

College financial aid

Advice for getting the help your child or grandchild needs

With the pace of higher-education costs consistently rising faster than the general Consumer Price Index (CPI), understanding the alternatives and opportunities you and your child or grandchild may have regarding financial aid is more important than ever. In the 2009-2010 academic year, more than \$154 billion in financial aid (grants, federal loans, federal work-study, and federal tax credits and deductions) was distributed to students.*

Here are a few tips to help you and your student get started.

Start planning for aid during the student's high-school years

Pay particular attention to your child's junior year of high school and reposition assets or adjust income before that year begins. When financial-aid officers review a family's need, they analyze the family's income in the calendar year that begins in January of the student's junior year of high school.

Assume you are eligible for aid – until told otherwise

There are no specific guidelines and no rules of thumb that can accurately predict the aid you and your student may be offered. Because each family's circumstances are different, you'll want to keep an open mind as you consider various financial-aid alternatives. A number of factors – such as having several children in school at the same time – could increase your eligibility.

Reassess assets held by your children (in the child's name)

Federal institutions expect children to contribute 20% of their savings toward their education's costs, while parents are expected to contribute only 5.6% of their savings. That's why assets held in custodial accounts may reduce the aid for which the family qualifies. Assets held in Coverdell Education Savings Accounts (ESAs) and 529 plans will be factored into the parent's formula, having less effect on the aid for which the family qualifies.

Steer grandparents' gifts in the right direction

Grandparents' hearts often lead them toward gifting directly to grandchildren or paying the student's tuition expenses. Even though payments made directly to the institution avoid gift taxes, institutions generally count these payments as an additional resource the family has to pay for college expenses. Distributions from grandparent-owned 529 plans are also considered an additional resource and are assessed as the student's income, which can reduce the amount of eligible aid.

A better idea for grandparents may be to consider gifting to a 529 plan owned by the parent or student. The financial-aid treatment of gifts to a 529 plan is generally more favorable than that for gifts made directly to the student. In addition, grandparents may realize estate-tax and gifting benefits by using the 529 plan alternative.

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What you should know about aid applications

As you begin planning, you'll find that taking a financial inventory is your best first step. Assess your family's financial situation, gather records and begin researching available grants, loans and scholarships. You'll also discover that two forms will be key to your aid application process: the Free Application for Federal Student Aid (FAFSA) and the College Scholarship Service Financial Aid Profile (PROFILE).

FAFSA. This form helps you apply for federal aid, and many states also use it to determine a resident student's eligibility for state aid. You can find this form in several places:

- High-school guidance offices and college financial-aid offices
- The Federal Student Aid Information Center at 800-433-3243
- Online at fafsa.ed.gov

You should file this form as soon as possible after Jan. 1 for enrollments that begin the following September. Plan to allow approximately three to four weeks for processing.

After your FAFSA has been processed, you'll receive a Student Aid Report (SAR). This report will include your Expected Family Contribution (EFC), which is the amount you and your family are expected to contribute toward your child's education. The table below shows the ranges of parental and student income and assets used to calculate an EFC. Income is more heavily factored than assets, and student assets are factored more heavily than parental assets.

	Parents	Students
Income	22% to 47% of parents' income	50% of student's income
Assets	0% to 5.64% of certain parental assets	20% of certain assets of the student

The EFC is then used in the following equation to determine your family's financial need:

$$\text{Cost of college attendance} - \text{EFC} = \text{Financial need}$$

Keep in mind that having a financial need does not guarantee financial aid.

PROFILE. Many institutions use the information on the PROFILE form to help determine awards for nonfederal student-aid funds. This is a financial-aid application service provided by the College Scholarship Service (CSS), a division of the College Board. You can register for this service by either:

- Completing the form online by visiting collegeboard.com and selecting the **Pay for College** tab.
- Calling the College Board at 305-829-9793; you'll need to register for this service, and the College Board will provide a copy of the form. There is a nominal cost for registering and using this service.

The College Board's website also lists the institutions that use PROFILE and the due dates for each institution. Allow for processing time and be sure to submit your application at least two weeks prior to the deadline.

Add grants, work-study and loans to your financial support mix

Grant. A grant is money given freely to a student with no repayment requirement. Although grants generally are funded by state or federal governments, the grant is awarded by each institution. Several common types of grants are:

- *Federal Pell Grants*, which are offered to undergraduate students who have not yet earned a bachelor's or professional degree. Recipients typically demonstrate a financial need by meeting criteria the U.S. Department of Education sets. The Department of Education generally considers such items as the EFC, total cost of attendance, full- or part-time status, and attendance period. Pell Grant recipients may also become eligible for more specific grants, such as the Academic Competitiveness Grant (ACG), National Science and Mathematics Access to Retain Talent (SMART) Grant, or others.
- *Federal Supplemental Educational Opportunity Grants* may be available to students with the greatest financial need. Typically, recipients fall in the lowest range of EFC calculations.

Work-study. The federal work-study program may be able to offer a subsidized job on campus at which the student can earn money. These wages can help pay education expenses.

Student loans. Federal loans make up a large portion of the total aid awarded to undergraduate students each year. There are two forms of loans: needs-based and non-needs-based.

- *Needs-based loans* generally will provide lower interest rates, delayed repayment features and an in-school interest subsidy paid by the government. The interest subsidy means that the government pays the interest accruing on the loan during the time the student is in school (and sometimes up to six months after). This reduces the loan's total cost.

You may hear about different types of needs-based loans: Perkins Loans, Subsidized Stafford Loans and Subsidized Direct Loans. The school's financial-aid office will explain the differences along with loan terms and other requirements.

You can count on us

Although financial aid can be helpful, it's usually not wise to depend on it. Your Financial Advisor can work with you on more reliable sources, such as ESAs, 529 plans and custodial accounts, for the funds your student will need to pay higher-education expenses.

- *Non-needs-based loans* may be available for families who find they cannot pay their expected contribution from savings or current income. These types of loans generally have higher interest rates, do not have an in-school interest subsidy (meaning that interest payments are due while the student is still in school) and may require speedy repayment.

You may hear terms such as Unsubsidized Stafford Loans, direct loans or PLUS loans in relation to these non-needs-based loans. Like the needs-based loans, the school's financial-aid office will provide more details in its financial-aid letter.

If you need further financial assistance, you may be able to obtain it through private and state education loans, which are available through banks and other financial institutions, some colleges and universities, and private organizations.

This brief report is certainly not comprehensive in scope, nor does it provide all the details behind each of these alternatives. As you can tell, many of the programs are government-sponsored and could change through the years. Be sure to talk with your Financial Advisor about the investment alternatives available specifically for building a child's or grandchild's education fund. 529 plans, ESAs and custodial accounts let you control your own destiny relative to paying education expenses and reduce your dependency on financial aid or loans.

Please consider the investment objectives, risks, charges and expenses carefully before investing in a 529 savings plan. The official statement, which contains this and other information, can be obtained by calling your Financial Advisor. Read it carefully before you invest.

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