Education Planning:

Common Education Planning Myths and Facts

The following are common college planning related myths which many parents and planners encounter, as well as the facts related to each myth:

Myth: ***"If a child is not claimed as a dependent he or she can file for financial aid as an independent student."***
Fact: The fact that a child is or is not claimed as a dependent on a parent's tax return has no bearing on whether that student will be considered independent for financial aid purposes. In order to be consider independent for financial aid purposes the student would need to meet one of the criteria, such as being age 22 or older, being married, being a U.S. Armed Forces veteran, etc.

Myth: ***"Contributing to a 401(k) or IRA will help a family qualify for more need-based financial aid."***
Fact: While parents should, ideally, continue to contribute to retirement plans during the child's college years, making these contributions will not increase the student's need-based aid eligibility. The financial aid equations add qualified plan contributions back in when assessing a parent's income.

Myth: ***"The student will just have to apply for some low-interest government loans and grants."***
Fact: All families should apply for financial aid. However, very little government financial aid is given in the form of grants, and what government grant money is awarded is typically reserved for the neediest of families. Students who demonstrate financial need may be eligible for loans which are subsidized (the interest is paid by the government while the student is in college). However, once the student graduates, he will be responsible for paying the interest on the accumulated loan balance. The interest rate could be as high as 6.8%. Also, undergraduate students can borrow a maximum of $7,500 per year through government loans, which does not cover the total cost of attendance at most colleges. If additional borrowing is necessary, the next most likely option for families are federal parent "PLUS" loans which carry an interest rate of 7.9%.

Myth: ***"The student has great grades and test scores (and/or is very talented). She just needs to apply for some scholarships."***
Fact: Non-need-based scholarships are typically awarded to high achieving students. However, there are many high achieving students across the nation which has made it much more difficult to compete in the scholarship arena. All eligible college-bound students should apply for scholarships. Families should not assume scholarships will cover a large portion of costs though.

Myth: ***"Colleges only offer merit aid for grades or talent (athletics, music, etc.)."***
Fact: While colleges most commonly award merit aid for academics, talent, or leadership, many colleges will offer merit aid for things such as geographic diversity, cultural diversity, applying to a specific major that the college is trying to promote, etc. Colleges previously focus on acquiring "well-rounded students". These days, colleges are more focused on creating a well-rounded student body. A southern California student applying to an upstate New York college or a female student applying to M.I.T.'s engineering program may be just what those colleges are looking for. And, colleges are willing to pay for what they're looking for.

Myth: ***"A stepparent's income and assets are not counted in the financial aid equations."***
Fact: The birthparent who provides the majority of the financial support to the child is the parent whose information will need to be reported on the federal financial aid forms. If that parent is remarried, the stepparents' income and any jointly-owned assets will need to be reported on the financial aid forms (even the parent and stepparent file separate tax returns). This situation may warrant a written appeal to the college if the stepparent does not financially support the child, however.

Myth: ***"The student should be able to get in-state status after his freshman year to qualify for lower tuition by getting an in-state driver's license, setting up a bank account, registering to vote, filing his own tax return, etc."***
Fact: Colleges make it very difficult for out-of-state students to convert to in-state status. Easily obtained items like an in-state driver's license, a bank account, or a voter's card do little to prove that the student has become a permanent reside of the state and that he is not in the state just for school. Even filing an income tax return in the state or establishing an off-campus address will often not meet the college's strict criteria. Short of moving the entire family to the state or considering drastic moves such as emancipation (which may not even work), it is very difficult for an out-of-state student to gain in-state status and should not be considered a likely strategy.

Myth: ***"Private colleges cost more than public colleges."***

Fact: Private colleges usually have a higher published cost of attendance or "sticker price" than public colleges. However, families should not write off private colleges altogether for this reason. Private colleges often provide significantly larger financial aid packages, with better loan-to-free-money ratios than publics. Families eligible for needed-based aid (and sometimes even merit aid) may be able to get the net out-of-pocket cost of a private down to the point that it is equal to or lower than the out-of-pocket cost of a public college.

Myth: ***"Students who file financial aid forms have a lower likelihood of being admitted to the college. Therefore, it's best to wait until the student's sophomore year in college to apply for aid."***

Fact: A very small percentage of colleges admit students based on financial need (or lack thereof). This practice is referred to as being "need aware". These colleges will typically only take need into consideration when determining who should fill their last remaining spots. The vast majority of colleges are "need blind". Meaning, they do not take a family's financial need into consideration at all when determining whether to admit a student. All families should apply for financial aid, especially those families who need the most financial assistance. Many times the student will not be offered as much aid in subsequent years if they did not apply for aid their first year. Colleges have to attempt to budget for 4 years of aid going to a student which means there is less money allocated to accommodate the needs of upperclassmen who did not initially demonstrate financial need.

Myth: ***"If a family makes too much money to qualify for need-based aid, and they are not interest in being offered loans, there is no need to file financial aid forms."***

Fact: All families should file for financial aid. The federal financial aid forms allow the student to list up to 10 colleges on the form. This can serve as a means of creating competition for the student. If the student's college of choice sees that the student is applying to the college's competitors, that college may offer a financial "enticement" if they want the student. In addition, some colleges will not release merit aid if a student has not filed financial aid forms. Also, instead of attempting to look as needy as possible on paper, high income and high net worth families can use the financial aid forms to make the colleges take notice that they may be potential future benefactors.

Myth: ***"Never put money in a student's name."***

Fact: This myth is only relevant to families who will qualify for need-based aid. High income earning families and other families who will not qualify for need-based aid will gain no advantage by moving money out of their child's name. Families who may qualify for need-based aid should determine the potential benefits prior to removing any funds from the child's name. This includes determining the likelihood of getting free money from the college as opposed to moving money around only to end up being offered more loans. Families should also determine whether there could be any negative consequences from making money moves. For instance, if a child owned a large holding in a highly concentrated stock position, which could trigger significant taxable income if the stock was sold, the additional income generated could end up having a larger impact on the student's aid award than just leaving the account alone. Also noteworthy is the misconception that a 529 plan is counted as a student asset for federal financial aid purposes. 529 plans are reported as parent assets.

Myth: ***"All colleges count home equity."***

Fact: A very small percentage of highly selective private colleges count home equity as part of their financial aid equation. Colleges that only require students to file only the federal financial aid form (the F.A.F.S.A.), which include all public colleges and most private colleges, do not count home equity at all. Only colleges that require students to file an additional financial aid form called the CSS Profile will ask about home equity. Of these colleges, many will only count a portion of home equity, if any at all.