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On Parenting Perspective

11 misconceptions about paying for college

By Joanna Nesbit
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Every year, parents are shocked that the colleges their teen applied to didn't award enough, or any, financial aid. It's complicated. Here are 11 things to understand before financial aid letters arrive.

The FAFSA doesn't award financial aid. Filling out the Free Application for Federal Student Aid determines whether your student is *eligible* for federal aid, including Pell Grants, FSEOG grants, work-study, and subsidized student loans. "Submitting the FAFSA doesn't mean you're now getting financial aid," says Vicki Beam, founder of Michigan College Planning. Yes, a partial or full Pell is automatically awarded to eligible students, and all students who fill out the FAFSA, regardless of income, qualify for unsubsidized federal student loans (and many qualify for subsidized loans). However, federal aid is packaged into the college's financial aid award letter, which may include state grants and institutional grants, if your student qualifies, plus possible merit scholarships. The FAFSA itself doesn't give financial aid. It's just the messenger.

Your EFC isn't the amount you'll pay. Every family has an expected family contribution, or several, depending on the colleges your student applies to. Most use the FAFSA, but approximately 300 institutions also use the College Board's CSS Profile, and 23 highly selective colleges use a "consensus methodology," calculated using the CSS Profile.

Your EFC is a measure of your financial strength, and it's understood to be the amount you can afford to contribute. But for most families, it's not the amount they pay. That's because most colleges don't offer enough aid to cover remaining costs above your EFC. Nor are they obligated to, says Michelle Kretzschmar, founder of DIYCollegeRankings.com, a website that provides information for families to compare colleges. "I can't stress enough to families that their cost is tuition, room and board minus grants and scholarships. That's your cost, no matter what your EFC is," says John Falleroni, associate director of financial aid at Pittsburgh's Duquesne University. Your EFC, or "FAFSA score," as Falleroni prefers to call it, simply quantifies your demonstrated need. Many institutions, particularly public universities, cannot meet it. Even if your stellar student gets accepted to a competitive "meets need" institution, you'll likely have to cover your full EFC — as that institution defines it.

Of course, exceptions exist. Hefty scholarships happen. But most families, experts say, pay more than their EFC — unless it's higher than the cost of the college choice.

Understanding your EFC does help. When the financial aid letters arrive, your EFC is useful for understanding if a college is affordable. You can use college net price calculators now to predict ballpark awards (merit scholarships may be tricky). Your EFC also helps define best colleges for your financial profile. It's not too late to research which offer generous merit scholarships or need aid, and whether your student qualifies.

A merit scholarship might not be enough. A $20,000 annual scholarship sounds generous, but it can leave a bill of $40,000 at a private college. If your EFC is $10,000, that college isn't feasible. Full scholarships exist, but they're rare and typically are offered by geographically unpopular universities, Kretzschmar says.

Loans might be the only "aid" your student gets. Officially, federal student loans aren't financial aid. "When the federal government analyzes colleges' average net price after gift aid (grants and scholarships), it specifically excludes loans," Kretzschmar says. However, loans might be the only package offered, particularly at a public university.

Your student can't borrow the cost of college. Federal student loans come with limits — for good reason. Students can borrow up to $5,500 the first year, $6,500 sophomore year, and $7,500 each their junior and senior year. An additional $4,000 is available for a fifth year, for a total of $31,000. If a parent doesn't qualify for a Parent PLUS loan, students can borrow a bit more, but most students will be subject to the limit, designed to protect them from burdensome debt. To borrow more, students would need parents to co-sign private loans. (Note: Loan limits are being discussed now at the congressional level as part of the PROSPER Act, a higher education overhaul. Limits for students may increase if the legislation passes.)

Outside scholarships aren't a golden ticket. They can help — my daughter won a decent one — but many students don't win enough to significantly reduce costs. Typically, private scholarships are small, ranging from $500 to $2,000. "The high-value scholarships — like the national Coca-Cola scholarship—have fierce competition," Kretzschmar says. "Your best shot is local scholarships, but these are often in the $500 range." Additionally, many colleges reduce need aid by the scholarship amount, landing you at square one. Check your schools' policies. You're better off researching generous institutional scholarships for your student's academic profile.

Your student almost certainly can't file as an independent. Even back in 1982 when I went to college, age 24 was — as today — the magic age for automatic financial independence. Until then, only a few circumstances grant independence, Beam says, some of which, like homelessness, must be documented by a school counselor. Requiring parent income on financial aid forms is nothing new. But it's infinitely harder now for students to pay their own way.

Saving for college helps more than hurts. Unless you're rolling in assets, parental non-retirement savings don't hurt financial aid as much as you think. The EFC calculation weights income much more heavily. On non-retirement savings, parents are expected to contribute up to 5.64 percent. That's just $564 on $10,000 once you get above the asset shield allowance, which is tied to the older parent's age. You're not penalized for saving. You probably wouldn't have gotten enough financial aid anyway, and savings is better than no savings.

Colleges don't care that you're behind on retirement. Perhaps that sounds cold. But according to

Falleroni, colleges are bound by financial aid formulas and your EFC. The FAFSA doesn't ask about consumer debt. Nor are you given financial aid because living costs are high or you've earmarked a non-retirement account for retirement. It's up to you to work the numbers and decide what's affordable. CSS Profile colleges do consider stiff medical bills and private high school tuition. All colleges consider changes in circumstances. After filling out financial aid forms, you can request a professional review from a college, but be prepared to document real change, such as job loss or a medical emergency.

Dream schools can be a nightmare. Accepting a dream school beyond your means can sink retirement goals and saddle families with life-altering loan payments. Don't say yes to your teen before the numbers are in. "Look at all four years of costs, and multiply that by each child in your family," Beam says. "The biggest myth parents operate under is, 'We'll figure it out as we go.' "

Overwhelmed? College costs are scary. But better to understand them now before receiving a tuition bill you can't swing. Consult a financial adviser if needed. Include your teen in financial conversations now. They deserve to know what their future might or might not include.

Joanna Nesbit writes about education, parenting and family travel. Find her work at www.joannanesbit.com or follow her on Twitter at @joannanesbit.

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