

BlackRock

Investing in your children

Understanding college financial aid



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Understanding your options

As college prices continue to rise, students and parents are considering their options for covering costs. Each year, millions of students are eligible for grants, scholarships and financial aid. However not all of them receive assistance because of misunderstandings about who qualifies and what is required to capture these dollars.

You shouldn't automatically assume that your income and assets will qualify or disqualify you from receiving financial aid. Many other factors influence aid award decisions, including:

Size of household

Parental income

Generosity of schools

Type of assets you own

A financial aid award may consist of many different components including, but not limited to, grants, scholarships, work-study and various types of loans. There are no standard formats or terminology among colleges used in award letters, and they can be confusing.

The following pages highlight what you need to know to assess whether your family may qualify for financial aid. You'll also learn how to interpret a financial aid award and discover the best ways to request a better package if the offer is disappointing.



Grants & scholarships

You and your child can apply to receive help with the cost of college from grants and scholarships. How you attain the most amount of money from grants and scholarships depends on the criteria that institutions use in making these awards.

A student's GPA and test scores are often the most important factor. Colleges will also look at other factors such as special skills, geography and income level of the family. Private schools often base their decision on a more holistic picture — such as recruiting students from different geographies and backgrounds. Public universities, with many applicants, usually rely more heavily on GPA and test scores. The bottom line is that superior grades are crucial in getting accepted into a school and also obtaining grants and scholarships.

Make sure you check with your schools about their policies regarding financial aid and private scholarships.

State grants & scholarships

Many are under the assumption that state grants are only good for resident students attending public universities when, in fact, many states give scholarship money to students attending private schools within their borders. In many states, students are awarded state scholarships even if their parents are wealthy. To learn more about the grant programs in your state, go to the U.S. Department of Education's website, at www.ed.gov. From here you can find the contact information for your state's higher education agency and contact them for more information about their state grant programs.

Private scholarships

A misconception is that there are many private scholarships/grants that will pay for most college costs. Private scholarships/grants, though available, represent a smaller portion of total scholarship/grant aid than most other sources. For the 2022-23 academic year, the total amount of scholarship/grant aid for postsecondary students was \$145.3 billion with institutional grants (grants from the colleges and universities themselves) being the highest portion, at 53%, followed by federal grants at 26%, private and employer scholarship/grants at 12%, and state grants at 9%. On average undergraduates received \$10,680 in scholarship/grant aid from all sources.¹

To find private scholarships, check with your library, guidance department and/or your town. Another resource for finding scholarships is online scholarship sites.

A few you may want to explore are:

- Collegeboard.org
- FastWeb.com
- Scholarships.com

Do not overlook how private scholarships may affect financial aid. If your child wins a private scholarship, their future financial aid package could be reduced by the amount of the award. Check to see how your student's preferred colleges treat outside private scholarships. Some colleges and universities reduce the institution scholarship/grant portion of the aid package while others do not.

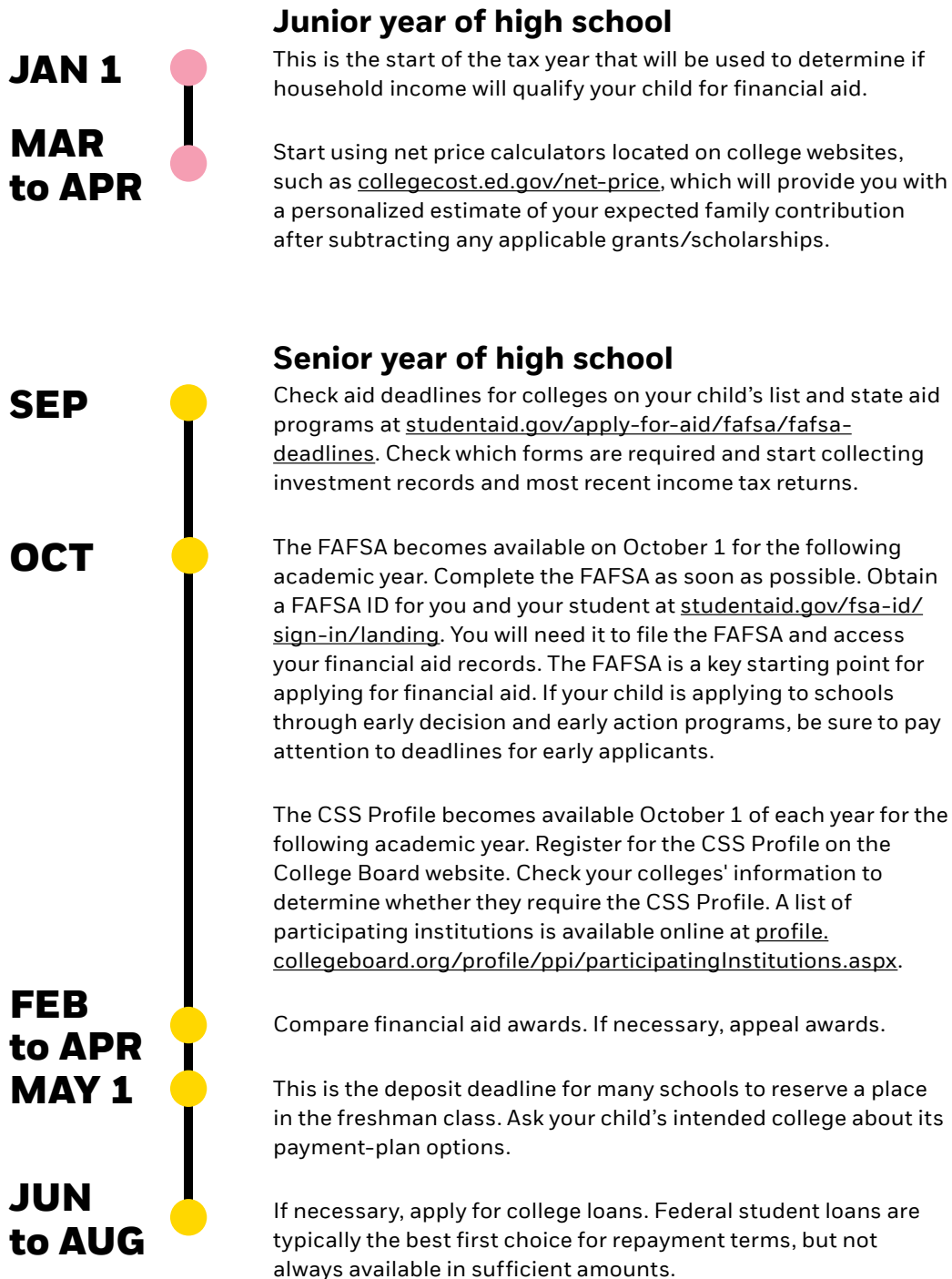
¹ Data Source: College Board's Trends in College Pricing and Student Aid 2023. Figures SA-1, SA-3, and SA-5. Scholarships and grants are forms of aid that don't need to be paid back.



Financial aid

Applying for financial aid is a multi-step process. Make sure you familiarize yourself with how and when to apply, and stay on top of deadlines.

Financial aid timeline



Complete a FAFSA
regardless of your family's
income and assets.

Applying for financial aid

Completing the FAFSA

To be eligible for financial aid, you must complete the Free Application for Federal Student Aid (FAFSA), which millions of Americans file each year. You can find the latest application, which is released annually on October 1, at studentaid.gov.

The financial and household information that you provide on the FAFSA determines if you will qualify for financial aid from the federal and state governments. Most colleges also use this application to determine if your child will qualify for their own in-house aid.

Even if your income is too high for need-based aid, you should complete the FAFSA if you or your child expects to borrow through federal college loans

or hopes to qualify for merit aid. Also, without a FAFSA on file, your child won't qualify for a campus work-study job.

Completing the CSS Profile

The vast majority of schools require only the completed FAFSA, but roughly 300 institutions will also expect you to fill out the CSS Profile. Nearly all the schools that require this additional aid application are private. The CSS Profile, which can be found on the College Board's website, collegeboard.org, is made available annually on October 1.

While the CSS Profile and the FAFSA ask many of the same questions, the CSS Profile dives deeper into a family's finances.

How assets impact aid

It's only natural that many families worry about how their hard-earned savings will impact their chances for financial aid. Most of the time parent assets will not hurt a child's aid eligibility. This is because parents' wealth is often invested in assets that most schools don't consider, and assets that are considered in the financial aid process, are assessed at a relatively low rate.

The FAFSA also ignores home equity (the form doesn't ask if you own a primary home). Schools using the CSS Profile usually consider the value of homes and how they treat these assets will vary.

As shown in the table below, colleges using the FAFSA and CSS Profile formulas ignore qualified retirement accounts such as Individual Retirement Accounts and 401(k) plans in their calculations. The FAFSA also ignores home equity (the form doesn't even ask if you own a primary home). Schools using CSS Profile usually consider the value of the primary home, but how they treat this asset will vary. The net assets of a Business or Family Farm are included for both colleges using the FAFSA and the CSS Profile, however, the FAFSA generally has a more favorable treatment for families.

Asset	Federal Aid Formula (FAFSA)	CSS Profile
Home equity	Ignores	Includes
Family-owned businesses/farms	Includes (generally has greater adjustments/allowances than CSS Profile schools and thus a smaller effect)	Includes
Qualified retirement assets	Ignores	Ignores

Student aid index

To assess your expected aid, if any, it is necessary to determine your family's Student Aid Index (SAI), until now called Expected Family Contribution (EFC).² The SAI represents the minimum amount colleges expect a family to pay for one school year. The SAI number helps colleges determine how much need-based aid you can receive. The smaller your SAI, the better your odds of receiving need-based aid. Work with your financial professional to determine your SAI.

The total **Cost of Attendance** at your respective colleges and universities **minus your SAI equals your Financial Need** or eligibility for need-based financial aid.

² Expected Family Contribution (EFC) was replaced with the term Student Aid Index (SAI) on July 1, 2023. The new terminology is applicable to the 2024-2025 award year.

Aid formulas

Only your non-retirement assets — such as taxable brokerage accounts, checking and savings accounts, certificates of deposit and 529 college savings plans — influence your financial aid eligibility.

The aid formulas factor in these parental assets at no more than 5.64%. In comparison, your child’s assets are assessed at 20% to 25%. The table below shows how assets and income affect aid eligibility.

Not all of your college accounts and other savings, however, will hurt your aid chances. For example, the FAFSA no longer requires the reporting of parent-owned 529 plans that are held for siblings of the financial aid applicant.

Additionally, grandparent-owned 529 plans are not reported on the FAFSA. Both the FAFSA and CSS Profile formula include offsets that tend to minimize the effect of assets in determining your student’s aid eligibility.

	Student	Parent
Income	<p>50% (in excess of \$11,130) Cash gifts to student and other money paid on the student’s behalf (untaxed income) are no longer counted starting with the 2024-2025 FAFSA.</p>	<p>47% (in excess of an income allowance of \$20K to \$40K based on family size) Cash gifts to parents are not counted</p>
Assets	<p>20% FAFSA 25% CSS</p>	<p>5.64% Applies to education savings. Asset allowance reduces asset amount assessed. (In some cases can be lower, 2.64%-5.64%)</p>

Financial aid example

Let’s see how the FAFSA treats assets by using an example of a married couple who are the financial aid applicant’s parents. This hypothetical couple has \$100,000 saved in non-retirement assets with the bulk of it in a 529 plan.

According to the federal table, these parents could have their need-based financial aid reduced by a maximum of \$5,640.

	\$100,000
X	5.64%
	\$5,640 (reduction in aid eligibility)

While the family saved \$100,000, they only had their potential aid reduced by \$5,640. **It’s important to note that there is no guarantee that the potential aid that they lost would have been in the form of grants rather than loans.**

Bottom line: Despite a potential loss in financial aid, families who have saved will usually be in a better position to pay for college than those who have not.

Source: Data from the Department of Education’s 2024-2025 Pell Eligibility and SAI Guide.



How filing status impacts aid

Child status

Independent student

Many parents inquire if a child, who is living on his or her own, can be considered an independent student. These students usually qualify for more financial aid. It is extremely difficult for undergraduates to qualify even if parents are providing no financial support under FAFSA standards.

A student must answer yes to one of 11 questions to be considered independent. Some of the key questions are:

- Will you be 24 in the year you file for financial aid?
- Are you married?
- Are you working on an advanced degree?
- Are you in a legal guardianship?
- Are you a U.S. military veteran?

You can find all the dependency questions at: studentaid.ed.gov/fafsa/filling-out/dependency/

Your filing status may qualify you for more aid.

Parents' marital status

Married and unmarried couples

If your parents are married to each other or living together, the rules for filing are fairly straightforward – both must include their income and assets on the financial aid documents. This applies to biological and/or adoptive parents, or parents as determined by the state. The same rules apply whether your parents are of the same sex or opposite sex.

Divorced and legally separated parents

If your parents are divorced, separated, or never married and don't live together, the parent who provided more support during the previous 12 months is the custodial parent or contributor (person required to provide information on the FAFSA form) and must provide their information. If both parents provided an exact equal amount of financial support or if they don't support you financially, the parent with the greater income and assets is considered the contributor and must provide their financial information. If this parent has remarried as of the date the FAFSA is filed, the stepparent's information must be reported on the FAFSA.

Legal guardians

Students who have legal guardians are considered independent students. The CSS Profile schools can have different rules about applying for aid in non-traditional living arrangements, so it's best to contact individual schools for clarification.

Maximizing financial aid

The following are ways to boost your child's chances of receiving a better aid package:

Find schools that are solid academic fits.

Students near the top of the applicant pools are more likely to receive greater aid and merit scholarships.

Apply to generous colleges.

The most generous schools will meet more of your child's demonstrated financial need or close to it. Use net price calculators, found on individual college web sites, to see the average aid award given at each college.

Move money out of your child's name.

Child assets, most notably in custodial UGMA/UTMA accounts, are assessed for financial aid at rates up to 25%. Consider liquidating and paying any applicable tax and moving the child's money into a custodial 529 plan where it will be treated more favorably as a parent asset.

Apply for aid early.

See <https://studentaid.ed.gov/sa/fafsa#deadlines> for a listing of all states deadlines.

Pay attention to school deadlines.

Miss a college's aid deadline and your child's application may not be considered.

Provide the right home equity value.

When calculating your home equity for the CSS Profile, for example, subtract not only your mortgage, but also any outstanding home equity line balance and money you might have borrowed from family or other sources to buy your house.

Avoid tapping into retirement accounts.

Retirement distributions are treated as parental income. If you must tap into your retirement nest egg as a one-time event, ask the college to disregard the withdrawal.

Talk to grandparents.

New for 2024-2025 school year: grandparent-owned 529 accounts will no longer impact a student's eligibility to receive need-based financial aid.



Interpreting financial aid awards

Financial aid letters can be confusing. Some award letters don't clearly differentiate between grants (free money) and loans, leading to uncertainty as to what a school will cost.

When you receive an award letter, here is what you will ideally find:

- Full cost of attendance, broken down into such expenses as tuition and fees, housing/food, books, course materials, supplies and transportation.
- Grants and scholarships.
- Types and amounts of loans.
- Federal work study.
- Net price student will pay after grants and scholarships are deducted.
- Parents' and student's Student Aid Index (SAI), FAFSA submission, and where applicable, the Expected Family Contribution from CSS Profile submission.

Some aid award letters may not include the Student Aid Index (SAI) value. Make sure you understand what types of aid you are receiving from the school before enrolling. Unless you know what your SAI is, it will be difficult to know whether the award is generous or not. If the SAI is missing from the award letter, ask the school for the figure and ask the school exactly how much of the package loans make up.

If you find it difficult to interpret an award letter, contact the school's financial aid office for clarification.

Renegotiating the offer

Families should consider seeking more aid if any of the following circumstances have occurred since they submitted their aid application:

- Divorce
- Loss of job
- Death
- Separation
- Large medical bills
- Birth

Even if your family hasn't experienced any of the above circumstances, don't assume an award letter is a school's final offer. Some colleges will offer students packages based on what they have concluded it will take to win over the applicants. In other words, a school could give your child a lowball offer if it believes he or she is eager to attend.

Schools are increasingly worried about filling their freshman slots, so don't feel hesitant about asking for more help. Here are steps to take if you appeal an award:

- 1 Understand the school's appeal process.**
Make sure you reach out to the right person.
- 2 Don't wait.**
Contact the school immediately since money can run out.
- 3 Provide a number.**
Be specific and realistic about how much extra aid you need.
- 4 Show competing offers.**
If your child received a better aid package offer, share it with the school your child wishes to attend.

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