

BlackRock

# Investing in your children

Understanding college financial aid



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# Understanding your options

As college prices continue to rise, students and parents are considering their options for covering costs. Each year, millions of students are eligible for grants, scholarships and financial aid. However not all of them receive assistance because of misunderstandings about who qualifies and what is required to capture these dollars.

You shouldn't automatically assume that your income and assets will qualify or disqualify you from receiving financial aid. Many other factors influence aid award decisions, including:

**Size of household**

**Parental income**

**Generosity of schools**

**Type of assets you own**

A financial aid award may consist of many different components including, but not limited to, grants, scholarships, work-study and various types of loans. There are no standard formats or terminology among colleges used in award letters, and they can be confusing.

The following pages highlight what you need to know to assess whether your family may qualify for financial aid. You'll also learn how to interpret a financial aid award and discover the best ways to request a better package if the offer is disappointing.





# Grants & scholarships

You and your child can apply to receive help with the cost of college from grants and scholarships. How you attain the most amount of money from grants and scholarships depends on the criteria that institutions use in making these awards.

A student's GPA and test scores are often the most important factor. Colleges will also look at other factors such as special talents, geography and income level of the family. Private schools often base their decision on a more holistic picture — such as recruiting students from different geographies and backgrounds. Public universities, with many applicants, usually rely more heavily on GPA and test scores. The bottom line is that superior grades are crucial in getting accepted into a school and also obtaining grants and scholarships.

**Make sure you check with your schools about their policies regarding financial aid and private scholarships.**

## State grants & scholarships

Many are under the assumption that state grants are only good for resident students attending public universities when, in fact, many states give scholarship money to students attending private schools within their borders. In many states, students are awarded state scholarships even if their parents are wealthy. To learn more about the grant programs in your state, go to the U.S. Department of Education's website, at [www.ed.gov](http://www.ed.gov). From here you can find the contact information for your state's higher education agency and contact them for more information about their state grant programs.

## Private scholarships

Another misconception is that there are many private scholarships/grants that will pay for most of college costs. Private scholarships/grants, though available, represent a smaller portion of total scholarship/grant aid than most other sources. For the 2021-22 academic year, the total amount of scholarship/grant aid for postsecondary students was \$140.6 billion with institutional grants (grants from the colleges and universities themselves) being the highest portion, at 53%, followed by federal grants at 26%, private and employer scholarship/grants at 12%, and state grants at 9%. About 7% of total undergraduate aid comes from private and employer scholarships/grants. On average undergraduates received \$10,590 in scholarship/grant aid from all sources.<sup>1</sup>

To find private scholarships, check with your library, guidance department and/or your town. Another resource for finding scholarships is online scholarship sites.

A few you may want to explore are:

- [Collegeboard.org](http://Collegeboard.org)
- [FastWeb.com](http://FastWeb.com)
- [Scholarships.com](http://Scholarships.com)

However, do not overlook how private scholarships affect financial aid. If your child wins a private scholarship, their future financial aid package could be reduced by the amount of the award. The reason for this is because federal rules state that a college calculates financial aid outside of scholarships received.

<sup>1</sup> Data Source: College Board's Trends in College Pricing and Student Aid 2022. Figures SA-1, SA-3, and SA-5. Scholarships and grants are forms of aid that don't need to be paid back.



# Financial aid

Applying for financial aid is a multi-step process. Make sure you familiarize yourself with how and when to apply, and stay on top of deadlines.

# Financial aid timeline

**JAN 1**



## Junior year of high school

This is the start of the tax year that will be used to determine if household income will qualify your child for financial aid.

**MAR  
to APR**



Start using net price calculators located on college websites, such as [collegedata.com](https://collegedata.com), which will provide you with a personalized estimate of your expected family contribution after subtracting any applicable grants/scholarships.

**SEP**



## Senior year of high school

Check aid deadlines for colleges on your child's list and state aid programs at [fafsa.ed.gov/deadlines.htm](https://fafsa.ed.gov/deadlines.htm). Start collecting investment records and most recent income tax returns.

**OCT**



The CSS Profile becomes available October 1 of each year for the following academic year. Register for the CSS Profile on the College Board website. If your child is applying to schools through early decision and early action programs, be sure to pay attention to deadlines for early applicants.

The FAFSA typically becomes available on October 1 for the following academic year. However, in 2023, the FAFSA is expected to become available in December instead of October due to some significant changes to the FAFSA form and methodology. This will be the FAFSA that people complete for the 2024-2025 award year. The Department of Education plans to return to the October 1 time frame for the FAFSA form that people will complete for the following year, the 2025-2026 award year.

Complete the FAFSA as soon as possible. Access to some financial aid programs may be awarded on a first come, first served basis. Create a FAFSA ID on [studentaid.gov](https://studentaid.gov) for you and your student, which is necessary to electronically sign the FAFSA and access your financial aid records. Learn more at [FAFSA.gov](https://fafsa.gov).

**FEB  
to APR  
MAY 1**



Compare financial aid awards. If necessary, appeal awards.



This is the deposit deadline for many schools to reserve a place in the freshman class. Ask your child's intended college about its payment-plan options.

**JUN  
to AUG**



If necessary, apply for college loans. Federal student loans are typically the best first choice for repayment terms, but not always available in sufficient amounts.

Complete a FAFSA  
regardless of your family's  
income and assets.

# Applying for financial aid

## Completing the FAFSA

To be eligible for financial aid, you must complete the Free Application for Federal Student Aid (FAFSA), which millions of Americans file each year. You can find the latest application, which is released annually on October 1, at [studentaid.gov](https://studentaid.gov). Please note: In 2023, the FAFSA may not be available until December, but in 2024 the October time frame is expected to resume.

The financial and household information that you provide on the FAFSA determines if you will qualify for financial aid from the federal and state governments. Most colleges also use this application to determine if your child will qualify for their own in-house aid.

Even if your income is too high for need-based aid, you should complete the FAFSA if you or

your child expects to borrow through federal college loans or hopes to qualify for merit aid. Also, without a FAFSA on file, your child won't qualify for a campus work-study job.

## Completing the CSS Profile

The vast majority of schools require only the completed FAFSA, but fewer than 300 institutions will also expect you to fill out the CSS Profile. Nearly all the schools that require this additional aid application are private. The CSS Profile, which can be found on the College Board's website, [collegeboard.org](https://collegeboard.org), is made available annually on October 1.

While the CSS Profile and the FAFSA ask many of the same questions, the CSS Profile dives deeper into a family's finances.



# How assets impact aid

It's only natural that many families worry about how their hard-earned savings will impact their chances for financial aid. Most of the time parent assets will not hurt a child's aid eligibility. This is because parents' wealth is often invested in assets that most schools do not factor into the rate decision of the financial aid process.

The FAFSA also ignores home equity (the form doesn't even ask if you own a primary home). Schools using the CSS Profile usually consider the value of homes and how they treat these assets will vary.

As shown in the table below, colleges using the FAFSA formula, and very often the CSS profile formula as well, ignore qualified retirement accounts such as Individual Retirement Accounts and 401(k) plans in their calculations.

Asset	Federal Aid Formula (FAFSA)	CSS Profile
Home equity	Ignores	
Qualified retirement assets	Ignores	Generally ignored. An optional field. Some colleges may ask separately if left blank. Treatment varies.

## Student aid index

To assess your expected aid, if any, it is necessary to determine your family's Student Aid Index (SAI), until now called Expected Family Contribution (EFC).<sup>2</sup> The SAI replaces the EFC starting July 1, 2023, and it represents the minimum amount colleges expect a family to pay for one school year. The SAI number helps colleges determine how much need-based aid you can receive. The change from EFC to SAI was part of the FAFSA Simplification ACT of 2021 and is now going into effect along with numerous other financial aid methodology changes. The smaller your SAI, the better your odds of receiving need-based aid. Work with your financial professional to determine your SAI.

The total **Cost of Attendance** at your respective colleges and universities **minus your SAI equals your Financial Need** or eligibility for need-based financial aid.

<sup>2</sup> Note that the term Expected Family Contribution (EFC) will be replaced with the term Student Aid Index (SAI) starting on July 1, 2023. The new terminology will be applicable to the 2024-2025 award year.

# Aid formulas

Only your non-retirement assets — such as taxable brokerage accounts, checking and savings accounts, certificates of deposit and 529 college savings plans — influence your financial aid eligibility.

The aid formulas factor in these parental assets at no more than 5.64%. In comparison, your child's assets are assessed at 20% to 25%. The table below shows how assets and income affect aid eligibility.

Not all of your college accounts and other savings, however, will hurt your aid chances. The FAFSA provides parents with an asset protection allowance that will automatically shelter some of this money. The age of the oldest parent determines how much you can shelter.

The CSS Profile formula also includes an asset allowance, but is not based on the age of the oldest parent. It is more heavily weighted toward the number of children in the household.

	Student	Parent
<b>Income</b>	<p><b>50%</b> (in excess of \$9,410) Cash gifts to student and other money paid on the student's behalf (untaxed income) are no longer counted starting with the 2024-2025 FAFSA that comes out in December 2023.</p>	<p><b>47%</b> (up to) Cash gifts to parents are not counted</p>
<b>Assets</b>	<p><b>20%</b> FAFSA <b>25%</b> CSS</p>	<p><b>5.64%</b> Applies to education savings. Asset allowance reduces asset amount assessed.</p>

## Financial aid example

Let's see how the FAFSA allowance works by using an example of a married couple where the oldest parent is 52. This hypothetical couple has \$100,000 saved in non-retirement assets with the bulk of it in a 529 plan.

**According to the federal table, these parents could shield \$7,300.**

$$\begin{array}{r}
 \$100,000 \text{ (savings)} \\
 - \quad \$7,300 \text{ (protection)} \\
 \hline
 \$92,700
 \end{array}$$

When you subtract the couple's allowance of \$7,300, the family would have \$92,700 subject to financial aid calculations. **This amount would be assessed at the parents' rate of 5.64%.**

$$\begin{array}{r}
 \$92,700 \\
 \times \quad 5.64\% \\
 \hline
 \$5,228 \text{ (reduction in aid eligibility)}
 \end{array}$$

While the family saved \$100,000, they only had their potential aid reduced by \$5,228. **It's important to note that there is no guarantee that the potential aid that they lost would have been in the form of grants rather than loans.**

**Bottom line: Despite a potential loss in financial aid, families who have saved will usually be in a better position to pay for college than those who have not.**

**Source:** Data from the Department of Education's 2024-2025 Draft Pell Eligibility and SAI Guide slated to be applicable to the FAFSA that comes out in December 2023. This draft document is believed to be accurate, but it is possible that the formula could change slightly before the new FAFSA form is released in December 2023.





# How filing status impacts aid

## Child status

### Independent student

Many parents inquire if a child, who is living on his or her own, can be considered an independent student. These students usually qualify for more financial aid. It is extremely difficult for undergraduates to qualify even if parents are providing no financial support under FAFSA standards.

A student must answer yes to one of 11 questions to be considered independent. Some of the key questions are:

- Will you be 24 in the year you file for financial aid?
- Are you married?
- Are you working on an advanced degree?
- Are you in a legal guardianship?
- Are you a U.S. military veteran?

You can find all the dependency questions at: [studentaid.ed.gov/fafsa/filling-out/dependency/](https://studentaid.ed.gov/fafsa/filling-out/dependency/)

**Your filing status may qualify you for more aid.**

## Parents' marital status

### Married and unmarried couples

If your parents are married to each other or living together, the rules for filing are fairly straightforward – both must include their income and assets on the financial aid documents. This applies to biological and/or adoptive parents, or parents as determined by the state. The same rules apply whether your parents are of the same sex or opposite sex.

### Divorced and legally separated parents

When parents are divorced, separated or never married, and do not live together, only one parent must complete the FAFSA. This will be the parent who provided the most financial support to the student (no longer based on where the student lived the most). Thus, the parent who provided the most support in 2022 will be required to complete the FAFSA for the 2024-25 award year. This will typically, but not always, be the parent who claimed the student on his or her tax return. As a frame of reference, for the class of 2024 high school seniors, people will be required to submit information from their 2022 tax forms (the 'prior-prior' tax year). If the parent has remarried as of the date the FAFSA is filed, the stepparent's income, assets and dependents must be reported on the FAFSA.

### Legal guardians

Students who have legal guardians are considered independent students. The CSS Profile schools can have different rules about applying for aid in non-traditional living arrangements, so it's best to contact individual schools for clarification.



# Maximizing financial aid

## The following are ways to boost your child's chances of receiving a better aid package:

### Find schools that are solid academic fits.

Students near the top of the applicant pools are more likely to receive greater aid and merit scholarships.

### Apply to generous colleges.

The most generous schools will meet more of your child's demonstrated financial need or close to it. Use net price calculators, found on individual college web sites, to see the average aid award given at each college.

### Move money out of your child's name.

Child assets, most notably in custodial UGMA/UTMA accounts, are assessed for financial aid at rates up to 25%. Consider liquidating and paying any applicable tax and moving the child's money into a custodial 529 plan where it will be treated more favorably as a parent asset.<sup>3,4</sup>

### Apply for aid early.

See <https://studentaid.ed.gov/sa/fafsa#deadlines> for a listing of all states deadlines.

### Pay attention to school deadlines.

Miss a college's aid deadline and your child's application may not be considered.

### Provide the right home equity value.

When calculating your home equity for the CSS Profile, for example, subtract not only your mortgage, but also any outstanding home equity line balance and money you might have borrowed from family or other sources to buy your house.

### Avoid tapping into retirement accounts.

Retirement distributions are treated as parental income. If you must tap into your retirement nest egg as a one-time event, ask the college to disregard the withdrawal.

### Talk to grandparents.

New for 2024-2025 school year: grandparent-owned 529 accounts will no longer impact a student's eligibility to receive need-based financial aid.

<sup>3</sup> Consult a tax professional before liquidating and funding a custodial 529 plan to assess your tax situation. <sup>4</sup> A contribution to a custodial UGMA/UTMA account is considered an irrevocable gift to the minor so the beneficiary cannot be changed on a custodial 529 account.







# Interpreting financial aid awards

Financial aid letters can be confusing. Some award letters don't clearly differentiate between grants (free money) and loans, leading to uncertainty as to what a school will cost.

When you receive an award letter, here is what you will ideally find:

- Full cost of attendance, broken down into such expenses as tuition, room/board, books and travel.
- Grants and scholarships.
- Types and amounts of loans.
- Net price student will pay after grants and scholarships are deducted.
- Parents' and student's Student Aid Index (SAI) formerly called Expected Family Contribution (EFC).<sup>5</sup>

Some aid award letters may not include the Student Aid Index (SAI) value. Make sure you understand what types of aid you are receiving from the school before enrolling. Unless you know what your SAI is, it will be difficult to know whether the award is generous or not. If the SAI is missing from the award letter, ask the school for the figure and ask the school exactly how much of the package loans make up.

**If you find it difficult to interpret an award letter, contact the school's financial aid office for clarification.**

# Renegotiating the offer

Families should consider seeking more aid if any of the following circumstances have occurred since they submitted their aid application:

- Divorce
- Loss of job
- Death
- Separation
- Large medical bills
- Birth

Even if your family hasn't experienced any of the above circumstances, don't assume an award letter is a school's final offer. Some colleges will offer students packages based on what they have concluded it will take to win over the applicants. In other words, a school could give your child a lowball offer if it believes he or she is eager to attend.

Schools are increasingly worried about filling their freshman slots, so don't feel hesitant about asking for more help. Here are steps to take if you appeal an award:

- 1 Understand the school's appeal process.**  
Make sure you reach out to the right person.
- 2 Don't wait.**  
Contact the school immediately since money can run out.
- 3 Provide a number.**  
Be specific and realistic about how much extra aid you need.
- 4 Show competing offers.**  
If your child received a better aid package offer, share it with the school your child wishes to attend.

<sup>5</sup> Starting 7/1/2023 Expected Family Contribution will change to Student Aid Index.

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