

NAPFA Advisor Magazine Test Case Client



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

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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 EFC calculated is based on a dependent student.
3. 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 aid, 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 the [St. John's University](#) is the [Federal Methodology](#).

INITIAL EFC	
Based Upon Submitted Data Form	
Initial Family EFC	\$36,375
Enhanced EFC	
After CFS Processing	
Adjusted Family EFC	\$21,363

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

Specific Parent 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 taxable interest income. Consider moving assets that generate taxable interest income to investments that do not generate taxable income. Possibilities include tax-deferred investments like annuities, cash value insurance policies (whole life, Universal Life, Variable Universal Life), IRA, growth stock, tax-efficient mutual funds, etc. Avoid cashing in U.S. savings bonds during a base year unless you have been paying taxes on the interest each year as it accrues. Otherwise, the interest (even if tax free in the case of EE or I Bonds) will be considered income in the financial aid formulas and may reduce your financial aid eligibility.


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. Life insurance should foremost be considered a vehicle to provide a death benefit but may also carry certain other cash value features.

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.

Your financial aid eligibility may be increased by \$930 if you received no taxable interest income.

Implementing this strategy may reduce your EFC by \$1,293.


 This strategy is available because you have dividend income. Consider moving the investment that is generating dividend income to something that does not generate dividend income. The dividend income is included in the financial aid formulas and therefore decreases financial aid eligibility. Avoid cashing in U.S. savings bonds during a base year unless you have been paying

taxes on the interest each year as it accrues. Otherwise, the interest (even if tax free in the case of EE or I Bonds) will be considered income in the financial aid formulas and may reduce your financial aid eligibility.

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 \$587 if you received no dividend income.

Implementing this strategy may reduce your EFC by \$816.


 This strategy is available because you indicated you had a capital gain from the sale of investments. If possible, avoid capital gains during the base years because they inflate your income. If you need cash, consider borrowing from the asset rather than liquidating. This can help in three ways:

1. You won't have to report any gains on the financial aid forms
2. Net value of the asset would be reduced in the EFC formula
3. You would receive a potential tax deduction on the interest expense


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.

By avoiding a capital gain of \$4,123 during the base income years, your financial aid eligibility may increase by \$1,283 at St. John's University.

Implementing this strategy may reduce your EFC by \$1,783.

 This strategy is available because you had a capital gain or loss last year and the school you have expressed interest in uses the Federal Methodology to calculate an EFC. If you have to take a capital gain, consider offsetting with losses. Sell off poor stocks. With the performance of the stock market over the last few years, this could be an excellent time to offset any gains with losses.

Tip: If you must take gains, also consider investing the sale proceeds into investments that offset some of the taxable gain.

 This strategy is available because you own a business and one of the spouses is not employed. Consider hiring the non-working spouse in the business and benefit from the Employment Expense Allowance, which is available when both of the spouses are employed.

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.


The allowance is calculated by multiplying the lesser of the spouse's income by 35.0%. The maximum allowance is \$3,500. By hiring the spouse at an income of \$10,000, the maximum


allowance can be claimed and the financial aid eligibility may be increased by \$1,184 at the selected school.


Implementing this strategy may reduce your EFC by \$1,645.

Income Planning Strategies For Business Owners


The following business income planning strategies for financial aid candidates that may increase financial aid eligibility:


 This strategy is available because your business does not have a retirement program. Consider replacing a personal retirement plan with a company retirement plan. Doing so will avoid the adding back of current year retirement contributions in the financial aid calculations.

 If appropriate to your business, consider reducing any dividends or interest paid to the business owner during college years. This can increase your aid eligibility.

 Consider the following strategies that may increase your financial aid eligibility:

- Concentrate business expenses into the base years (Starting from January of the student's junior year onward) to lower income thereby increasing financial aid eligibility.
- Reduce wages during the college years to minimize income. Make up for any shortfalls by borrowing. After college years, increase wages.
- Establishing a corporate profit sharing plan (like a defined benefit plan) instead of a personal retirement plan to avoid having the current year retirement contributions added back into the EFC calculations. Example: If you were contributing \$6,000/year to a SEP plan this could increase your aid eligibility by as much as \$2,820/year.
- If able, shift income by hiring non-college members of the family during the base years in order to remove it from the financial aid formulas.
- If you were considering increasing wages to cover college expenses, instead consider college loans. This will prevent your aid eligibility from decreasing during the college years due to the increase in income. Loans are not assessed in the financial aid formulas

 This strategy is available because you own business and the school you are interested in uses the Federal Methodology to calculate an EFC. Consider establishing a Flexible Spending Account Plan to reduce wages. This will reduce income and the EFC as well.

 This strategy is available because your business does not have a medical reimbursement plan and your business is not an S-Corp. Consider establishing a medical reimbursement plan. Can deduct all premiums and medical expenses that are not covered by the business. This shifts medical expenses from schedule A to C, F or E and thereby lowers AGI and the EFC. The effect is to increase financial aid eligibility.

End of business income planning strategies for financial aid candidates.

Income Tips:

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



- The number of exemptions can be adjusted to avoid obtaining a refund that will be taxed in the EFC.
- Consider the viability and ways of concentrating federal income taxes during the base year to lower the EFC. For example, if you can't make yearly retirement account contributions, consider maximizing contributions before base years and avoiding during base years. This will increase taxes in base years and lower the EFC which may increase financial aid eligibility.

Tip: With respect to cash charitable contributions from income during the base years, the charitable contributions (which are itemized deductions) will lower your taxes which will have the effect of increasing your EFC. They have no effect on AGI since they are itemized deductions. If you are a financial aid candidate consider minimizing charitable contributions from income during the base years. On the other hand, If you are considering gifting assets to charity during the base years, the gifting of the asset will reduce your assessable assets which may decrease your EFC which may increase your financial aid eligibility.

- Avoid taxable and nontaxable withdrawals during the college years. Examples include retirement accounts, annuities, life insurance and pension plans. Otherwise the withdrawal will be assessed as income in the financial aid formulas.
- Avoid the sale of appreciated investments during the base years in order to avoid the income being assessed in the financial aid formulas.
- Consider selling investments that will generate losses during the base years in order to lower income and increase financial aid eligibility.

2. Asset Strategies

Specific Parent 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 equity in your home and the school you are interested in uses the FM method to calculate an EFC. Since schools that require only the FAFSA do not assess the equity in the home, consider paying down the mortgage on the home with assessable assets (anything other than retirement accounts, annuities, or life insurance cash value). If income or gains must be recognized to convert any assessable assets used to reduce the mortgage, do so before the first base-income year (Jan of the student's junior year in high school). Otherwise, the income or gains will be included in the EFC.



This strategy is available because you have stocks or mutual funds. Consider converting stock to non-assessable assets (annuities/life insurance). However, if capital gains must be recognized, convert prior to the base year (January of the student's junior year in high school through December of senior year). Otherwise your AGI will be inflated. Capital gains can be offset by capital losses. If capital losses are to be incurred, then the base year is the best time to convert


since the loss will reduce the AGI and enhance the aid eligibility. Be careful to assess the cost/benefit of selling stock and converting to a non-assessable asset and the potential gain in financial aid. This strategy would only make sense if the gain in financial aid eligibility far surpassed the cost of converting the stock. Long-term growth of the assets may be maintained with an indexed or variable annuity or a cash value life insurance policy.


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. Life insurance should foremost be considered a vehicle to provide a death benefit but may also carry certain other cash value features.


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-assesable asset you may increase your financial aid eligibility by \$3,711 at St. John's University.

Implementing this strategy may reduce your EFC by \$5,155.


 This strategy is available because you have CD's, Money Market funds, or Savings and the school uses the Federal Methodology to determine the EFC. Consider gifting money to non-college family members. These gifts can be used to fund college savings plans. The value of the gifts are then eliminated from the parent assets but used for college planning/savings purposes. The parent may use the gift to fund a cash value life insurance policy for themself that can be used (either by accessing the cash value of the death benefit) to pay for college costs for other college bound children.

 This strategy is available because your employer offers a 401(k) retirement-savings plan. Consider making maximum contributions for retirement to your 401K. Always fund your retirement plan as a first priority. Especially when your employer will match, up to a limit, your contributions. Consider using cash flow from "college allocation" for contribution to company "matching plan" - 401K. Also a contribution to a 401K may reduce AGI under \$50,000 year and qualify parent for simplified EFC. If needed, you may be able to borrow against the 401K plan for college. This strategy enables you to fully fund your retirement plan and can provide a source of funds for college if needed.


 This strategy is available because the grandparents have an interest in helping with college expenses or parents are interested in gifting. Beware that any monetary gifts will be assessed as income and as an asset. A \$10,000 gift can reduce financial need by as much as \$7,000! First as an asset at 20% and then as income at 50% for a whopping 70% assessment. Instead, consider making a non-monetary gift to the child so that it will not be assessed. Also, be advised that


gifting directly to the college, the amount of gift will be subtracted from the financial aid award! If you or the grandparents want to gift to the student (including a withdrawal from an IRA), consider giving the gift to the student after college to help pay off student loans. There are additional reasons for waiting until after college years to help student pay off student loans for the following reasons:

1. The parents'/grandparents' assets can continue to grow (possibly tax-deferred and potentially with tax-free withdrawals).
2. If the student does not graduate or leaves college, then the parents/grandparents have the flexibility of not paying for the loans.

 This strategy is available because the parents have a 529 plan for the student and the student has siblings and the school in question uses the Federal Methodology to determine the EFC. Section 529 does not seem to prohibit or regulate the transfer of account ownership. The respective 529 plans provide the rules concerning transfer of owners. Some permit it, others do not. If possible, consider transferring ownership of the 529 to a non-parent family member so that it will not be assessed as an asset of the parents. The new owner of the account would then have all the rights associated with ownership of the account. Currently there does not appear to be any federal income, estate or gift tax consequences to a transferring ownership since the IRS treats the owner like a trustee.

Warning: By investing in a 529 plan outside of the state in which you pay taxes, you may lose tax benefits offered by the state's plan. Withdrawals used for qualified expenses are federally tax-free. Tax treatment at the state level may vary.

 This strategy is available because you are a business owner and have equity in your home. Consider refinancing the home and using the proceeds in the business. An election could be made for personal residence interest to be treated as a business expense as long as the loan is used for business purposes. In addition to the tax advantages (reduction of self-employment tax and receiving a 100% deduction in all situations), the business interest deduction will reduce the parents' AGI and increase the financial aid eligibility.

 This strategy is available because you have money in a checking account. If you have excess funds in your checking account (i.e. use it as a savings account), then consider the following strategies for increasing your financial aid eligibility:


1. Transfer "excess" into an asset that will not be assessed by the financial aid formulas such as no-load, no surrender charge annuity, a cash value life insurance policy, an IRA, etc.
2. Prepay premiums for a life or health insurance policy.
3. Pay down consumer debt, pre-pay taxes, and fund retirement accounts.
4. Spend down cash so that the asset will not be assessed.
5. Consider accelerating planned purchases such as a car, furniture, computer, etc.

Warning: Life insurance should foremost be considered a vehicle to provide a death benefit but may also carry certain other cash value features.

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 cash/checking/savings to a non-asset asset you may increase your financial aid eligibility by \$812.

Implementing this strategy may reduce your EFC by \$1,128.

 This strategy is available because you have cash in CD's, Money Market funds, or Savings. Consider the negative effect of CD's on financial aid. Not only is any interest income assessed in the EFC formulas, but also the value of the asset as well. Besides, CDs have historically generated low interest rates. Consider re-positioning the CD to a non-assessable asset or the following strategies:

1. Prepay premiums for any life or health insurance policies
2. Pay down consumer debt, pre-pay taxes, or fund retirement accounts
3. Consider accelerating any anticipated future purchases such as a car, furniture, computer, etc.
4. Evaluate the benefits of an annuity versus the CD. Annuities can offer significantly better interest rates and tax deferral. In addition, they are not assessed in the financial aid formulas.

Warning: CD's are FDIC insured and offer a fixed rate of return if held to maturity. Annuities are not FDIC insured. Annuities are long-term, tax-deferred investment vehicles designed for retirement purposes. Gains from tax-deferred investments are taxable as ordinary income upon withdrawal. Withdrawals made prior to age 59 1/2 are subject to 10% IRS penalty tax. Surrender charges may apply. Guarantees are based on the claims paying ability of the issuing insurance company.

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 CD's to a non-asset asset you may increase your financial aid eligibility by \$365.

Implementing this strategy may reduce your EFC by \$507.

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.



- 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

- Consider the merits of converting liquid assets like cash to non-assessable assets, such as annuities or life insurance, particularly if the assets are earmarked for retirement. Otherwise, some percentage of the value of the asset will be included in your EFC.
- Consider using investment assets to pay down personal debt or pre-pay personal expenses. Simple advanced planning like this can increase financial aid eligibility by using an asset that would be assessed in the financial aid formulas to pay for something that has to be paid for anyway - like expenses or debt reduction.
- Consider the overall effect of shifting income-generating assets/investments to growth assets that generate little or no income. The income generated by the assets/investments may be assessed at a rate of almost 50% by the financial aid formulas. Not only might this affect your financial aid eligibility, but it effectively reduces the "yield" of the investment/asset during the four base years - January of the student's junior year in high school through their junior year in college.
- Since you can make an IRA contribution from January 1 - April 15 for the previous year, a couple can shelter assets up to \$5000 each from the aid formulas by contributing to the previous year and the current year prior to completing the financial aid forms. In addition, the interest accruing in the IRA will not be counted in the formulas. By maximizing IRA contributions in non-base years, you'll decrease your tax burden during this time and shelter assets from the financial aid formulas. During the base years, Roth IRA contributions will have no affect on AGI or tax and therefore no effect on aid eligibility. The benefit of contributing is the deferred income. For Traditional IRAs, contributions will not lower the AGI because the EFC formulas require that you add back retirement contributions, and the lower tax may slightly decrease financial aid eligibility. Nevertheless, consider maximizing IRA contributions due to the overall long-term benefit on retirement savings.

Warning: Restrictions, penalties and taxes may apply unless certain criteria is met, Roth IRA owners must be 59 1/2 or older and have held the IRA for 5 years before tax-free withdrawals are permitted.

 Evaluate gifting to shift assets to non-college family members. High growth/highly-appreciated assets are ideal. This transfers the capital gains to their likely lower rate. Given the performance of the stock market over the last few years, consider gifting stock that has yet to recover in value (but is likely to do so) to non-college children. For example: A stock that had a value of \$20,000 that is currently valued at \$10,000 would be a great candidate particularly if you expect the stock value to return to its previous level. Stocks that have a shown superior performance over the long-term would be good candidates (blue chip stocks).

3. Education Tax-Credit Strategies

Tip: For the 2009 and 2010 tax year the Hope Credit has been renamed the "**American Opportunity Education Tax Credit**". The amount of the credit will be increased from \$1,800 to \$2,500 per year, per student. This will include 100 percent of eligible expenses up to \$2,000 plus

25 percent of expenses above \$2,000. Total eligible expenses would have to reach \$4,000 to reach the maximum credit amount.

American Opportunity Credit:

Calculation: take 100% of the first \$2,000 of qualified education expenses plus 25% of the next \$2,000. Max credit = \$2,500

Income Limits: \$160,000-\$180,000 for married taxpayers and \$80,000-90,000 for other tax filers.

Number of credits allowed: Can be claimed for each student claimed on the tax return.

Effect on financial aid: Will decrease the financial need with schools that use the Institutional Methodology (IM) to determine EFC. Considered untaxed income of the parents and will be assessed as such.

Qualified Expenses: tuition and related fees


Eligibility Requirements: Available for the 2009 and 2010 tax year

General Strategies:

Strategy 1: By prepaying or delaying the payment of qualified education expenses, you can choose the year in which to claim the education credit. You can use this technique to insure that the maximum credit of \$2,500/year is reached for the years in which the student will qualify for the credit.


Strategy 2: If you expect a raise that will phase you out of the credit, consider prepaying during the tax year that you still qualify in order to maximize the credit.

4. Household Strategies

 This strategy is available because you have more than four people in your family. If you have children that are close in age, and one of the children will attend college or is considering returning to school, consider the fact that by having them enroll at the same time, the financial aid eligibility of both students will be significantly enhanced. The family EFC used by each school for determining aid eligibility is dramatically reduced by the number of children in college at the same time. By overlapping the college years, the likelihood of qualifying for financial aid is increased.

Student


1. Income Strategies

 This is a student income strategy for business owners evaluating schools that use FM. By employing the student and paying them wages up to the Income Protection Allowance (IPA) of \$4,500, the parents can shift income and increase their financial aid eligibility. For 2010 the IPA for a student is \$4,500. This amount will not be counted toward their EFC for schools using FM. So the parents lower their AGI by \$4,500 and may increase their financial aid eligibility.


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.

By employing the student at an income up to the IPA of \$4,500, the parents can shift income and increase their financial aid eligibility. For 2010, the IPA for the student is \$4,500. This amount will not be counted toward their EFC for schools using FM. So the parents lower their AGI by \$4,500 and may increase their financial aid eligibility at St. John's University by \$1,401.


Implementing this strategy may reduce your EFC by \$1,946.

 This is a general student income strategy for schools that use FM. Any income in excess of the current income protection allowance of \$4500 that is not offset by the standard deduction of \$5700 will be assessed by the school at a rate of .50 and reduce eligibility for financial aid. Depending on the amount of the income, it may be better to take the work-study job or to consider both provided the non-work study job doesn't result in lost aid eligibility.

2. Asset Strategies

 The following strategies are available because the student has money in trust (UGMA/UTMA) account. The value of the student trust account will be assessed at a 20% for schools using FM and 25% for schools using IM. Consider the following strategies for reducing the value of the trust and its assessment in the financial aid formula:

1. Spend the money in the trust for the benefit of the student (i.e. vehicle, computer, private education, tutoring, etc).
 2. Consider making a loan to child and having the loan paid back with interest at age 18 with the amount contained in UGMA account. Interest payment would be covered by the interest accrued in the UGMA account. In effect, the loan is being applied to a non-assessable investment, while the UGMA, which would be assessed, is liquidated to pay off the loan. The loan would need to be invested in a non-assessable asset to avoid being included in the financial aid formulas.
 3. You have until June 30 to file FAFSA. Consider converting trust to a non-assessable asset such as a permanent life insurance policy or an annuity (a no-load, no-surrender charge annuity that can be used to pay off college loans).
 4. If student cannot gain access of trust to pay for college expenses, appeal this situation to the FAO. Otherwise, both the asset and any income that it generates will be assessed each year
 5. Avoid any distributions from the trust during the college years. Consider using trust to pay off college loans after graduation. Distributions will be assessed at 50%. By avoiding distributions, the trust will only be assessed as an asset at a lower rate. After graduation, the student can use the trust to pay off loans such as Stafford loans and would likely qualify for the student interest deduction on the loan interest.
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 This strategy is available because the student has a UGMA/trust. Coverdell education savings accounts, prepaid 529 plans and 529 savings plans are known as Qualified Education Benefits. These assets are considered as an asset of the parent in the EFC calculations for school that require the FAFSA. - even if the owner of the account or plan is the dependent student. If you roll over a custodial account into one of these three types of accounts you will shift its financial aid

treatment from a "student owned asset" to a "parent owned asset." Since parent owned assets are assessed at a lower rate than student owned assets, the result may be to increase financial aid eligibility.

Warning: Since a 529 plan is funded with cash; consider the tax consequences of liquidating any assets in order to fund a 529 plan. If this is done during any base years, any income generated by liquidating assets will be assessed at 50% in the financial aid formulas - for the base year in which the investment income was incurred. This strategy is best performed prior to the beginning of the base years (prior to Jan of Junior year in high school).

Warning: Due to the the kiddie-tax rules, any assets in the child's name that are liquidated in order to be rolled into a 529 savings plan, prepaid tuition plan or Coverdell may result in kiddie-tax for the student. Therefore, any potential increase in financial aid eligibility resulting from this strategy may be offset by the tax due to the reallocation. Before implementing this strategy it is imperative to know what - if any - the kiddie-tax implications would be.

Tip: One way to avoid the kiddie-tax may be to incrementally reallocate the asset into the 529 plan over a period of years so that the kiddie-tax is not triggered. As indicated above, reallocation is best performed prior to the beginning of the base years.

Warning: By investing in a 529 plan outside of the state in which you pay taxes, you may lose tax benefits offered by the state's plan. Withdrawals used for qualified expenses are federally tax-free. Tax treatment at the state level may vary.

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.

By establishing a 529 using \$15,000 from student's trust account, the reduced valuation of the asset for financial aid eligibility purposes may reduce the family EFC and increase financial aid eligibility.

Implementing this strategy may increase your financial aid eligibility by \$1,550.

Implementing this strategy may reduce your EFC by \$2,154.

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:
St. John's University

Estimated COA	\$51,000
EFC method used by School	Federal Methodology
Average Need Met %	72%

Gift Aid %	53%	
Self Help %	47%	
Projected Cost/Financial Aid	Before CFS	After CFS
Estimated EFC	\$36,375	\$21,363
Unmet Need	\$4,095	\$8,298
Total Family Contribution	\$40,470	\$29,661
Financial Aid Eligibility	\$10,530	\$21,338
Estimated Self Help	\$4,949	\$10,029
Estimated Gift Aid	\$5,580	\$11,309

Section VI

Scholarship Opportunities



Section VI - The CFS reports can include (as an optional add-on service) scholarships (free money) the student is eligible for at the school of choice and how to obtain them! The scholarship information is based on the student's academic profile. In addition to revealing the scholarships that the student may already qualify for, CFS will include additional scholarships that the student may qualify for by increasing test scores, GPA, etc. This additional information can help the family decide if investing in test preparation courses may be a prudent decision.

The scholarship information enhances your ability to help the client leverage merit-based (based on academic performance) scholarships (free money) from the school to minimize their out-of-pocket costs! With this optional add-on content in the reports, you can further help your clients save ON the cost of college.

Based on the student's academic profile: SAT/ACT scores, GPA, Class Rank, etc., following are scholarship opportunities at St. John's University in NY that the student may qualify for.

These scholarship/grants do not have to be paid back, are based on the merit of the student and can help to significantly reduce the family's out-of-pocket college costs.

Scholarship Name -- Academic Achievement Award

Amount: \$11,000

Min GPA: 3

Min SAT: 1100

Min Class Rank: N/A

Scholarship Deadline: 1/15/2011

Renewable: Yes

Scholarship Notes:

Eligibility is determined based on the overall strength of the academic pool.

Min ACT: 24

State of Residence: All

Portfolio required:

Scholarship Website: <http://www.stjohns.edu/admission/undergraduate/scholarships>

Essay Required: No

Interview Required: No

Specific Majors:

Audition Required:

Notes to Renew: Maintain 2.75 GPA

Number Available: Limited

Scholarship Name -- Ozanam Scholars Program

Amount: \$10,000
Min GPA: 3.4
Min SAT: 1050
Min Class Rank: Top Half
Scholarship Deadline: 06/01/2011
Renewable: Y
Notes to Renew: 3.0 GPA and fulfill service requirements
Scholarship Notes: Strong Community Service required. Separate application.
Min ACT: 22
State of Residence: All
Portfolio required:
Scholarship Website: <http://www.stjohns.edu/faith/visa/ozanam>

Essay Required: Y
Interview Required: Yes, for 2nd Round
Specific Majors:
Audition Required: NA
Number Available: Limited

Scholarship Name -- Presidential Scholarship

Amount: \$30,000
Min GPA: 3.5
Min SAT: 1250
Min Class Rank: N/A
Scholarship Deadline: 1/15/2011
Renewable: Yes
Scholarship Notes: Eligibility is based on overall strength of the academic pool.
Min ACT: 27
State of Residence: All
Portfolio required:
Scholarship Website: <http://www.stjohns.edu/admission/undergraduate/scholarships>

Essay Required: No
Interview Required: No
Specific Majors:
Audition Required:
Notes to Renew: Maintain 3.0 GPA
Number Available: Limited

Scholarship Name -- Provost Scholarship

Amount: \$17000
Min GPA: 3.5
Min SAT: 1200
Min Class Rank: N/A
Scholarship Deadline: 1/15/2011
Renewable: Yes
Notes to Renew: Maintain 3.0 GPA
Scholarship Notes: Eligibility is based on overall strength of the academic pool.
Min ACT: 26
State of Residence: All
Portfolio required:
Scholarship Website: <http://www.stjohns.edu/admission/undergraduate/scholarships>

Essay Required: No
Interview Required: No
Specific Majors:
Audition Required:
Number Available: Limited

Scholarship Name -- The Catholic Student Scholarship

Amount: 1750
Min GPA: 3
Min SAT: 1050
Min Class Rank: Top Half
Scholarship Deadline: 03/01/2011
Renewable:
Notes to Renew:
Scholarship Notes:
Ranges from \$1,000 to \$2,500. Student must be Roman Catholic, and file FAFSA and application by 3/1.
Min ACT: 22
State of Residence: All
Portfolio required:
Scholarship Website: <https://www.stjohnsapplication.org/secure/10480/catholic.html>

Essay Required:
Interview Required:
Specific Majors:
Audition Required:
Number Available: Limited

Section VII

Collegiate Investment / Funding Options



Section VII - 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:

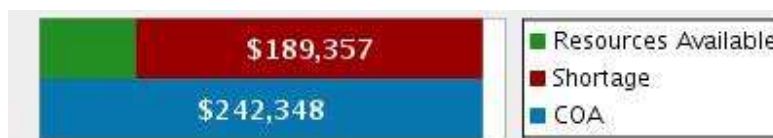
Cash= \$3,000

529 Savings Plan= \$5,000

Mutual Funds= \$25,000

Student Trusts= \$15,000

Growing these investments for the next 2 years till your child begins college yields approximately \$52,991. 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 St. John's University using a 5% annual inflation rate is: \$227,996.




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 **Growth. Consider the following investment options with the \$300/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 2010 the CESA are \$190000-\$220000 for married taxpayers and \$95000-110000 for single or head of household tax payers. 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

 This savings strategy is available to you based on your income. **Roth IRAs** allow non-deductible contributions that grow tax-deferred. Total earnings on a Roth IRA can escape income tax entirely if those earnings are paid out after age 59 1/2 and the Roth IRA is at least 5 years old. As long-term investments they provide withdrawals for qualified college expenses. If withdrawals are taken prior to age 59 1/2, the income exclusion no longer applies, although withdrawals can be taken without penalty. Withdrawals from the Roth IRA are first considered to be non-taxable withdrawals of contributions, and only after the principal has been withdrawn do earnings begin to be taxed on further withdrawals. For these reasons, the Roth IRA is an excellent college savings/retirement vehicle. The disadvantages are the phase-out levels, which, for 2010 begin at \$105000 for single tax-filers and \$167000 for married taxpayers, and the limit of \$66000 per year contribution limit for singles and \$109000 for couples.

Tip: A Roth IRA as a college savings vehicle would be more appropriate for a student that has earned income than for a parent using it primarily as a retirement savings plan. If the student doesn't use the IRA for college costs it can be used for other purposes such as first time home purchase or retirement savings

Warning: Financial Aid Treatment of Roth IRA


Withdrawals from IRAs are considered taxable income and as such can reduce the financial aid eligibility of the student by as much as 47% (the parents' top assessment rate for income). Therefore a \$10,000 IRA withdrawal could reduce aid eligibility by \$4,700

 **Traditional IRAs** are tax-deferred accounts with tax-deductible contributions subject to several restrictions. Since 1997, penalty-free withdrawals from IRAs are allowed to pay for "qualified" undergraduate or graduate higher education expenses. The taxpayer will owe federal income tax on the amount withdrawn, but will not be subject to the 10% early withdrawal penalty.


Tip: An IRA as a college savings vehicle would be more appropriate for a student that has earned income than for a parent using it primarily as a retirement savings plan. If the student doesn't use the IRA for college costs it can be used for other purposes such as first time home purchase or retirement savings

Warning: Financial Aid Treatment Traditional IRAs

Withdrawals from IRAs are considered taxable income and as such reduce the financial aid eligibility of the student by up to 47% (the parents' maximum assessment rate for income). Therefore a \$10,000 IRA withdrawal could reduce aid eligibility by up to \$4,700

 **U.S. Series EE bonds** are tax-deferred or tax-free (if used to pay qualified education expenses), low-risk investments that can be used as part of your long-term planning college financial plan. To qualify for the income tax exclusion, the EE bonds must be issued after 12/31/1989 and **I Bonds** must be purchased by someone at least 24 years of age before the bond issue date. Bond proceeds must be used to pay for qualified higher education expenses of the taxpayer, spouse or dependent. Qualified education expenses include tuition and fees. For 2010, the tax-free interest is phased out when the AGI is between \$69950 and \$84950 for single taxpayers and between \$104900 and \$134900 for married filing jointly taxpayers.

Warning: Financial Aid Treatment of EE and I bonds:
The bond is counted as an asset in the financial aid formulas. The interest on the bond, although potentially tax free for income tax purposes, will still be counted as income in the financial aid formulas.

 **529 College Savings Plans** are tax-deferred trust accounts that are used to pay for qualified education expenses. This includes tuition, fees, books, supplies, equipment and room and board. 529 Plan benefits include:

Income Tax Advantages

1. Tax-deferred growth of the investment
2. Withdrawals are tax-free for if they are used for qualified education expenses
3. Contributions are treated as gifts and are not considered gross income to the beneficiary
4. The owner and beneficiary are not subject to tax on income earned during the accumulation period
5. Distributions are excluded from income tax if they are rolled over within 60 days to another 529 or if the beneficiary of the 529 changes to another family member

Income Tax Disadvantages

There is a 10% penalty on nonqualified distributions, that is, distributions not used for qualified education expenses. In addition, the withdrawal will be taxed as income to the account owner.

Estate and Gift Tax benefits

1. The money comes out of the donor's taxable estate and the gift qualifies for the annual gift tax exclusion.
2. In 2010 up to \$130,000 (for married filing joint or \$65,000 for single filing individual) can be contributed to an account tax-free, assuming no other gifts are made during the five-year period.

Availability and Flexibility

1. There is no income phase-out level for owning a 529 plan. Therefore, high-income earners can participate when other options are not available (i.e. Roth IRA, EE Bonds, etc.).
2. Owner maintains control of the account. The owner can change the beneficiary of the account and even refund the account (possibly subject to a penalty).

Maximum Contribution Allowed

Each state determines the maximum allowable contribution.

Interaction with Hope and Lifetime Learning Credits


A taxpayer may claim a Hope or Lifetime Learning credit and take a tax-free distribution from a 529 plan as long as the credits and the 529 plan distributions are not used for the same education expenses.

Warning: Be aware that withdrawals from 529 Plans are only tax-free if they are used for qualified education expenses. There will be a 10% penalty on any non-qualified withdrawals. For example if you make a withdrawal to cover qualified education expenses that you were also planning to apply to either the Hope or Lifetime Learning credits! Therefore, you must be aware of the implications of 529 plan withdrawals or you may be severely penalized!

Warning: Financial Aid Treatment of Section 529 Plans: 529 Plans are 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 included on the FAFSA form as an asset of the parent. 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. Distributions from 529 College Savings Plans 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.

College Funding Options:

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

 Consider the benefits associated with the timing of 529 withdrawals to be used for college expenses. Since your AGI qualifies you for the education credit (American Opportunity/Hope Credit) you'll want to be careful not to sacrifice the credits. You cannot use 529 proceeds to pay for the same expenses that are consumed by the education credit. In other words, since the education credit currently consumes \$4,000 in tuition and fees, you can't claim the credit for these expenses if you use your 529 account to pay for them - otherwise you will pay a penalty on the 529 distribution. The solution would be to time the amount of the 529 distributions and use other non-529 resources for the expenses consumed by the credit.

Tip: As it stands now, the American Opportunity/Hope Credit will expire after the 2011 tax year. Unless it is made permanent or extended, the credit will revert to the previous Hope Credit rules and this education credit will only be available for the first two years of college, after which the family may qualify for the Lifetime Learning Credit. The Lifetime Learning credit consumes more tuition and fees (currently \$10,000) than the Hope Credit (\$4,000). Since the Hope Credit consumes less tuition and fees expense, consider larger 529 distributions in the first couple years and smaller distributions in the later years when the Lifetime Learning Credit will likely consume significantly more of tuition and fees expenses.

Loan Strategies:

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 \$60,000 to \$75,000 in Adjusted Gross Income (AGI) for single taxpayers and \$120,000 to \$150,000 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.

Stafford Loans

Stafford Loans are fixed rate and are not based on financial need. Therefore, the student can obtain this loan, regardless of whether the family qualifies for financial aid. The Stafford loan interest rate is fixed at 6.8%. These loans are taken out in the student's name and therefore, the student will be entitled to the student loan interest tax deduction.

The amounts that can be borrowed by the student are as follows:

1. Freshman year - \$5,500
2. Sophomore year - \$6,500
3. Junior - 5th year - \$7,500

The total undergraduate amount of Unsubsidized Stafford Loans that a dependent student can have is \$31,000 of which as much as \$23,000 can be subsidized.

The repayment of the Unsubsidized Stafford Loan interest begins within 60 days after the final loan disbursement. However this interest can be deferred. The principal repayment does not start until six months after the student graduates, leaves college, or drops below half-time enrollment.

Subsidized Stafford Loans are available to students who are financial aid candidates and they are generally included as part of a school's financial aid package for a student. The primary benefit is that the interest payments are subsidized as long as the student is in school half-time.

Tip: A Stafford Loan and especially a Subsidized Stafford Loan offers more benefits for the student than other loan options and should generally be considered first. Here are a couple of reasons:

1. The interest rate on a Stafford Loan is lower than the interest rate on a PLUS or private student loans.

2. The interest may be subsidized during the college years if the student qualifies for a Subsidized Stafford Loan - provided they are in school at least half-time.
3. Once the student graduates and is no longer a dependent, he can likely claim student loan interest deduction - up to a maximum of \$2,500 for each of the 5 years the interest is paid - since his income will likely be below the phase out level. These tax savings can help pay back the loan.

Federal PLUS Loans

Federal PLUS (Parents' Loans for Undergraduate Students) loans are not need-based loans. Therefore, a parent can obtain this type of loan even if the student has no financial need. The PLUS loan interest rate is 7.9%. These loans are taken out in the parent's name. The parents can claim the student loan interest deduction, if their income is within the phase-out limits.

The maximum amount that can be borrowed by the parent is the cost of attendance at the student's college, less any tax-free scholarships.

Example: If the cost of attendance at the student's college was \$25,000 per year the parents could borrow \$25,000 in PLUS loans each year. PLUS loans are only for undergraduate college expenses and do not cover graduate school expenses.

PLUS loans are signature loans (no collateral required). Only one parent must sign the loan application. If the signatory parent dies or becomes permanently disabled during the repayment period, the remaining loan principal balance is forgiven.

Repayment of a PLUS loan begins within 60 days after the final loan disbursement for the academic year. However, if the signatory parent is enrolled in college on a half-time basis (six credits) the repayment may be deferred. PLUS loans can be consolidated and repaid over a 30-year period.