

## **IN DEPTH: EDUCATION/CONTINUING ED.**

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**Insider view**

### **Think you won't qualify for financial aid? Think again**

[Gregg Cohen](#)

For most families, a child's college education is the second largest investment they will ever make, surpassed only by the purchase of a home. Yet many myths and misconceptions persist concerning the maximization of financial aid opportunities. Perhaps the most prevalent myth is, "I make too much money for my child to qualify for college financial aid."

In fact, fewer than 30 percent of families pay full tuition at America's colleges, and many of those who receive financial aid make comfortable salaries. In fact, a family of five, even with an adjusted gross income of \$200,000 and an additional \$100,000 in assets, with two students in college, may be eligible for more than \$15,000 a year in need-based financial aid.

Financial aid formulas vary from college to college, with different assets, including college savings plans, treated differently when determining need-based aid. The key to need-based college financial aid is ensuring that the family's savings and assets are allocated in such a way to maximize the amount of aid that is awarded, as well as understanding how the system works.

While most families have no idea several years in advance where their children may choose to attend college, there are some savings and asset-allocation measures that can be put in place to maximize a family's likelihood of winning financial aid.

The costs of private colleges are outpacing inflation by a 2-to-1 margin, which means a family that is eligible for financial aid now is even more likely to be eligible when the children go to college.

Even many financial planners are not well versed in the mechanics of maximizing financial aid opportunities, since their focus is primarily on the tax implications of saving for college.

To illustrate this point, imagine two families of four, with equal incomes of \$125,000 and \$25,000 in liquid assets, each preparing to send their oldest child off to college. The students have identical academic and demographic profiles.

However, the two families each took a slightly different approach to planning for college expenses. Family A has \$250,000 in equity in their home, and is planning to take out a \$25,000 home equity loan to help pay for the first year of college. Family B has \$200,000 in

equity in their home, \$50,000 in a Coverdell Educational Savings Account, and is planning to take \$25,000 from the Coverdell to pay for the first year of college.

Which family will qualify for the most financial aid? Brace yourself. Even though the family's total assets are the same, Family A's expected family contribution to the cost of their child's college education will be \$17,000 less than Family B.

This means that Family A could receive that much more in free scholarship money. This is supposing that the school bases its financial aid decision on the U.S. government's free application for federal student aid, which does not require the reporting of home equity, so home equity does not figure in the award formula. The Coverdell account, however, does count as a child's asset. According to federal methodology, 35 percent of the student's asset is available to pay for college.

The moral of the story: The rules for need-based financial aid are complex but can have an enormous impact on a family's ability to pay for college. It is important that families understand the impact of their investments in relation to their potential to receive need-based aid, identifying resources and evaluating their individual situations to maximize financial aid opportunities as they plan for college. Additionally, understanding merit aid opportunities can further reduce the ultimate cost of college.

Families who are facing college within the next five years should do several things now:

- Factor their likely eligibility for college financial aid into their financial planning.
- Plan to apply for college financial aid regardless of their likely eligibility.
- Investigate the financial aid policies of several colleges to which their children may apply.

*Gregg Cohen is the founder and president of Campus Bound of Quincy, a college counseling service that provides college selection, admissions and financial aid planning to families, either directly or through company benefit plans.*