WELLS FARGO ADVISORS

An introduction to college financial aid

Advice for getting the help your child or grandchild needs

With the pace of higher-education costs consistently rising faster than inflation, as measured by 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 2015 – 2016 academic year, more than $240.0 billion in financial aid (grants, federal loans, federal work-study, and federal tax credits and deductions) was distributed to or on behalf of students.* However, concerns over the deficit indicate federal financial aid may not be as generous in the future as it has been in recent years. Therefore, it is important to be familiar with the various aspects of financial aid.

What you should know about aid applications

More than half of the students currently enrolled in college receive some sort of financial aid. To determine how much financial aid, if any, your student is eligible for, you will first need to gather some financial information and complete some paperwork. The forms you'll need to submit will vary by school.

There are two common methods that may be used when determining a student's eligibility for financial aid. The first and most common is the Federal Methodology (FM); the second is known as the Institutional Methodology (IM). There are differences between the two, and they normally result in varying Expected Family Contribution (EFC) amounts. The EFC is a measure of the amount your family is expected to contribute toward your child's education. For planning purposes, it is essential you know which method the school uses so you have no surprises.

Federal Methodology

Regardless which school your student is planning to attend, you will need to complete the Free Application for Federal Student Aid (FAFSA) if you are interested in receiving financial aid. You should complete this form as soon as possible after October 1 of the year before you plan to begin college. The FAFSA is used to apply for federal and state aid, which includes grants, work study, and student loans. Students apply online at fafsa.ed.gov. When determining if you are eligible for federal financial aid, the information you supply about your finances is included in a formula established by Congress that calculates your federal EFC. This calculation takes into consideration family size and the number of children in college in addition to the following information:

	Parents	Student
Income	22% to 47% of income	50% of income
Assets	Up to 5.64% of certain assets	20% of certain assets

Note: Retirement plans and life insurance policies are not included as assets for the Federal EFC. See the FAFSA instructions for more details.

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

	Cost of college attendance	
–	EFC	
	Financial need	
–	Resources of the student	*(i.e., private scholarships)*
	Adjusted financial need	

Keep in mind that having a financial need does not guarantee financial aid. You can find more information regarding the FAFSA at fafsa.ed.gov or by calling 1-800-4-FED-AID.

This table illustrates the impact of various education savings vehicles on federal financial aid.

	529 savings account*	Education Savings Account	Account in parent's name	Custodial account
Assets of parents	X	X	X	
Income of parents			X	
Assets of student				X
Income of student				X

Institutional Methodology

Depending on where you apply, the IM formula might come into play. Many schools and scholarship programs collect additional information before awarding their own funds, i.e., institutional student aid. The IM usually relies on information collected on the College Scholarship Service (CSS)/Financial Aid PROFILE® for its calculations, but some schools may use their own forms.

The PROFILE form is used by a financial-aid application service provided through the CSS, a division of the College Board. You can register by visiting Collegeboard.org. The College Board's website lists the institutions that use PROFILE and the due dates for each. Allow for processing time, and be sure to submit your application prior to the deadline to ensure your eligibility for the available grant dollars.

PROFILE applications are customized for each student based on information pertaining to you, your family, and your financial situation supplied during the application process. Even among schools that use IM, there are differences in how each institution weights information gathered on the PROFILE form. There are also variances in the financial resources that institutions can draw upon when awarding aid.

In general, IM is more comprehensive than FM and may take into account other financial factors not included in the FM process. Examples of additional inclusions may be equity in your personal residence, nonqualified annuity values, assets of siblings, and information pertaining to a noncustodial parent and step-parent, if remarried. There are many other differences between the two methods that you should understand, but the bottom line is that the IM assumes more family assets may be used to pay for college expenses than does the FM.

** 529 plans owned by someone other than the parent or student are not considered assets in the EFC formula, but distributions from them may be considered income to the student.*

Different types of aid may compose your financial support mix

Financial aid comes in many forms. Below is a description of the more common forms:

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. Two common types of grants are:

- *Federal Pell Grants* 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 set by the U.S. Department of Education. The Department of Education generally considers such items as the EFC, total cost of attendance, full- or part-time status, and attendance period. Students can receive the federal Pell Grant for up to the equivalent of 12 semesters.
- *Federal Supplemental Educational Opportunity Grants* may be available to undergraduate 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 that can be used to help pay education expenses.

Federal loans. Federal loans make up a large portion of the total aid awarded to undergraduate students each year. They come in two forms.

- *Need-based loans* generally 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 need-based loans, such as Perkins Loans and Direct Subsidized Loans. The school's financial-aid office will explain the differences along with loan terms and other requirements.
- *Non-need-based loans* may be available for families who find they cannot pay their expected family contribution from savings or current income. These types of loans generally have higher interest rates and do not have an in-school interest subsidy. This means that interest accrues while the student is still in school and if the interest is not paid while the student is in school, the interest will be added to the principal balance upon graduation.

  You may hear terms such as Direct Unsubsidized Loans and Direct PLUS loans in relation to these loans. Like the need-based loans, the school's financial-aid office will provide more details in its financial-aid offer letter.

Federal student loans are available for all full-time students, regardless of credit history. These loans offer a fixed rate for the life of the loan.

Private loans. Private student loans may be necessary if further financial assistance is needed to attend the school of choice. Private loans are provided by a private lender, such as a bank, credit union, or other financial institution. Rates will vary depending on the lender and the borrower's credit rating. Usually a cosigner is required on private loans unless the student has excellent credit. These loans may be fixed or variable depending on the lender and may offer relationship discounts, discounts for automatic payment, or a graduation benefit.

When deciding on a federal or private loan, students and parents should evaluate not only the fees and interest rates but also the terms of the loan and repayment flexibility. Regardless of which type of loan you choose, never borrow more than necessary.

For more information about federal aid for college, visit FederalStudentAid.ed.gov.
For more information on private student lending options, visit wellsfargo.com/student.

Financial aid tips

With ever-increasing education costs, the role of financial aid is becoming more important than ever. These tips may help you and your student improve your eligibility for financial aid.

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

Consider repositioning assets or adjusting income before your child's sophomore year. When financial-aid officers review a family's need, they analyze the family's income in the calendar year that is two years before the year of enrollment. For example, if you are applying for aid to cover the 2018 – 2019 school year, you will report income from the 2016 tax year. With this in mind, try to keep income, interest, and capital gains to a minimum. Your best scenario would be to sell assets and incur capital gains in earlier years or defer large gains to later years that will not be considered in your financial aid application, if possible.

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

As indicated previously, institutions expect children to contribute a higher percentage of their savings toward their education costs each year as compared to their parents. As a result, assets held in custodial accounts, as compared to assets held in Education Savings Accounts (ESAs) or 529 plans (including student-owned 529 plans), may have a larger impact on whether the family may qualify for financial aid. ESAs and 529 plans will be factored into the EFC formula at the lesser parental rate, which may be more beneficial than the custodial account.

Steer grandparents' or third-party gifts in the right direction

Grandparents' hearts often lead them toward gifting directly to grandchildren or paying the student's tuition expenses. Even though tuition payments made directly to the institution do not count as gifts for gift tax purposes, institutions generally count any third-party payments as an additional resource the family has available to pay for college expenses. Distributions from grandparent-owned or other third-party owned 529 plans or gifts from other individuals to the student are reported and assessed as the student's income, which can reduce the amount of eligible aid.

You can count on us

Be sure to talk with your Financial Advisor about the investment alternatives available specifically for building a child's or grandchild's education fund. By saving in advance, you may be in a better position to control your destiny relative to paying education expenses and reducing the amount of debt the child may be burdened with after graduation.

A better idea for grandparents or other relatives may be to gift to a 529 plan owned by the parent or student. The financial-aid treatment of gifts to a parent- or student-owned 529 plan are generally more favorable than that for gifts made directly to the student or the school. In addition, grandparents may realize estate-tax and gifting benefits by taking advantage of an accelerated gifting technique available only through 529 plans.

If you are the student's grandparent or a relative other than a parent, and you have already established a 529 account in your own name, evaluate the pros and cons of maintaining in your name versus transferring ownership of the account to the parent of the student.

Assume you are eligible for aid — until told otherwise

There are no specific guidelines or 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 the age of the older parent or having several children in school at the same time — could increase your eligibility. Also, in most cases, unless you fill out the necessary forms, you will not be considered for any of the institutions' scholarships.

Apply to more than one school

Apply to multiple schools and compare financial-aid awards. This is especially important if there is a non-custodial step-parent because some colleges count this person's resources while others do not. You may also want to consider asking the financial-aid officer for more aid if the current award is not enough for attendance — all he or she can say is "no." If there are extenuating circumstances, be sure to attach a letter of explanation to the application.

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. Although financial-aid avenues are worth pursuing, there is no guarantee that agencies will grant the aid you want or expect. In addition, most financial aid is provided in the form of loans — which must be repaid.

Something to keep in mind

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.

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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