Forbes

2016 Guide To College Financial Aid: The FAFSA And CSS Profile

Troy Onink , CONTRIBUTOR, January 30, 2016

Unfortunately, almost everything you've read about college financial aid is probably wrong. New rules affecting when and how students apply for financial aid will impact families and colleges over the next few years, but its not just the new information that renders a lot of what you've read about college aid to be wrong.

Much of the information on the internet, presented at college aid nights, in print in leading financial publications and disseminated by guidance counselors and the financial industry is either wrong to begin with, misleading or out of context.

Often part of the story is correct, but it's only correct in the context of specific situations. It's the reason the answer to almost all college planning questions is – it depends.

When it comes to financial aid for college, what's true for some families at some colleges in some years is not true for all families at all colleges every year.

This article isn't a tutorial on how to complete the FAFSA. Tutorials are everywhere and they can be helpful, but I'd rather give you as much context and accurate information as possible about how colleges will calculate what your family's share of the cost of college will be so that you can plan accordingly ***before*** you need to complete college aid forms. By the way, if your child is considering any of the top colleges this country is blessed with, it's the CSS Profile aid form you should be most concerned with, not so much the FAFSA.

What follows is a comprehensive guide on college financial aid, updated for 2016, that shares insights and tips that will help you estimate how much your family will be expected to contribute toward the cost of college. It will help you gain a clear understanding of how the college financial aid system works with straight-forward explanations of need-based financial aid, merit aid, the FAFSA and the CSS Profile. It is long, but it is accurate and it is one of the most widely viewed resources on college aid each year. Thank you for reading!

Applying for College Financial Aid

The process of applying for need-based financial aid for college begins by students and parents completing one or two financial aid forms, the FAFSA (Free Application for Federal StuAny college or university that awards federal student aid must require that students complete the FAFSA in order to determine eligibility for federal aid (it works for most state aid too). Most colleges and universities nationwide use the FAFSA as their sole application for need-based financial aid, so students applying for aid at those colleges only need to complete the FAFSA. However, there are about 200 colleges which require that the CSS Profile also be completed in addition to the FAFSA. Those colleges use the CSS profile to assess the student's eligibility for the college's own institutional aid dollars.

Typically, "Profile" colleges are very selective private colleges, including the Ivies, but the University of Michigan at Ann Arbor, William & Mary, Georgia Institute of Technology and the University of North Carolina at Chapel Hill are examples of flagship state universities that also require the Profile. There is also a group of 23 colleges that make up what is known as the 568 Presidents' Group, which was formed by the presidents of those institutions for the purposes of assessing students' ability to pay for college using a "consensus" methodology. The 568 Presidents' Group schools also require the CSS Profile to be completed but they treat students' assets and parents' home equity different (more favorable to families) than the institutional methodology does.

Thus, there are two financial aid forms but three methodologies of calculating a student's expected family contribution. The income reported on both aid forms used to be the income from the prior year's tax return, but in 2015 a change to the so-called prior – prior year (PPY) format of reporting income was announced and goes into effect in October of 2016. Below is an explanation of the new prior – prior college aid filing format.

The New Prior – Prior Year (PPY) Filing Format

On September 14th, 2015, President Obama changed the filing format of the FAFSA college aid form from using prior year income to prior-prior year income, making parents' 2015 income more important than ever and creating a lot of confusion as to how the rule works, how it will impact aid eligibility and when to file what to whom. So let me simplify this a bit for you.

Under the changes, students who are high school seniors next Fall (2016) will be able to apply for financial aid for their freshman (academic) year of college in 2017-2018 by submitting the FAFSA in October 2016 using income tax information from their parents' 2015 tax returns.

This new method is referred to as prior, prior, because students' college financial aid eligibility will now be based off of income from two years prior to when a student enrolls in college, not one year prior the way the rule has been until today.

This means that parents with high school seniors, college freshmen and college sophomores today will complete the financial aid form for next year using 2015 income, and next Fall, when they apply for aid for the following academic year the parent's 2015 income will be used AGAIN – TWO YEARS IN A ROW.

High school juniors and college juniors will be impacted by 2015 income for just one year when applying for aid.

To simplify this, remember that a college academic year occurs over two calendar years, such as 2016-2017, or "next" year as of today. When the rule goes into effect in the Fall of calendar year 2016 students will be applying for aid for the next academic year of 2017-2018, and they will use prior, prior year income of 2015. See, its income (2015) from two years prior to when the aid is for (2017-2018), not two years prior to when you apply for aid (2016), but when the aid will be awarded.

- If your child enters college in 2016 you will use 2015 income tax information.
- If your child enters college in 2017 you will use 2015 income as well.
- If your child enters college in 2018 you will use 2016 income tax information, 2019 will use 2017 return information and so on.

Why the big change?

Today students complete the FAFSA with the prior year's income as their so-called base year–meaning the year on which the first year of college aid is based. While aid can change through college with a family's finances, that first year of aid is crucial to the decision of where a student will go to college. With financial aid deadlines between January and March, high school seniors often must complete FAFSA using estimated income numbers because their parents don't have their tax returns completed for the prior year. When those tax returns are filed, applicants must then go back and update their FAFSA information. This holds up and complicates the financial aid system for students, parents and colleges, so this change is not only long overdue, but welcome—unless, that is, you have a high school junior and you just sold stocks in 2015 while markets were at all-time highs.

The FAFSA is used to determine federal aid: the Pell Grant for low income students, and eligibility for subsidized and unsubsidized Stafford Loans, as well as small state grants.

The bigger question initially was whether or not the College Board would follow suit and use the prior – prior year format, and in December of 2015 their board voted unanimously to adopt the prior = prior year format for its CSS Profile form. This form is used by over 200 private colleges and a handful of flagship public schools–the elite colleges that make up the Forbes Top Colleges list and that of US News—to determine a student's eligibility for the schools' own need-based grants and scholarships. These are more valuable than loans, which must be paid back with interest. Many of these elite colleges are even committed to covering all need without student loans, or very limited loan amounts.

In a letter to colleagues, College Board's Chairman, Doug Christiansen said, "Our Board unanimously decided that CSS/Financial Aid PROFILE will move to accept prior-prior year income information. This means that beginning with the 2017-18 financial aid cycle, PROFILE, the Institutional Need Analysis System (INAS), Institutional Methodology (IM), and the FAFSA, will all use prior-prior year tax information as the basis for assessing a family's financial need.

I want to acknowledge that the tight timeframe for this transition will make it challenging for financial aid offices to make the necessary system adjustments to ensure their institutional aid is distributed fairly and accurately. Please know that the College Board is committed to helping institutions through this transition to ensure that students fully benefit from this shift."

This Change Is Good

Christiansen, whose day job is as the Vice Provost for Enrollment and Dean of Admissions at Vanderbilt University in Nashville, TN, emphasized that College Board at its core is an opportunity organization and he is very pleased about the move to the prior – prior year (PPY) format because it will help students better understand their opportunities to enroll in college earlier in the process, and should lead to students and their families ultimately making the best college-going decisions from a more informed standpoint than the current format allows.

FAFSA And CSS Profile: Why Two Aid Forms?

Stanford University's Karen Cooper, Associate Dean and Director of Financial Aid, is a College Board trustee who was actively involved in the decision-making process and the vote to move to the PPY format. As the person leading the financial aid program for Stanford, she noted that the Profile does a better job than the FAFSA of assessing a family's true financial strength, and it was important for College Board to make the move, like the FAFSA, to give students concrete aid information as part of the admissions process earlier than the current format does.

“The FAFSA does a great job of helping low-income families apply for federal and state aid, but the Profile is the best proxy of measuring the family’s financial strength at all income levels. At Stanford we want to really know each family’s financial story and the Profile gives us a far better understanding than the FAFSA does of what families can afford and if there is more to their story than the numbers alone tell,” Cooper said.

She elaborated further saying, “Families with lower incomes tend to have less fluctuation in income from year-to-year than families with higher incomes. The FAFSA looks at just one year’s income. It’s a snapshot, so there is concern in using that data. For students applying for aid for next year under the current prior year format for income reporting, the Profile requires limited income information from parents’ already completed 2014 tax return, more detailed 2015 income tax information (which often has to be estimated) and estimates for what parents think they may earn in 2016. If there are income fluctuations that may affect a student’s aid, we want to know what caused the fluctuations so we can provide the student with a fair award. Also, we don’t like to see big fluctuations in the aid we are awarding to students from year-to-year because that can jeopardize overall affordability.”

Now that you know what year’s income will get reported on the aid forms, it is important to understand how the information on the aid forms is used to determine how much a family is expected to pay for college. That amount is known as the expected family contribution.

Calculating Your Expected Family Contribution (EFC)

Regardless of the aid form(s) the student is required to complete and submit as part of the process of applying for financial aid, and after all of the time and information it takes to complete the form(s), it all boils down to three letters, EFC, which stands for expected family contribution. You provide your financial information on the aid forms (FAFSA and CSS Profile), submit the forms online to the processing centers for each respective form, and the information from the forms goes into the aid calculations (the Federal Methodology, Institutional Methodology and Consensus Methodology).

The output of those need analysis calculations is the student’s expected family contribution (EFC) toward the cost of college. The student’s EFC is the minimum amount the student is expected to contribute toward the cost of college. Thus, EFC represents a dollar amount. It is the “output” of the aid forms and calculations. Your data goes in and your child’s EFC comes out and goes to the colleges’ aid departments that the child asks the data to be sent to on the aid forms. All three of the EFC formulas focus primarily on the assets and income of the parents and student, family size and the number of dependent children enrolled in college in a given year to assess the family’s ability to pay for college using the income and assets that they have. And because the three formulas calculate EFC differently, it’s likely that the student’s EFC under each formula will also be different, sometimes drastically different!

College Aid Formulas Expect Parents To Contribute Up To 47% Of Their After-Tax Income To Pay For College Each Year

In the Federal, Institutional and Consensus EFC formulas, parent income is assessed at a rate as high as 47% after allowances for federal, state and FICA taxes, an income protection allowance worth about $30,000 – $40,000 and a few other allowances (depending on the formula). After these allowances are subtracted from your adjusted gross income (AGI), which is line 37 on your IRS 1040 tax form, whatever your AGI is minus allowances, 47% of the net amount is what you will be expected to contribute toward college costs per year from your income.

It gets worse. The aid formulas will add back to your adjusted gross income any contributions you made in the previous year to qualified retirement plans (401k, IRA, 403b, etc) and Health Savings Accounts (HSAs). If you earn $110,000 of income and choose to defer $10,000 into a 401k, your adjusted gross income will be $100,000 for tax purposes (line 37 on your 1040), but the $10,000 retirement plan contribution will get added back to your income in the aid formula and for purposes of calculating need-based aid eligibility, your income will be $110,000.

AGI + retirement/HSA contributions – federal, state, FICA taxes and employee/income allowances = Available Income x 47%

Since your net income gets counted at 47% and assets in your name are counted at only 5-5.64%, income is the biggest factor in most family's EFC. **Parent <u>income</u> is counted 9 times more heavily in college aid formulas than parent <u>assets</u> are.**

Using a Student's EFC to Determine the Need for Financial Aid

EFC is used to analyze a students' need for financial aid using a simple formula that subtracts the student's expected family contribution (EFC) from a college's total cost of attendance (Cost of Attendance – EFC = Financial Need). If a student's EFC is less than a college's cost of attendance, then the student qualifies for need-based financial aid.

Cost of Attendance

Cost of attendance is obviously one of the two variables needed to determine need-based aid eligibility. Cost of attendance is the total cost of enrolling at a college, including tuition, fees, room & board, books, travel and personal expenses. So if you know the cost of a specific college you can subtract your child's EFC from that cost to determine if your child is eligible for need-based financial aid at that college. If you don't know the cost of a specific college, you can use the 2015-2016 national average costs for a 2 year public college ($22,000), a 4 year public college ($28,000), a 4 year private college ($55,000) or 4 year elite college (the most selective and most expensive colleges nationwide, at $65,000 per year), to get a general idea of your child's aid eligibility.

2016 EFC Quick Reference Table for College Aid Eligibility (next page)

Step 1 – Locate your income in the AGI column.

Step 2 – Find the column at the top of the table that corresponds to the number of dependent children that you have and follow that column down to the row that corresponds with your income (AGI). The intersecting number is your estimated Federal EFC based on parental income only. The estimated EFCs in the table below do not take into account your assets, or if you make contributions to qualified retirement plans or receive any form of untaxed income. All of which will increase EFC.

2016-2017 Federal EFC Quick Reference Table

AGI	Number of Dependent children: 1	2	3	4
$30,000	$1,016	$0	$0	$0
$32,500	$1,452	$604	$0	$0
$35,000	$1,889	$1,040	$0	$0
$37,500	$2,325	$1,477	$690	$0
$40,000	$2,751	$1,913	$1,127	$0
$42,500	$3,160	$2,350	$1,563	$656
$45,000	$3,094	$2,761	$2,000	$1,092
$47,500	$3,559	$3,170	$2,423	$1,529
$50,000	$4,024	$3,106	$2,832	$1,965
$52,500	$4,435	$3,570	$3,241	$2,374
$55,000	$4,974	$4,035	$3,187	$2,783
$57,500	$5,410	$4,448	$3,652	$3,192
$60,000	$6,042	$4,987	$4,004	$3,131
$62,500	$6,532	$5,425	$4,543	$3,595
$65,000	$7,276	$6,057	$5,082	$3,938
$67,500	$7,872	$6,550	$5,536	$4,477
$70,000	$8,745	$7,293	$6,168	$5,016
$72,500	$9,619	$7,893	$6,680	$5,459
$75,000	$10,492	$8,766	$7,424	$6,091
$80,000	$12,240	$10,513	$8,919	$7,333
$85,000	$13,987	$12,261	$10,666	$8,813
$90,000	$15,734	$14,008	$12,414	$10,560
$95,000	$17,257	$15,702	$14,161	$12,308
$100,000	$18,769	$17,215	$15,791	$14,055
$105,000	$20,281	$18,727	$17,304	$15,623
$110,000	$21,793	$20,239	$18,816	$17,135
$115,000	$23,306	$21,634	$20,211	$18,529
$120,000	$24,054	$22,265	$20,842	$19,160

2016-2017 Federal EFC Quick Reference Table

AGI	Number of Dependent Children: 1	2	3	4
$125,000	$25,715	$24,212	$22,382	$20,701
$130,000	$27,373	$25,348	$23,925	$22,241
$135,000	$29,031	$27,006	$25,466	$23,785
$140,000	$30,689	$28,664	$27,006	$25,325
$145,000	$32,347	$30,322	$28,547	$26,865
$150,000	$34,004	$31,980	$30,087	$28,406
$155,000	$35,615	$33,591	$31,698	$29,899
$160,000	$37,218	$35,202	$33,309	$31,393
$165,000	$38,758	$36,785	$34,920	$32,826
$170,000	$40,299	$38,326	$36,484	$34,143
$175,000	$41,839	$39,866	$38,025	$35,578
$180,000	$43,380	$41,406	$39,565	$37,012
$185,000	$44,920	$42,947	$41,027	$38,447
$190,000	$46,460	$44,487	$42,462	$39,882
$195,000	$48,048	$46,075	$43,944	$41,363
$200,000	$49,635	$47,662	$45,425	$42,845
$205,000	$51,223	$49,229	$46,907	$44,327
$210,000	$52,810	$50,711	$48,389	$45,808
$215,000	$54,398	$52,192	$49,870	$47,290
$220,000	$55,985	$53,674	$51,352	$48,772
$225,000	$57,572	$55,156	$52,834	$50,254
$230,000	$59,053	$56,599	$54,277	$51,697
$235,000	$60,476	$58,022	$55,700	$53,120
$240,000	$61,898	$59,445	$57,123	$54,543
$245,000	$63,321	$60,868	$58,546	$55,966
$250,000	$64,744	$62,291	$59,969	$57,389
$265,000	$69,013	$66,560	$62,815	$60,235

- NEED-BASED AID ELIGIBILITY at 2 yr public, 4 yr public, 4 yr private, elite 4 yr colleges
- NEED-BASED AID ELIGIBILITY at 4 yr public, 4 yr private and elite 4 yr colleges
- NEED-BASED AID ELIGIBILITY at 4 yr private and elite 4 yr colleges
- NEED-BASED AID ELIGIBILITY at elite 4 yr colleges
- NO NEED-BASED AID ELIGIBILITY

How Assets Are Counted On The FAFSA And CSS Profile

Retirement assets such as 401k, 403b, IRAs, SEP, SIMPLE, Keogh, profit sharing, pensions and Roth IRAs are not included in the calculation of EFC under any of the three EFC methodologies. Assets that aren't in retirement accounts — balances in checking, savings, CDs, brokerage accounts, money market, investment real estate, stocks, bonds, mutual funds, ETFs, commodities and 529 college savings and prepaid plans—do get included in the EFC formulas. Trust funds must be reported regardless of whether or not the funds are currently available to you or your child. On the FAFSA, if only interest or principal will be available, the present value should be calculated by the trust officer and reported accordingly.

Parents' total reportable assets will vary depending upon the EFC methodology, and from the reportable asset value a savings (emergency reserve) allowance of about $17,000 to $30,000 is subtracted to arrive at an available asset value. Parents are expected to use up to 5.64% (Federal) and 5% (Institutional and Consensus), of those available assets each year on college. Family controlled small businesses with fewer than 100 full-time employees, home equity and non-qualified annuities are not counted in the FM, but they are in the IM and CM, although, under the CM home equity is capped at 1.2 times the parent's adjusted gross income. Some private colleges (like Lehigh) use an in-between formula for home equity, counting 2.5 times the parents' AGI while others (like Bucknell) are now not counting home equity at all, even though it is asked for on the CSS Profile.

Consumer Beware: Non-qualified annuities DO get counted on the CSS Profile, but not the FAFSA. Heed this warning before you decide to put all your liquid assets in insurance and annuity products to "hide them" for aid purposes. Read my post on Consumer Beware. Life insurance and annuities definitely have their place of course, but often not as peddled at local aid nights.

Rental Properties

Rental properties are a popular tax and investment strategy among parents, but they do not qualify as a family controlled small business asset that can be excluded from the FAFSA. To be considered a business you must be providing a service such as laundry or cleaning. If your rental properties are in an LLC business structure, technically you can exclude the value as a small business on the FAFSA. However, if your child attends a college that requires the CSS Profile in addition to the FAFSA, there is no exclusion for small business assets on the Profile, so the rental will be counted on the CSS Profile anyway.

Retirement assets do not get counted, but your prior year's contributions to qualified retirement accounts do get counted as untaxed income, and are added back to your adjusted gross income in the income portion of the aid formula. Life insurance cash values are not counted under any of the formulas, but a few highly selective colleges will ask about policy cash values in their supplemental questions on the CSS Profile. Personal assets like cars, clothes and household items do not count under any of the formulas, but collectibles do.

You Decide: Is a well-stocked wine cellar considered a "collectible" or a savvy liquid asset with subtle notes of financial aid?

How Student Assets Get Counted On The FAFSA And CSS Profile

Students must report the same types of assets as parents, but students do not have a savings allowance, so 100% of the value of student-owned assets gets counted. Student-owned assets are counted at a rate of 20% (FM), 25% (IM) and 5% (CM), but under the FM, 529 college savings accounts and Coverdell Education Savings Accounts (ESAs) are counted as parent's assets (5.64%) even though they are owned by the student.

Parent Assets: Do The Math

If there is $25,000 in reportable assets that you own, and your asset protection allowance is $35,000, then there will be no contribution expected from the assets because the total reportable assets do not exceed the asset protection allowance. If you have $200,000 in reportable assets, you would be expected to make a 5.64% contribution from $165,000 of those assets ($200,000 – $35,000 =$165,000 times 5.64% = $9,306 each year).

Child Assets: Do The Math

If your child has $25,000 in savings account, the child will be expected to contribute 20% of the asset ($5,000) each year toward the cost of college under the federal methodology, 25% under the IM ($6,250) and only 5% under the CM ($1,250). If your child owns a 529 college account of Coverdell ESA the aid treatment is more favorable under the federal calculation. The same $25,000 in a 529 account will only be assessed at a maximum of 5.64%, and sometimes it may not be assessed at all.

Legislation was passed several years ago that changed the treatment of student-owned 529 and ESA assets for federal financial aid purposes. Now, under the federal need analysis formula only (not the IM or CM), 529 and ESA assets owned by students are considered assets of the parent for federal aid purposes, therefore they get more favorable aid treatment than other assets like savings accounts, mutual funds, stocks and bonds.

So, for federal aid purposes (i.e. Pell grants, Subsidized Stafford loans, etc), if money is saved for college in 529 plans and ESAs in the child's name, it has the same financial aid impact as saving in parents' names. Remember, parents get an asset protection allowance. So if parental assets + student 529 assets combined are less than the asset protection allowance, the child's 529 assets will not be counted at all.

Saving In Your Child's Name Isn't Always Bad

Based on your income alone, if your child's EFC is high enough to prevent him from qualifying for need-based financial aid, then it doesn't matter if your child has a pile of assets in his name or not. In fact, in some cases it can be a tax benefit to shift appreciated assets to your child, even under the so-called kiddie tax rules. The reason is so you can implement a variety of tax-saving tactics that employ the use of the standard deduction, personal exemption and the $2,500 American Opportunity Tax Credit on your child's tax return during the college years, and minimize or eliminate the federal tax your child will owe. You'll pay less tax this way than if you sell appreciated assets in your tax bracket, even with the kiddie tax.

I wrote about this in a previous post, Paying For College: Wipe Out $28,000 In Capital Gains In Your Kid's UTMA Account. Remember, before you pay the cost of college you have to pay taxes first, so reduce the tax cost of college reduces the overall cost of college. It is what I call "tax aid."

Beware Grandparent-Owned 529 Plans

However, 529 plans that are owned by grandparents are not counted as an asset when a student completes the FAFSA, but some colleges do ask for grandparent-owned (or relative-owned) 529 assets as a supplemental question on the CSS Profile (financial aid form). Like retirement assets, however, grandparent-owned 529 assets are not factored into the EFC calculation. It is there for professional judgment purposes to provide aid officers with a more complete financial profile of the family when the student has extenuating circumstances that need to be considered for aid purposes. Therefore, grandparent's 529 assets are usually not involved directly in the calculation of the student's EFC under the institutional methodology. Unfortunately, distributions from grandparent-owned 529 plans do count against aid eligibility under all of the aid formulas.

More importantly, and far less understood is the fact that distributions from grandparent-owned 529 plans are technically considered a gift to the student, and treated as untaxed income for financial aid purposes, which can impact a student's aid eligibility by up to 50% of the distribution. So having an asset in the form of a 529 plan account that is owned by the grandparent does not count as an asset in the student's EFC (expected family contribution toward the cost of college), but if the grandparent makes a distribution from that 529 plan to help the grandchild pay for college, that distribution will be considered untaxed income of the student when the student completes the aid forms the following year. Ouch!

The CSS Profile is a much more involved aid form that will require more time and information gathering than the FAFSA. A lot of the questions and data on the Profile will not actually be used in the calculation of your child's EFC, such as asking for retirement assets values, for example. Why then do they ask all those other financial questions if they don't affect your EFC number? The additional information is used for professional judgment (PJ) purposes, meaning that if the student's family has special circumstances that legitimately affect the family's ability to pay, aid officers have a lot of good additional information already on hand via the Profile with which to make a "judgment call" to help the student POSSIBLY receive the additional aid she deserves. This information is not intended to hurt a child's aid eligibility.

Putting Your Expected Family Contribution (EFC) Into Perspective

Your Child Qualifies for Need-Based Financial Aid

Using the example from above, if your income is $70,000 and you have two dependent children, one of which is enrolling in college, your EFC is $7,293 and is blue, which means that based on this estimated EFC using your income alone (your actual EFC may be higher), your child should qualify for need-based financial aid at all three types of colleges. As a result, your child is eligible to receive need-based grants, scholarships, work-study and student loans as part of the child's financial aid package. Eligibility does not mean certainty, however. You will have to wait to see what form of aid the child gets and how much it is worth.