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## EDUCATION PLANNING



# WINNING AT THE COLLEGE FINANCIAL AID GAME

With college expenses having risen significantly, financial aid can be a critical part of paying for college for many families. Fortunately, there are student aid options available that can help families meet the increasingly high cost of higher education.

The US Department of Education awards approximately \$150 billion each year to help students pay for college. Financial aid can come in the form of grants, loans, scholarships and work-study funds.<sup>1</sup>

### Getting started

To help your family qualify for as much aid as possible, start thinking about aid well before you have to complete your first financial aid form. This is a complex endeavor, so be sure to consult a college planning specialist or financial advisor who can help you choose the best options for your child. Here are a few tips to consider as you get started:

#### 1. Do not assume you are ineligible.

A key part of the financial aid formula is an assessment of what the family is able

to pay toward the cost of college. This out-of-pocket amount is known as the “expected family contribution” (EFC). Your eligibility for need-based aid is calculated by comparing the EFC to the projected cost of tuition, fees and related expenses. If the cost is greater than the EFC, then you may be eligible for need-based aid.

Every family’s circumstances are different. A number of factors — such as having several children in college at the same time — can dramatically increase your eligibility for aid. Given the high cost of college, even families with relatively substantial incomes may find themselves eligible for aid, especially at the more expensive schools. In other words, you do not have to be “needy” to demonstrate need.

<sup>1</sup> Source: studentaid.ed.gov.

### Key points

- Opportunities for financial aid are greater than ever and widely accessible. Make sure that your finances are in order when it is time to apply for aid.
- Start planning for college aid in your child’s sophomore year of high school.
- Reposition assets that are in your child’s name.
- Suggest aid-friendly gifting strategies to relatives.
- Be aware of the drawbacks of third-party scholarships.
- Apply for aid early.
- Look into grants, work/study and subsidized loans.

This material should be used as helpful hints only. Each person’s situation is different. You should consult your investment professional or other relevant professional before making any decisions.

## Education Planning

### 2. Start planning for aid before your child's junior year in high school.

Your child's junior year is just as critical for you as it is for your child. When college aid officers review a family's financial need, they base their decisions in large part on the family's income for the calendar year beginning on January 1 of the child's junior year. In financial aid terms, that year is considered the "base income year." So even though you will not have to complete financial aid forms until January of the year your child starts college, you will need to start thinking about ways to increase eligibility for aid when your child begins his or her junior year of high school — and preferably even a year or two before then.

### 3. Consider shifting assets and income before you have to complete aid forms.

If you start planning early enough, you will have the opportunity to adjust income, assets, debt, certain expenses and retirement provisions so that you may qualify for more aid. Parental income, rather than parental assets, drives the financial aid formula. Between 22% and 47% of parents' income is always factored in starting junior year — but generally no more than 5.6% of your assets may be applied to the EFC.<sup>2</sup> Another important factor, which many parents are not aware of, is that they will have to reapply for financial aid every year their child is in school. Therefore, in order to reduce your income in that base income year, you will want to take as much income as possible in the years prior, rather than postpone income until the following year. For example, an option to consider if you have stock that has increased in value is to sell it before January 1 of your child's junior year so that capital gains will not raise your income. If you are self-employed, try to generate invoices as early as possible.

### 4. Think twice about putting savings in your children's names.

According to the federal formula, children are expected to contribute up to 20% of their assets toward the cost of their education, but parents are generally expected to contribute no more than 5.6% of their assets. For that reason, putting assets in your child's name, such as in a Uniform Gifts/Transfers to Minors Act account or trust fund can reduce the amount of aid you may get. Because parents control the assets in 529 savings plans and certain Coverdell Education Savings Accounts, money in these accounts is usually considered the parents' assets and will have much less of an impact on eligibility for aid.

### 5. Encourage grandparents to help pay for college in the right way.

Many grandparents know that if they make payments directly to a college to help cover a grandchild's tuition, those payments are exempt from any gift taxes and may help reduce the size of their estates. But under the current aid formulas, such direct payments to the college by the grandparent or any person other than the student or parent could reduce student aid eligibility dollar for dollar. Even trusts set up for a grandchild are viewed as student assets and may reduce the aid package. However, grandparents can still receive estate tax and gifting benefits if they establish a 529 savings plan for the benefit of the student\*\*. They can also take advantage of the unique accelerated gifting feature of 529 savings plans, which allows them to make a one-time gift equal to five years of the annual gift tax exclusion (\$75,000 — or 5 x \$15,000 — for individuals, \$150,000 — or 5 x \$30,000 — for couples) without gift tax ramifications (if no further gifts are made during the five-year period and the one-time gift is reported to the IRS).\*

### 6. Do not spend too much time looking for third-party scholarships.

If you take money from a third party, such as a foundation that supports female pianists, for example, colleges will view that scholarship as an additional family resource and may reduce the amount of your aid dollar for dollar. If aid from colleges is a possibility, spend your time trying to boost your eligibility for need-based aid from the federal government, your state government and the college. However, if you have no hope of receiving need-based aid, you may want to tap every other potential source.

### Applying for aid

The aid application process begins long before your teenager goes off to college. It includes looking at your family's financial situation, gathering financial records, filling out forms and researching available grants, loans and scholarships. Two forms lie at the center of the application process — the Free Application for Federal Student Aid (FAFSA) and the CSS/Financial Aid PROFILE (PROFILE).

\* However, if the account owner elected to treat the gifts as having been made over a five-year period and dies before the end of the five-year period, the portion of the contribution allocable to the remaining years in the five-year period would be includable in the computing of the account owner's gross estate for federal estate tax purposes. Information based on 2018 tax rules, which are subject to change.

\*\*Beginning in 2018, 529 plans can be used for qualified uses, including post-secondary school expenses, including tuition, fees and room and board (and graduate school) and K-12 tuition expenses (up to a maximum of \$10,000 per year).

<sup>2</sup> Source: savingforcollege.com.

## Education Planning

### FAFSA

Virtually all students applying for federal need-based aid are required to fill out the FAFSA form. Because many colleges and some states also use this form to determine eligibility for institutional and state aid, it is important to complete the FAFSA even if you believe you may not be eligible for federal aid.

#### How to file

You can file an electronic version of the form on the US Department of Education's website at [fafsa.ed.gov](https://fafsa.ed.gov). Or if you prefer, you can fill out a paper version and mail it in. The paper form is widely available in high school guidance offices, college aid offices and public libraries, or you can order it from the Federal Student Aid Information Center by calling 1-800-433-3243. Make sure that the form you complete is for the correct academic year.

#### What happens next

After your FAFSA form is processed, you may access a Student Aid Report (SAR) online or one will be mailed to you, depending on how you filed the form. The SAR provides a summary of the information you provide on your FAFSA and will include your expected family contribution (EFC). In addition, the SAR will be sent to the schools listed on your child's application. You should review the SAR to make sure your information is correct and that it is going to the schools you specified.

#### Filing dates

The earliest you can file the FAFSA form is October 1 of the year prior to your child starting college. Each school sets its own filing date for the FAFSA, so be sure to submit the completed application by your first priority date. If you are waiting for official financial forms, such as W-2s, and cannot complete your taxes in time to meet your earliest filing deadline, do not wait to file the FAFSA — provide your best estimate now and submit your corrected figures later.

### CSS/Financial Aid PROFILE

Many private colleges, universities and scholarship programs require another form to award nonfederal student aid funds. This form, known as the PROFILE, is the financial aid application of the College Board, a nonprofit association.

#### How to file

You can register and complete the PROFILE form online at [bigfuture.collegeboard.org](https://bigfuture.collegeboard.org) under the "Pay for College" tab. After you submit the information, you will receive an online acknowledgment with a summary of the information provided. The PROFILE has a processing fee that is based on the number of schools involved. Fee waivers may be granted for students with high need. For questions about the application process, call 1-844-202-0524.

#### Filing dates

The due dates for the PROFILE are set by each school or scholarship entity. Consult the literature of individual schools or programs for specifics.

#### Other required documents

In addition to the FAFSA and sometimes the PROFILE form, individual schools may require additional documents. These may include the school's own financial aid application, information from a noncustodial parent (if the parents are separated or divorced), tax returns, W-2 forms and sometimes other paperwork for those who own their own businesses or are self-employed. Check each school's financial aid literature for specific requirements and deadlines.

#### Types of aid

Financial aid comes in three forms: grants and scholarships that are given outright to students, work/study opportunities that provide students with part-time jobs and different types of loans for both students and parents. Many of these programs are sponsored by the federal government. Some of these federal programs are administered directly through the college's financial aid office. It is important to realize that not all schools participate in every federal program, and you need to check with specific schools on what they offer.

#### Grants

Grants and scholarships are given outright to the student and do not need to be repaid. These awards may be based on need, merit or both. Grant money can come from the federal government, the state government, the college itself or from outside private sources and is generally need based. A scholarship is usually awarded because of some demonstrated merit — athletic, academic or artistic. Some scholarships, however, are based in part or in full on need, and sometimes the terms "grant" and "scholarship" are used interchangeably by schools.

## Education Planning

### Federal grants

Although the money in these grants comes from the federal government, it is typically distributed by a school's financial aid office. Here are two of the most common federal grants:

**Federal Pell Grants** Federal Pell Grants are usually awarded to undergraduate students who demonstrate financial need according to criteria set by the US Department of Education. The factors considered include the EFC, total cost of attendance, student status (full- or part-time) and attendance period (whether the student will attend for a full academic year or part of the year). In 2018–2019, the maximum Pell Grant is \$6,095.<sup>3</sup>

**Federal Supplemental Educational Opportunity Grants (FSEOG)** This federal grant program provides additional amounts, generally less than those provided through the Pell Grant, to students demonstrating strong financial need. The maximum amount for the FSEOG available to eligible students is \$4,000 per year.<sup>4</sup>

### State grants

All states have need-based aid available to their residents. Some states restrict these funds to residents who attend public or private colleges in their home states, while other states will give students money even if they attend school in other states. Depending on your state, you may have to submit both a FAFSA and an additional application to be considered for this type of aid.

### Institutional grants

“Institutional grant” is the term used for aid awarded by colleges and universities from their own funding sources. These grants are really discounts off the sticker price — rather than giving you money, colleges give you a credit against the tuition bill. It is important to check with each school about specific procedures and deadlines for these grants.

### Federal work/study program

This federal need-based program helps students earn money for college expenses by providing them with part-time jobs. The student may work on campus for the school or off campus with private nonprofit organizations or public agencies.

Work/study income, unlike wages from a regular part-time job, is not included in financial aid calculations for the following year. Although non-work/study jobs may pay better, those earnings need to be balanced against the effect that money may have on your eligibility for financial aid the following year. Work/study programs are also campus-based aid and may not be offered by every school.

### Loans

Loans make up about half of the total aid awarded to students and their parents each year. In fact, most financial aid packages include a loan of some sort. College loans fall into two broad categories: need-based (subsidized) loans and non-need-based (unsubsidized) loans.

#### Need-based loans

The federal government is the principal provider of these subsidized loans, which offer a lower interest rate than private loans and allow payments to be deferred until after graduation. These loans also provide another major benefit — the interest that accrues while the student is in college is paid for, or “subsidized,” by the federal government. These are the federal need-based loans:

**Perkins loans** Offered to students with the greatest financial need, these loans charge no fees and offer a 5% fixed interest rate for the life of the loan, plus a longer repayment grace period than other federal loans. The maximum that can be borrowed is \$5,500 per year and the total you can borrow as an undergraduate is \$27,500.<sup>5</sup> Although Perkins loans are federally funded, they are administered by the school's financial aid office, and repayments are made to the school.

**Subsidized Stafford loans** The interest rate for undergraduate students on loans disbursed on or after July 1, 2017 and before July 1, 2018 is a fixed rate of 4.45% for the life of the loan.<sup>6</sup> Following are the two kinds of subsidized Stafford loans — most schools offer only one or the other; some schools offer both.

- **Federal Family Education Loan (FFEL) Program** These loans come from private lenders who are approved by the school's financial aid office. Once you complete the application and the loan is approved, the lender sends the money to the school.

<sup>3</sup> Source: studentaid.ed.gov.

<sup>4</sup> Source: FSEOG.com.

<sup>5,6</sup> Source: studentaid.ed.gov.

## Education Planning

- **Direct loans** These loans are similar to the Stafford FFEL except that the federal government is the lender.

### Non-need-based loans

These loans are used to help families pay their portion of the expected family contribution. When you calculate how much money you need to contribute, these loans may help you take care of any shortfall.

**Unsubsidized Stafford loans** Even if a student is not eligible for a subsidized loan, he or she may be able to obtain an unsubsidized Stafford loan. Payment of these loans is deferred until after graduation. However, the unsubsidized Stafford loans have no in-school subsidy — interest is charged from when the loan begins until it is paid off. The interest rate for undergraduate students is a fixed rate of 4.45% for loans disbursed on or after July 1, 2017 and before July 1, 2018 for the life of the loan. It can be paid while the student is in school, or interest can accrue and be paid after graduation. Like the subsidized Stafford loans, these loans come in two varieties: FFEL, for which funds come from a participating lender, or direct loans, which come from the federal government.

- **PLUS loans** These federally sponsored Parent Loans for Undergraduate Students can be taken out to cover those costs not covered by financial aid. The maximum that can be borrowed is the cost of attendance minus any other financial aid awards. This loan is not based on income or assets and is always unsubsidized. The interest rate for loans first dispersed on or after July 1, 2017, and before July 1, 2018, is 7% for the life of the loan.<sup>7</sup> A credit check is required.
- **Private or alternative loans** These loans can be obtained from banks or other financial institutions. They are not government loans and usually carry a higher interest rate and fees than the federal loans already described. Credit checks and formal approval are almost always required.

With so many financial options, it is important to investigate each one thoroughly to decide what is best for your situation.

### Resources

The College Board  
[collegeboard.org](https://collegeboard.org)

FinAid  
[finaid.org](https://finaid.org)

Parent PLUS Loan  
[parentplusloan.com](https://parentplusloan.com)

Federal Student Aid  
[studentaid.ed.gov](https://studentaid.ed.gov)

<sup>7</sup> Source: [studentaid.ed.gov](https://studentaid.ed.gov).

### Contact your financial advisor for more information or visit [mfs.com](https://mfs.com).

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