

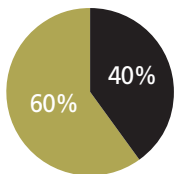
## Winning at the college financial aid game

Everyone knows that college costs rise every year. Fortunately, financial aid rises as well.

### Majority of students receive aid<sup>1</sup>

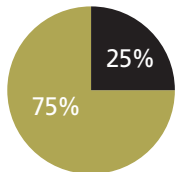
Percentage of students receiving and not receiving financial aid

#### Public college or university



■ Do receive  
■ Do not receive

#### Private college or university



■ Do receive  
■ Do not receive

For most students and their families, available financial aid went up 11.5% for the 2002-2003 academic year to a record \$90 billion. In fact, over the past decade, “total aid has increased by 117% in constant dollars,” notes the College Board.<sup>1</sup>

Most families can take advantage of financial aid. In fact, at four-year public colleges, more than 60% of students receive some form of aid; at private colleges, that figure jumps to 75%. 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. Here are a few tips to get you started:

**1. Start planning for aid before your child’s junior year.** 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 scrutinize the family’s income and assets in the calendar year that begins when the student is a high school junior. If you start planning early, you have an opportunity to reposition assets or adjust income so that you may qualify for more aid.

**2. Consider shifting assets and income before you have to complete aid forms.** You’ll have to complete financial aid forms in January of the year your child starts college. But you’ll be reporting your income and assets for the previous year — the calendar year that actually begins in the middle of your child’s junior year of high school. In financial aid terms, that year is considered your “base income year.”

To help you qualify for more aid, you’ll want to postpone receiving income or shift some assets before that year begins. In essence, then, you’ll need to start thinking about ways to increase aid when your child begins his or her junior year of high school — and preferably even a year or two before then.

**3. Don’t assume you’re ineligible.** Every family’s circumstances are different. A number of factors — such as having several children in school at the same time — can dramatically increase your eligibility for aid. Even families with incomes of up to \$120,000 per year may find themselves eligible at private schools, and families with incomes of up to

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### Key points

Opportunities for financial aid are greater than ever and widely accessible. Make sure that your finances are in order when it’s time for you to apply for aid.

- Start planning in your child’s sophomore year.
- Reposition assets that are in your child’s name.
- Suggest aid-friendly gifting strategies to relatives.

<sup>1</sup> Source: College Board, collegeboard.com

\$75,000 may find they can receive aid at public universities. But there are no specific guidelines. Consult your investment professional or a college planning specialist to gauge whether you'll qualify for aid.

**4. Think twice about putting savings in your children's names.** Colleges expect children will contribute 35% of their savings to the cost of their education, but parents are expected to contribute only 5.65% of theirs. For that reason, putting assets in your child's name, such as a Uniform Gifts/Transfers to Minors Act account, can reduce the amount of aid for which your family will qualify. Because parents control the assets in 529 savings plans and certain Coverdell Education Savings Accounts, money in these accounts may be considered in financial aid formulas as the parents' assets and will have less of an impact on 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 pay for a grandchild's tuition, those payments are exempt from any gift taxes. The money can be removed from their estate without losing any portion of the lifetime credit they can use to escape a portion of estate taxes. But colleges look at such payments as an additional resource that families have to pay for college. Every dollar that a grandparent contributes, then, can reduce an aid package by a dollar. (Even trusts set up for a grandchild are viewed as a student asset and may reduce the aid package.)

Grandparents can still receive estate tax and gifting benefits if they make contributions to a 529 plan you or they have established for the child.

**6. Don't spend too much time looking for third-party scholarships.** If you take money from a third-party group such as a foundation that supports female timpanists, colleges will view that scholarship as an additional resource for your family and reduce the amount of aid they grant to you dollar for dollar. If aid is possible, spend your time planning ways to receive the highest possible aid award from colleges. Clearly, if you have no hope of receiving aid, you should tap every source you can.

#### Applying for aid

As noted earlier, the aid application process begins long before your teenager goes off to college. The process includes looking at your family's financial situation, gathering financial records, filling out forms, researching available grants, loans, and scholarships. Then you must weigh your findings to choose the best option for your child.

Two forms lie at the center of the application process — Free Application for Federal Student Aid (FAFSA) and College Scholarship Service Financial Aid PROFILE (PROFILE).

FAFSA is used by students applying for federal aid and may be used by many states to determine a resident student's eligibility for state aid. (Check with your state's scholarship or grant agency to find out what the requirements are.)

#### Where to obtain the FAFSA form.

Both your high school guidance office and the college financial aid office have copies of the form. You can also order it from the Federal Student Aid Information Center by calling 1-800-433-3243. You'll find an electronic version of the form at the Student Financial Assistance section of the U.S. Department of Education's Web site at [www.ed.gov](http://www.ed.gov). You can fill out the form online or mail it in.

**Filing date.** You should file as soon after January 1 as possible for enrollment the following September. Applicants may need to wait until they receive their W-2s and other tax information before completing the FAFSA.

**Processing time** for the application is three to four weeks.

**Notification.** You'll receive a Student Aid Report (SAR) by mail after your FAFSA form has been processed. The report provides a summary of the information you provided on your FAFSA and will include your Expected Family Contribution (EFC). The EFC is the amount you and your family are expected to contribute, and it is used in determining your child's eligibility for federal student aid. The SAR will be sent to you and to the schools listed on your child's application.

PROFILE is the financial aid application service for the College Scholarship Service (CSS), a division of the College Board. Many private colleges, universities, and scholarship programs use the information collected on PROFILE to help them award nonfederal student aid funds.

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**Where to obtain the form.** You can call the College Board at 1-800-778-6888 to register for the service and obtain a copy of the form. However, the College Board encourages you to register and complete the form online and offers a \$2 reduction in the registration fee if you use their Web site, [www.collegeboard.com](http://www.collegeboard.com). You'll find the PROFILE under the tab "Pay for college."

**Cost.** PROFILE charges \$5 to register and \$18 per school or scholarship entity. If you use the online service, you must use a valid credit card to pay for the service.

**Filing date.** The due date for PROFILE information varies by school and scholarship entity. The Web site lists all institutions that use PROFILE and includes the due dates for each one. Be sure to allow for processing time, so your information should be submitted at least a week before the institution's deadline.

**Processing time.** The College Board takes about a week to process your information and send it to the institutions you requested.

**Notification.** After you submit the information online, you'll receive an online acknowledgement.

### Grants, work-study, and loans

Financial aid comes in many forms, it may be money that is given outright to the student or money that's borrowed by the student or his or her family. Become familiar with the various types of aid available so that you can make the most of your aid package.

### Grants

A grant is money that is given outright to the student. The money usually comes from the state or the federal government. Federal aid is awarded by the school, not the government. Here are some of the most common federal grants available.

- **Federal Pell Grants.** The Pell Grant is offered to undergraduate students who have not yet earned a bachelor's or professional degree and who demonstrate financial need according to criteria set by the U.S. Department of Education. Among the factors considered by the Department of Education are expected family contribution, 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.
- **Federal Supplemental Educational Opportunity Grants (FSEOGs).** This federal grant program provides additional amounts, generally less than the Pell, to students demonstrating strong financial need. FSEOGs are offered to students with the lowest expected family contribution.

### Work-study

- **Federal Work-Study Program.** This federal needs-based program allows students to earn money by working at a subsidized job, generally on the college campus.

### Student loans

Loans make up 54% of the total aid awarded to students and their parents each year. In fact, most financial aid packages include a loan of some sort. Loans may be need-based or non-need-based. Generally, the loan terms are more favorable with needs-based loans.

**Needs-based loans.** The federal government is the principal provider of needs-based loans. Key features of these loans include a low interest rate, payments that are deferred until after graduation or the student leaves school. The government pays the interest that accrues on the loan while the student is in school. The government in-school subsidy makes this type of loan quite attractive. There are three types of need-based loans.

**Perkins Loan.** The school's financial aid office will send you a promissory note that you must sign and return.

**Subsidized Stafford Loan.** The school's financial aid office will send you a list of approved lenders, and many of these lenders offer online applications. Once you complete the application and the loan is approved, the lender sends the money to the school.

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

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**Non-needs-based loans.** These loans are used to help families pay their portion of the expected contribution. Some colleges will include these in the financial aid letter. When you calculate how much money you need to contribute, these loans may help you take care of any shortfalls, but they may charge a higher rate of interest than the needs-based loans and have no in-school subsidy. Some of these loans may also require immediate repayment of principal. There are also three types of non-needs-based loans.

**Unsubsidized Stafford or Direct Loans.** Similar to the other Stafford Loan, you'll complete a master promissory note and the funds will be sent to your college.

**PLUS Loans.** The PLUS is a loan to parents that is sponsored by the federal government. Many lenders such as the College Board will quickly preapprove this loan on the phone or online. Once the paperwork has been completed and the loan formally approved, the money is sent directly to the college.

**Private or Alternative Loans.** These loans are available to parents and to students. They are not government loans and usually carry a higher interest rate than the federal loans already described. Credit checks and formal approval are almost always required. These loans can be obtained from banks or other financial institutions where you have accounts.

## Resources

### Web-based

- College Board  
[www.collegeboard.com](http://www.collegeboard.com)
- Financial Aid  
[www.finaid.org](http://www.finaid.org)
- Saving for College  
[www.savingforcollege.com](http://www.savingforcollege.com)

### Printed material

- Chany, Kalman A., *Paying for College Without Going Broke*, (Princeton Review Series, 2003 edition, \$20.00)
- Hurley, Joseph, *The Best Way to Save for College: A Complete Guide to 529 Plans 2003-2004 edition*, \$22.95. Joseph Hurley is a nationally recognized college planning expert.

Contact your investment  
professional for more information.

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