



## **SAMPLE REPORT – FINANCIAL AID CLIENT** **Report is condensed for illustration purposes**

This sample report reflects a client that is a **financial aid candidate**. The overall objective is to help the client minimize their out-of-pocket college costs **at the school selected** by making informed college planning and funding decisions appropriate for them based on their financial aid eligibility and particular circumstances. An in-depth understanding of the complexities of planning for financial aid is vitally important to achieve a best outcome. The CFS College Planning Expert System can be instrumental in helping achieving a best outcome for a client that is likely a financial aid candidate

Prepared for Student: **Catherine**

### **Contents**

**Section I** - Assumptions

**Section II** - Initial and Adjusted EFC

**Section III** - Financial Aid Strategies

**Section IV** - Definition of Financial Aid Terms

**Section V** - Projected Cost and Aid Packages

**Section VI** - Collegiate Investment / Funding Options

## **Section I**

### **Assumptions**

The following assumptions were used in the processing, analysis and generation of your report:

1. The student will be in college full time.
2. The student is attending a four-year college.
3. The EFC calculated is based on a dependent student.
4. The estimated financial aid breakdown contained in Section **V** is based on 2010 data. Last updated February 2010.

## Section II

### Initial and Adjusted EFC



**Section II** contains the all-important **Initial EFC** and **Adjusted EFC**.

**Initial EFC** - This is the amount the family will be expected to pay toward the cost of college at the school selected before qualifying for any financial aid assistance at that school. This is the all-important starting point for becoming an informed buyer of a college education. By starting with your EFC, the client will have a much better idea as to which schools are REALLY affordable. The EFC calculation is based on the method (FM or IM) used by the school being evaluated and can make a big difference in how much the client will be expected to pay at the school as well as strategies for increasing financial aid eligibility at that school.

**Adjusted EFC** - This is a revised calculation of the EFC based on the implementation of highlighted financial aid enhancing strategies contained in section III of the report.

## Introduction

This section contains your estimated "**Initial**" and "**Adjusted**" Expected Family Contribution (**EFC**) using either the **Federal (FM)** or **Institutional (IM)** Methodologies, depending on the one required by the school you have selected. The Initial figures were determined based on the financial data you provided CFS on your data form worksheet. Your "official" EFC is determined by a "**needs analysis formula**". You will provide the information to perform the official needs analysis on the **FAFSA** (Free Application for Federal Student Aid) form that is available from your high school in November or December. It is extremely important that the FAFSA be completed accurately and submitted early because financial aid is awarded on a first-come, first-served basis and any errors in your form will cause your form to be rejected and sent back to you for corrections. This loss of time may be critical in determining the amount of aid you will be awarded. A high percentage of the forms are submitted with errors and are therefore rejected.

See **Section V** for important details about filing the FAFSA form. The processor of the FAFSA uses a federal formula called the "**Federal Methodology**" (**FM**) to determine your EFC - the portion of your income and assets that you will be expected to contribute toward college costs. **Every accredited college in the United States uses FM in determining your eligibility for federal and, in most cases, state-funded student aid.** If the total cost of attendance (COA) per year of any of the colleges you selected for processing is greater than your EFC, the resulting amount is your **Financial Need**.

Some private colleges and state-supported institutions do not believe that the EFC generated by the FAFSA gives an accurate picture of what your family can contribute to college. These schools may require you to fill out the Financial Aid **PROFILE** form as well (or their own institutional forms). They may use the information on the **PROFILE** and perform a separate needs analysis using a formula called the "**Institutional Methodology**" (**IM**) to determine your EFC and the eligibility for aid that the school controls directly (institutional funds).

Federal financial aid funds are distributed on the basis of the Federal Methodology even though a college may use IM to distribute its own private funds. This section indicates if your selected school requires the **PROFILE**. You will need to obtain a registration form and send it to the College Scholarship Service (**CSS**), which administers the forms, and complete the packet of forms you receive from them.

**Since your EFC has been calculated using your most current financial information, it indicates what your EFC would be if you were applying for financial aid for the following school year.** Both formulas use the time period from January of the student's junior year in high school to December of their senior year to determine that portion of your income that is assessed toward your EFC. This is known as the **Base Income Year**. Assets are assessed as of the date the financial aid forms are signed.

## Expected Family Contribution

The EFC method used by **Bradley University** is the **Institutional Methodology**.

<b>INITIAL EFC</b>	
<b>Based Upon Submitted Data Form</b>	
<b>Initial Family EFC</b>	\$37,257
<b>Enhanced EFC</b>	
<b>After CFS Processing</b>	
<b>Adjusted Family EFC</b>	\$17,725

## Section III

### Financial Aid Strategies



**Section III** includes strategies that this client can implement – based on their particular circumstances – that can help to **maximize their financial aid eligibility** and minimize their out-of-pocket college costs. The effects of implementing the strategies are included, such as the **effect of implementing the strategy on financial aid eligibility at the school selected**. This is vitally important for assessing the costs/benefits of a particular strategy and game plan. The strategies included in Section III for this client are selected from our college planning knowledgebase of financial aid strategies and are based on the responses to the online form.

A variety of financial aid tips are included for parents and the student. These are general strategies that would apply to all financial aid candidates.

In this section, specific strategies are suggested that may be used to decrease your out-of-pocket college costs by decreasing your expected contribution. This may result in financial aid eligibility or increased eligibility (see **Section V**), depending on important factors such as the cost of attendance of the school being considered and the adjusted EFC amount. It is important to note that once the financial aid forms have been completed and submitted, the ability to improve your position is considerably reduced. **Therefore, implementation of the strategies outlined in this section should be completed before the financial aid forms are submitted.** Since the base income year for the family is from Jan. 1 of the student's junior year to Dec. 31 of their senior year, the sooner the financial aid strategies are implemented the better. Any asset strategies need to be executed before the financial aid forms are signed.

In addition to the specific strategies, included in this report are **additional cost cutting strategies** that can also have an impact on your college costs and therefore may be useful for advance planning.


The overall strategy for maximizing your aid eligibility is to leverage the financial aid system in a way that offers the greatest benefits for your family and your student. The following strategies are

based on an in-depth understanding of the workings of the financial aid system and how the financial aid formulas will assess the income and assets of the parents and the student in order to determine financial aid eligibility. Each of the strategies offered in this section is intended to provide you with the information needed for you to determine what strategies are available based on your particular situation to help you in your efforts to reduce the cost of college.

## Parents

### 1. Income Strategies

This section contains a list of specific income strategies available to you based on the information you submitted on the dataform. Each of these income related strategies might enhance your financial aid eligibility. Where appropriate, examples are included, showing to what extent implementation of the strategy may enhance your aid eligibility at the school you have selected.

 This strategy is available because you have a taxable annuity distribution. Try to avoid during base years. For example, if you bought an annuity for \$10,000 and cashed it in at \$12,000, you would show a distribution of \$12,000 and a taxable amount of \$2,000. For financial aid purposes, the \$2,000 will be assessed as income and the \$10,000 of principal as untaxed income, thereby assessing \$12,000 of income. Therefore, if at all possible, avoid cashing in annuities during college years.


**Tip:** The implementation of this strategy is included to arrive at the **After CFS** Estimate EFC and Total Family Contribution in the table in Section V.

Your financial aid eligibility may be increased by \$252 if you received no taxable annuity distributions.

Implementing this strategy may reduce your EFC by \$2,781.

### 2. Asset Strategies

This section contains a list of specific asset strategies available to you based on the information you submitted on the dataform. Each of these asset related strategies might enhance your financial aid eligibility. Where appropriate, examples are included, showing to what extent implementation of the strategy may enhance your aid eligibility at the school you have selected.

 This strategy is available because you have stocks and/or mutual funds. Consider converting stocks/mutual funds to non-assessable assets (annuities/life insurance). Since capital gains will increase the AGI and reduce aid eligibility and since capital losses (which would reduce AGI) are not permitted by schools that use IM to determine aid eligibility, **it is best to implement this strategy prior to the base year (January of the student's junior year in high school through December of senior year)**. Otherwise your AGI may be inflated for the year because of capital gains - which would reduce financial aid eligibility - and you won't be able to benefit from any capital losses as far as financial aid eligibility is concerned. Be careful to assess the cost/benefit of selling stock/mutual funds and converting to a non-assessable asset and the potential gain in financial aid. Conversion would only make sense if the gain in financial aid eligibility far surpassed the cost of converting the stock or if you were already considering a change. Long-term growth of the assets may be maintained with an indexed or variable annuity or cash value life insurance policy.

Warning: Variable insurance guarantees are based on claims paying ability of the insurer. Withdrawals made may be subject to fees when distributed, and treated as ordinary income. Outstanding policy loans at death, and withdrawals, will reduce the policy death benefits and cash values. The investment returns and principal values of the available sub-account portfolios will fluctuate so that the value of an investors' unit, when redeemed, may be worth more or less than their original value.

Warning: Variable annuities are long-term, tax-deferred investment vehicles designed for retirement purposes and contain both an investment and insurance component. They are sold only by prospectus. Guarantees are based on claims paying ability of the issuer. Withdrawals made prior to age 59 ½ are subject to 10% IRS penalty tax and surrender charges may apply. Gains from tax-deferred investments are taxable as ordinary income upon withdrawal. The investment returns and principal value of the available sub-account portfolios will fluctuate so that the value of an investor's unit, when redeemed, may be worth more or less than their original value.

Warning: Investing in mutual funds involve risk, including possible loss of principal. Investments in specialized industry sectors have additional risks, which are outlined in the prospectus.

Tip: The implementation of this strategy is included to arrive at the **After CFS** Estimate EFC and Total Family Contribution in the table in Section V.

If you move your stocks/mutual funds to non-asset asset you may increase your financial aid eligibility by \$5,067 at Bradley University.

Implementing this strategy may reduce your EFC by \$8,954.

## Asset Tips:

This section contains a variety of general asset related strategies (important tips) that should be considered by all families applying for financial aid since they may enhance financial aid eligibility.

### Tips:

- When completing the financial aid forms, the net value of the asset is to mean that taxes on gains (whether realized or not), and any costs associated with the brokering of that investment should be taken into consideration and deducted from the market value of the investment. **For example:**


\$10,000 stock current value  
\$5,000 stock basis

Subtract long term capital gains tax on \$5,000 gain or \$750.00 (15%)  
Subtract the cost of stock redemption (what your broker charges for selling the investment say \$250)

**True current value of stock \$9,000**

# Student Strategies

## Asset Planning Strategies

 This strategy is available because the student has investments. Consider moving investment into a non-assessable asset like, IRA, annuity, or cash value life insurance. Caution - If income or gains must be recognized to convert the investment to a non-assessable asset, do so prior to the base year (from January of the students junior year in high school to December of their senior year) to avoid the gain being assessed as income at 50%. Schools using the IM formula do not allow capital losses to offset income of the student.

Tip: The implementation of this strategy is included to arrive at the **After CFS** Estimate EFC and Total Family Contribution in the table in Section V.

Implementing this strategy may reduce your EFC by \$1,009.

## Section IV

### Definition of Financial Aid Terms

- The 2010 **COST OF ATTENDANCE (COA)** at a school is determined for each college by totaling the costs for tuition and fees, room and board, books and supplies, personal expenses and travel.
- The **EFC METHODOLOGY** indicates whether the school in question uses the Federal (**FM**) or Institutional (**IM**) Methodology to determine your financial need.
- The **AVERAGE NEED MET** is the amount of your total need that the school is most likely to meet. Data is based on incoming freshman the previous year.
- **GIFT AID %** is the percentage of the need that the school will meet in the form of scholarships, grants etc. This is money that will not have to be paid back to the school. This percentage is based on incoming freshman the previous year.
- **SELF HELP %** is the amount of need that the school will meet in the form of loans and work-study. This percentage is based on incoming freshman the previous year.
- **ESTIMATED EFC** is your Expected Family Contribution amount (**EFC**), using either FM or IM, depending on what the school requires. Both the initial (based on data provided on data form) and adjusted EFC (after applying EFC reduction strategies) are shown.
- **UNMET NEED** is the amount of financial need that the school **will not** meet. For example if the school's COA is \$20,000, your EFC \$10,000 and the average need met is \$5,000 (50%), then there is an additional \$5,000 needed to cover the COA. You are responsible for this amount.
- **TOTAL FAMILY CONTRIBUTION** is equal to the EFC plus any unmet need.
- **FINANCIAL AID ELIGIBILITY** is calculated by subtracting the EFC from the COA (which is the financial need amount) and multiplying this by the **AVERAGE NEED MET** percentage at the school.
- **ESTIMATED SELF-HELP** is determined by applying the self-help % to the financial aid eligibility total. This is a forecast of the amount that you may receive in the form of Self-Help (loans and work-study).
- **ESTIMATED GIFT AID** is determined by applying the gift aid % to the financial aid eligibility total. This is a forecast of the amount that you may receive in the form of Gift Aid (grants and scholarships).

## Section V

### Projected Cost and Aid Packages



**Section V** - The table below shows the client an estimate of their total family contribution (their EFC plus any unmet financial aid from the school) toward the cost of college for the first year at the school selected. This is their projected "out-of-pocket" cost. The **AFTER CFS** column is based on implementing the strategies highlighted in **Section III** and reveals the extent to which they may be able to increase their financial aid eligibility and reduce their "out-of-pocket" college costs.

**Clients will be amazed to learn** that at many of the higher priced schools - particularly private colleges - their actual out-of-pocket costs will be less than many public schools with a lower sticker price. Many schools they think are not affordable may be very affordable when financial aid and financial aid planning strategies are considered.

The "**Before CFS**" column in the table below is an estimate of your financial aid package at the college selected using your EFC and cost/financial aid data from the school. The "**After CFS**" column is an estimate of your financial aid package after implementing the strategies contained in **Section III**.

**School Name:  
Bradley University**

<b>Estimated COA</b>	\$34,800	
<b>EFC method used by School</b>	Institutional Methodology	
<b>Average Need Met %</b>	78%	
<b>Gift Aid %</b>	88%	
<b>Self Help %</b>	11%	
<b>Projected Cost/Financial Aid</b>	<b>Before CFS</b>	<b>After CFS</b>
<b>Estimated EFC</b>	\$37,257	\$17,725
<b>Unmet Need</b>	\$0	\$3,756
<b>Total Family Contribution</b>	<b>\$34,800</b>	<b>\$21,481</b>
<b>Financial Aid Eligibility</b>	\$0	<b>\$13,318</b>
<b>Estimated Self Help</b>	\$0	\$1,465
<b>Estimated Gift Aid</b>	\$0	\$11,720

## Section VI

### Collegiate Investment / Funding Options



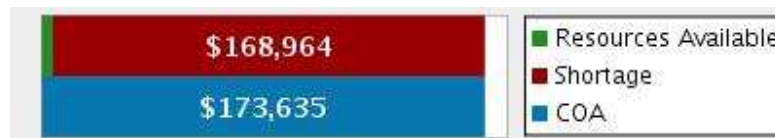
**Section VI** - In the investment section, appropriate college savings options are highlighted for the client based on factors such as lead time, investment philosophy etc. Pros and cons of the option are included as well as the CFS distinctive "rating system" which rates the option based on important categories including the impact of the savings option on financial aid eligibility. Tips, secrets and warnings are included when appropriate the goal is to help the client make an informed decision about savings options based on their particular circumstances

Since you may be a candidate for financial aid, you will be responsible for covering both your EFC and any part of the cost of college that is not covered by financial aid, merit aid, etc. This is known as your "**total contribution.**" See **Section V** for an estimate of your total contribution for one year of college. Implementing strategies contained in this plan may decrease this cost. The "**After CFS**" column includes an estimate of what your **total contribution** may be after implementing strategies in the plan.

The following savings and investment types were listed on the data form as allocated for college:

Student Investment = \$4,035

Growing these investments for the next 3 years till your child begins college yields approximately \$4,671. The projected four-year cost of attendance (note - this is not the same as your total contribution because it does not account for any financial aid) at Bradley University using a 5% annual inflation rate is: \$173,634.



If there is a shortfall between your available college funds and your **total contribution** consider the following investment and funding strategies:


This section contains both investment and funding strategies for saving and then paying for the education expenses.

### Investment Strategies:

Consider investments that will not adversely affect your financial aid eligibility. The effect on financial aid of using these investments to fund college costs are described.

These strategies are based on the lead-time available to you and your particular investment philosophy. The investment philosophy you have chosen is **conservative. Consider the**

following investment options with the \$400/month you indicated were available for college costs.

 **Coverdell Education Savings Accounts (CESA)** can provide long-term tax-free earnings and proceeds if utilized for qualified education expenses. For the CESA this includes "qualified elementary and secondary school expenses." While age limitations apply, \$2,000 non-deductible per year contributions are available to the beneficiary. Contributions cannot be made after the child's age of 18. The balance of a CESA must be distributed when the beneficiary reaches 30 years of age. The phase-out levels for 2009 the CESA are \$190,000-\$220,000 for married taxpayers and \$95,000-110,000 for single or head of household taxpayers. Although contributions to a CESA are not deductible, withdrawals from it are exempt from tax to the extent of the beneficiaries' qualified higher education expenses incurred during the year. If withdrawals are taken from a CESA in excess of the qualified education expenses for the year, the earnings portion of the excess withdrawal is subject to income tax and an additional 10% excise tax is imposed on the earnings.

#### **CESA Advantages**

1. You can contribute to both and CESA and a Section 529 plan in the same year.
2. You can claim the education credit (American Opportunity/Hope Credit) along with a tax-free withdrawal from the CESA as long as they are not used for the same education expenses.

**Warning: As it currently stands - and unless Congress acts to make permanent the current account rules - after 2010, CESA's will revert back to the rules in place in 2001.**

1. The annual contribution cap will go from \$2000 to \$500
2. You will not be able to claim the education credit along with a tax-free withdrawal from the CESA
3. They will no longer allow tax-free withdrawals for elementary and secondary school expenses (the "K-12" provision)

**Tip: Keep in mind the following two points when considering a CESA:**

1. Financial Aid Treatment CESA: A CESA is regarded as assets of the parent if the parent is the owner of the account. If a dependent student owns the account, the value is NOT included on the FAFSA form and therefore not included in the EFC calculations. If the school in question uses the IM formulas to determine EFC and requires the Profile form, then the value of the plan will be assessed at the student rate of 25%. If a relative owns the plan, such as grandparent or a **non-custodial parent**, it will not typically be assessed. However, the school may use professional judgment to include in the EFC the value of plans it discovers are held by others, but only in unusual circumstances and on a case-by-case basis where the school has determined there is something special about the case
2. Distributions from a CESA that are not subject to federal income tax are not counted as parent or student income in the determination of federal financial aid eligibility. Distributions for qualified educational expenses therefore do not reduce financial aid eligibility.

**Tip: If the taxpayer has phased out of the CESA, they could gift the cash to another taxpayer (likely the beneficiary) who is below the threshold level and they could make a CESA contribution**

**Tip: Rating of CESA as a college/retirement investment**

<b>Category</b>	<b>Rating</b>
-----------------	---------------

Rate of return vs college inflation	good
Effect on financial aid eligibility	good
Tax favored access for college	excellent
Tax favored access for retirement	N/A
Use for college and retirement	N/A



Most families will have a **gap or a shortfall** in the amount of funds available – including financial aid – to cover the total cost of college. Knowing which funding/loan options to select and strategies to implement can be very confusing. Choosing the wrong option may cost the client thousands of additional dollars on their college costs! CFS can help the client make smart and informed college-funding decisions.

In this section, loan strategies are included - based on the client's particular circumstances - for covering any shortfalls not covered by their resources or financial aid. **The strategies are ranked in descending order** (best to worst) based on the pros/cons as well as the client's particular circumstances.

## Loan Strategies:

Consider the following funding options if there is a shortfall between your available college funds and your **total contribution**.


### Reasons to Consider College Loans

Following are reasons, beyond necessity, for a family that **will qualify for financial aid** to consider using loans to pay for college:

1. **Loan Proceeds Are Not Penalized By the Financial Aid Formulas.** Probably the best reason for a financial aid candidate to use loans to pay for college is that proceeds are not penalized by the financial aid formulas, whereas proceeds from assets (except for 529 plans and Coverdell Savings Plans) will be! The impact of this can be dramatic. For example \$10,000 withdrawn from a Roth IRA, although penalty free if used for education expenses, will still decrease your financial aid eligibility by \$4,700 since the withdrawal will be counted in the financial aid formulas as income.
2. **You Expect Your Child To Have Some Financial Responsibility For Their Own Education** - When a student has a vested interest financially in their education they tend to be more focused about obtaining a degree - sooner than later!
3. **Your Assets Are Invested In High-Yield Investments** - If your family does not qualify for financial aid, here are some reasons why you may use loans instead of liquidating the assets:
  - o There may be a significant spread between the interest earned on the investment and cost of the loan. For example, a 2% spread on \$40,000 is equal to \$800, which yields the same benefit as an \$800 scholarship.
  - o The cost of liquidating the investment (capital gains, income tax) may be high
  - o If your investments are growing on a tax deferred basis, the longer they remain intact, the greater the compounding effect of the interest.
4. **Potential Tax Deduction** - College loan interest is deductible, up to \$2,500 annually, within certain income phase-out limits. The income phase-out limit is \$60000 to \$75000 in Adjusted Gross Income (AGI) for single taxpayers and \$120000 to \$150000 for married taxpayers.

## Advantages/Disadvantages of Various Loans

This section highlights advantages and disadvantages of various loan strategies based on your responses on the dataform. **They are ranked in descending order based on the pros/cons of each as well as your particular situation.**

 **Home Loan** - There are some very good – and little-known - reasons for why a home loan (equity line of credit or refinance/second mortgage) may be your best choice among the myriad of college funding loan options.

Here are some reasons and benefits associated with using a home equity to help cover shortfalls in your ability to pay the cost of a college education:

1. **Potential increase in financial aid eligibility** – Since the school selected uses the **Institutional Methodology** to determine your ability to pay for college, the equity in your home may be included in your EFC as an asset to help pay college expenses - whether or not you were planning to use the equity to help pay for college. The formula (and the school using the formula) is forcing your hand either to use the equity in the form of a loan, or to implement a strategy that removes the equity and redeploys it into some instrument that will not be assessed by the formula. Whether it makes sense to access the equity in the home, either for a loan or some type of equity management strategy can be based in part on how much, if any, of the equity will be assessed (in other words how much of the equity in your home is included in your EFC).

Each family has a certain amount of assets protected from the financial aid formulas. This is known as the asset protection allowance. If your allowance is greater than the amount of equity that will be assessed, then there would be no financial aid benefit to you from removing the equity (since it won't be assessed anyway). If the equity is going to be assessed (because it exceeds the asset protection allowance) then evaluate the financial aid benefit of removing the equity from the home (and using it as a loan or redeploys it in some type of equity management strategy), versus the costs associated with tapping the equity. Refer to the **Section III of this plan** for the financial aid benefit, if any, of removing the equity in the home. Compare the potential financial aid savings to the cost of tapping the equity either with a line of credit or another mortgage.

2. **The ease of obtaining the loan** - particularly a line of credit - compared to other options.
3. **The interest rate** – Interest rates on home loans are often less than the current interest rate on PLUS Student Loans.
4. **The interest deductibility** – You can deduct the interest payments thereby reducing the REAL cost of the loan. High-income parents that have phased out the Student Loan Interest Deduction (for 2009 the deduction begins phasing out at \$120,000 for joint filers) for PLUS Student Loans can claim the interest deduction on the home loan. Therefore a home equity loan at 6.0% would have a “real” interest rate of 4.5% for someone in the 25% tax bracket, because of the tax-deductible nature of home loan interest. A Parent PLUS Student Loan on the other hand has an interest rate of 8.5% and the Student Loan Interest deduction begins to phase out at an AGI of \$120,000 (for joint tax filers). If you have phased out of the Student Loan Interest Deduction because of your AGI, using \$10,000 of home equity (at 6% interest) to pay for college may save you \$168 in taxes for the year.