

Financial Aid for College: A Few Tips

- ▶ Most often the best investment vehicle to use for future college expenses is a Section 529 account, which allows for tax-free growth of contributions as long as the account's assets are used for qualified educational expenses.
- ▶ COMPASS provides college savings recommendations as part of our service to clients.

Key to understanding financial aid eligibility is learning how financial aid formulas work. They're rather complex and vary from school to school, but they basically use answers to questions about family income, assets, and size to help arrive at a special number known as the expected family contribution, or EFC. The EFC represents the amount of tuition, fees, and other college costs the family is expected to cover based on its financial situation and other factors. Not all assets are counted when calculating the EFC (for example, assets held in retirement accounts don't count).

However, income plays a far greater role than assets in determining EFC. As much as 47% of income may be used in calculating a family's EFC, whereas parental assets are assessed at a maximum of 5.64%, and student-owned assets at a maximum of 20%. Financial-aid awards are based on the previous calendar year's income, so some families use strategies to reduce

income the year before applying. For example, if one parent is considering retiring or going back to school, doing so will likely reduce the family's income, thus increasing aid eligibility. A parent also may ask that a work bonus be postponed to reduce income that counts against aid.

One common mistake families make is selling securities the year before the student enrolls as a way to cover college costs. But any capital gains from the sale count as income in the following year's financial aid calculation, so it may be best to sell securities the year before the base year (in other words, two years before the student enrolls), when the proceeds won't be counted as income.

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