



Barnum Financial Group

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Financial Aid: Scholarships

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What is a scholarship?

A scholarship is a type of financial aid that, like a grant, does not have to be repaid. For this reason, a scholarship is referred to as gift aid. By contrast, you or your child must repay a loan.

Scholarships may be offered by several sources: the federal government, state governments, colleges, and a variety of private organizations. Scholarships can be either need-based (awarded on the basis of some achievement and your financial need), or non-need-based or merit (awarded solely on the basis of some achievement).

Though only a small percentage of financial aid generally comes in the form of scholarships (compared to loans), it is financially worthwhile to research and apply for any scholarships your child may be eligible for. At one time, need-based scholarships were the most common; in recent years, however, merit scholarships have been increasing as colleges seek to lure the brightest students to their campuses.

How do scholarships fit into the financial aid picture?

If your child receives a need-based scholarship, he or she may have additional need, some or all of which will be met with other scholarships, grants, or loans. If your child receives a merit scholarship, he or she may also have additional financial need.

Your child receives a merit scholarship and has financial need

When your child receives a merit scholarship, the cost of college is reduced by the amount of your child's award. The scholarship can eliminate: (1) part of your child's need, (2) all of your child's need, or (3) all of your child's need and part of your expected family contribution (EFC). Federal regulations prohibit colleges from using non-need (merit) money to replace your EFC unless all of your child's financial need has been met first.

For the following examples, let's assume that the cost of college for one year is \$15,000 and that your EFC is \$10,000, making your child's need \$5,000.

Example(s): *Your child receives a merit scholarship of \$1,000. You have reduced your child's need from \$5,000 to \$4,000, and your EFC remains the same at \$10,000.*

Example(s): *Your child receives a merit scholarship of \$5,000. All of your child's need is eliminated, and your EFC remains the same at \$10,000.*

Example(s): *Your child receives a merit scholarship of \$7,000. All of your child's need is eliminated, and you can apply the extra \$2,000 to help cover your EFC.*

Tip: *In the first two examples above, you can try to convince the financial aid administrator to reduce or replace a loan portion of the financial aid package rather than a scholarship or grant portion.*

Your child receives a merit scholarship and does not have financial need

In this situation, your child's financial aid package is not affected. The scholarship simply replaces your own money when you write a check for tuition. But your child's merit award cannot exceed the cost of attendance.

Example(s): *Assume the cost of college for one year is \$25,000. Your child receives a merit scholarship of \$30,000. You can only receive \$25,000; you can't pocket the additional \$5,000.*

Tax implications

The federal government taxes as ordinary income the portion of any scholarship that exceeds tuition, fees, books, and equipment. This means that room-and-board scholarships are taxed. So, if your child receives a scholarship that can be used for any expense, apply it first to the tax-free items (e.g., tuition, fees, and books) before using it for room and board.

Federal scholarships

There are two main federal scholarship programs: the Robert C. Byrd Scholarship Program and the AmeriCorps Program.

Robert C. Byrd Scholarship Program

The Robert C. Byrd Scholarship Program provides scholarships to students who have demonstrated outstanding academic achievement and the promise of continued academic excellence. Generally, the scholarship is \$1,500 for the academic year. It is a renewable scholarship, which means that it is awarded for each year of a student's first four years at college.

Though the federal government provides the scholarship funds, each state establishes its own criteria and then selects recipients. To find the agency in your state where you can get information on the Robert C. Byrd Scholarship Program, call (202) 502-7777.

AmeriCorps Program

The AmeriCorps Program offers educational awards in exchange for community service work before, during, or after college or graduate school. The community service work is in one of four areas: education, the environment, human services, and public safety. The federal government provides the funding, while states and nonprofit agencies do the hiring.

Participants receive a minimum wage stipend and a \$4,725 credit per year of full-time service (for up to two years). Students may then use the credit at any college or graduate school or to repay student loans. In addition, a living allowance of approximately \$10,000 per year is paid during the community service work. If necessary, another allowance is available for health-care and child-care costs.

Tip: Money earned in the AmeriCorps Program does not affect a student's eligibility for other federal student aid.

Interested students should apply directly to a funded AmeriCorps Program. For a list, contact the AmeriCorps at (202) 606-5000, or visit its website at www.americorps.org.

State scholarships

Many states offer their own scholarship programs (along with free scholarship searches). To learn more about possible scholarships in your state, contact your state's higher education agency.

College scholarships

Colleges are the main source of merit scholarships. Most are academic scholarships based on academic achievement; others are based on a specific talent, such as athletics or music. Contact the colleges you are interested in to learn more about the scholarships they offer.

Other scholarship sources

In addition to colleges and federal and state governments, there are literally thousands of associations and foundations of all kinds that offer scholarships. Some organizations favor student leaders or students who perform community service. Other groups look for students who have exceptional talents--writers, scientists, musicians, or athletes. Ask the reference librarian at your local library or your child's guidance counselor to help you get started on a scholarship search. The Internet can also be a valuable resource because the scholarship information is continually updated.

Each scholarship likely has a different application procedure and deadline, so it is important to be organized. Most scholarships require an essay, a transcript of grades, a description of extracurricular activities, and recommendation letters. Obviously, the more scholarships your child applies for, the better his or her chances of winning one (or more). However, because each organization defines its own selection criteria, it is critical that your child customize his or her materials to fit these criteria.

Tip: Your child does not have to inform most scholarship organizations that he or she has applied to other groups and has been awarded money. However, it may be in your child's interest to do so, because winning other scholarships enhances your child's credibility.

Caution: Do not pay anyone to help you search for scholarships, since this information is available free of charge at your local library or your child's guidance counselor's office. There are several scholarship "sham" organizations that attempt to guarantee

your child an award if you sign up for a fee.

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