far, this is the most important factor in determining financial aid. Most of the financial aid given by the Federal and State governments is based on the financial need of the student. Also, most of the financial aid given by colleges is need-based.

Analysis of Need-Based Financial Aid Eligibility

The following formula is used to determine the financial need of the student:

COST OF ATTENDANCE (COA)	\$18,000
-EXPECTED FAMILY CONTRIBUTION	<u>\$10,000</u>
=FINANCIAL NEED	\$8,000
- STUDENT RESOURCES (Students Ability to Pay)	<u>\$2,000</u>
=ADJUSTED FINANCIAL NEED	\$6,000

If the "cost of attendance" at a particular college was \$18,000 and the "expected family contribution" was calculated to be \$10,000, the "financial need" of the student would be \$8,000. In this case, the student would be eligible to receive \$8,000 in financial aid. If the student had other "resources" the financial need would be reduced on a dollar-for-dollar basis for these resources.

For example, if the student received a \$2,000 private scholarship, it would be considered a resource and would thereby reduce the financial need of the student to \$6,000.

COST OF ATTENDANCE (COA) consists of tuition, fees, room and board, books and supplies, personal expenses, cost of a computer, and transportation to and from college. Each college establishes their individual COA.

EXPECTED FAMILY CONTRIBUTION (EFC) is how much the family is expected to contribute to the total cost of college for that singular year. EFC can be thought of as a family's "college tax liability". The EFC is computed by using the family's financial data submitted on financial aid application forms. There are two

formulas that can be used to calculate the EFC; they are the Federal Methodology formula and the Institutional Methodology formula.

The FEDERAL METHODOLOGY FORMULA (FM) is a federal formula used to calculate the Federal EFC. It is used by every accredited college in the United States to determine how much federal money can be disbursed by the college to cover the student's COA.

The INSTITUTIONAL METHODOLOGY FORMULA (IM) is an alternative formula used by some colleges to calculate the Institutional EFC, which is used as a basis for disbursing the college's own funds. This formula assesses the family home, the family farm, siblings' assets and other items that the Federal Methodology does not assess.

Parents' income and the student's income is assessed using year-end data for the year (commonly called the "base year"), prior to the year when the student will be entering college. For the 2010-2011 college year, income will be assessed using the 2005 calendar year information (e.g., 2009 tax return).

The parent assets, as well as the student assets, are assessed as of the date the financial aid application forms are signed.

The following is a simplistic version of these complex “EFC” formulas:

Student Income minus	Taxes + \$3500 Allowance	x 50% =	Student's Contribution from Income
Student Assets minus	No Allowance	x 20% =	Student's Contribution from Assets
Parent Income minus	Taxes Plus Living Allowance	x 22% to 47% =	Parent's Contribution from Income
Parent Assets minus	Asset Protection Allowance	x 12% =	Parent's Contribution from Assets
		=	Expected Family Contribution

The key to lowering the EFC and reducing the family out of pocket COA is in learning “The Rules of the Financial Aid Game”. A combination of student positioning and proper family financial planning will help you win the game, which is getting your children into the college of their dreams without spending your life savings or drowning in student loan debt for the next 20 years!



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