

Chapter 2

FINANCIAL PLANNING



PREPARING TO PAY



This chapter will help you understand the financial aid process, but it won't answer all the questions that might come up. Talk with your school counselor or a college financial aid officer if you need more information.

Unless your family can pay all your college costs, you'll need student aid to help you out. At the bottom of this page, you'll find descriptions of eight types of financial aid.

Check with the schools you're interested in to find out how much they cost and the student aid programs they offer. You can use the Package Evaluation in the back of this book to compare the costs of different schools.

All trade schools and colleges that participate in federal student aid programs must have a calculator on their website. Use that to get an idea of your out-of-pocket expenses if you attend that school. Better yet, sign up for a free Getting the Facts on www.kheaa.com.

Types of Financial Aid

Grants: Based on need and usually don't have to be repaid.

Scholarships: Based on some kind of achievement — academic, athletic or service. Most generally don't have to be repaid.

Work-study: Part-time job on or off campus that lets you earn money to pay for your education.

Student loans: Money borrowed from the government, a school or some other source. Loans must be repaid. However, repayment often doesn't start until you've left school or graduated.

Conversion scholarships: These require you to provide certain services for a period of time. If you don't, you have to repay the money with interest.

Waivers: Arrangements that eliminate certain costs for students who meet specific qualifications (if a parent was a police officer killed in the line of duty, for instance).

Military benefits: Financial aid offered to individuals (or their dependents) who were, are or will be in the U.S. Armed Forces.

National service award: Award received for education expenses in return for national or community service.

Where can I get student aid? State and federal governments, colleges, private businesses, and organizations.

How is financial aid awarded? The two main types of financial aid are need-based and merit-based. The first is based on your family's income and assets. Need is determined by the FAFSA (see page 22). Merit-based aid would include your KEES award, an athletic scholarship and other scholarships based on grades or abilities.

Where can I get information? From your counselor, financial aid officers of the schools you're interested in attending, this chapter and www.kheaa.com.

How do I apply? For federal and state aid, the FAFSA. The FAFSA is often used by schools to decide who gets their grants and scholarships (called institutional aid). Other scholarships may have their own application forms.

When do I apply? If you're starting college or trade school in fall 2023, submit the 2023–2024 FAFSA as soon as possible beginning October 1, 2022. If you do that, you can use 2021 tax year data. The earlier you file, the better your chance of getting financial aid. Check with the financial aid offices of the schools you're interested in to find out their deadlines.

If you'll start before July 1, 2023, you should file the 2022–2023 FAFSA as soon as you know which schools you're considering. In this case, use your 2020 tax information.

What is need analysis? Need analysis determines what type and how much aid you're eligible for. The analysis subtracts your expected family contribution (EFC) from the total cost of attendance. The total cost of attendance includes tuition and fees, room and board, books and supplies, personal expenses and transportation.

The EFC is how much your family is expected to pay toward your college expenses. It is figured from the information on the FAFSA based on a formula set by Congress.

How much can I get? You can't get more need-based aid than the total cost of attendance minus your EFC.

So, if the total cost of attendance is \$17,000 and your EFC is \$7,000, the most you can get in need-based aid is \$10,000. That doesn't mean you will get \$10,000. It just means you're eligible for up to \$10,000 in need-based aid.

When will I know how much I will get? If you apply between October and March, you should find out in the spring. Each college you've been accepted to will send you a financial aid package that shows the aid the school is offering you. The package usually includes grants, scholarships, work-study and loans. You have to accept or reject each type of aid the school offers.

What can I use financial aid for? It can only be used to pay for your education, which includes:

- Direct costs — tuition, fees
- Indirect costs — transportation, housing, food

What about next year? File the FAFSA again, even if you didn't get aid this year. Things can change — program requirements, your family's financial condition.

If I change my mind about college, can I get a refund? Every school that awards federal student aid must have a written refund policy and give you a copy if you ask. Find out before you apply for admission if you can get a refund if you withdraw before you finish your studies.



FAMILY CONSIDERATIONS

What if my parents claimed me as an exemption last tax year but did not support me? You should discuss your situation with the financial aid director of the school you plan to attend to find out if they can help you.

If I have a sibling in college, will my EFC be less? Probably. As a rule, if two family members (other than a parent) are in college at least half time, the EFC is divided by two.

If my parents are divorced or separated, which one should provide the information for the FAFSA? The parent with whom you lived the most during the past 12 months. If you lived with each parent an equal length of time or lived with neither parent, the parent who gave you the most financial support during the last year should complete the FAFSA.

Does my legal guardian have to provide financial information on the FAFSA? No, even if the guardian has been directed by a court to support you.



Am I “Dependent” or “Independent”?

Most students entering college straight from high school are dependent students. For the 2023–2024 academic year, you won’t be considered an independent student unless at least one of the following applies to you:

- You were born before January 1, 2000.
- You’re married.
- You’re enrolled in a master’s or doctoral program during the 2023–2024 school year.
- You have dependents who will receive more than half their support from you through June 30, 2023.
- You’re an orphan or ward of the court (or were a ward of the court until age 18).
- You’re a veteran of the U.S. Armed Forces. “Veteran” includes a student who attended a U.S. military academy who was released under a condition other than dishonorable.

If you’re considered independent, you don’t have to include your parents’ financial information on the FAFSA. You may have to submit proof of your independent status before you receive any federal student aid.

If none of the above apply to you but you think your circumstances mean that you’re independent, talk with a financial aid officer at the school you plan to attend. The fact that your parents can’t or won’t help you pay for college is not enough to make you independent.

TAX TIME

Paying taxes is part of being a responsible adult. Fortunately, going to college may help you and your family during tax time.

Are scholarships taxable? Some are. For a scholarship to be tax free, or “qualified,” you must be working toward a certificate or degree.

A qualified scholarship is one used for tuition and required fees, books, supplies and equipment. Any amount for incidental expenses is taxable. Incidental expenses include room and board, travel, research and clerical help.

Taxpayers may be able to take advantage of these credits and deductions:

- **American Opportunity Credit**, available for the first four years of college.
- **Lifetime Learning Credit**, available if a taxpayer or a dependent is taking college courses to acquire or improve job skills.
- **Student loan interest deduction**, which lets people deduct up to \$2,500 per year for interest paid on federal student loans.
- **Kentucky tuition tax credit**, which lets Kentuckians deduct 25 percent of the federal Lifetime Learning Credits up to \$500 for tuition or related expenses for undergraduate enrollment at an eligible Kentucky college.

Is there anything else I need to know about tax credits and deductions? Congress can change any of the federal tax credit and deduction rules at any time.

The Kentucky General Assembly can change the rules of the Kentucky Tuition Tax Credit. Before claiming any of these credits and deductions, make sure they are still available.

For more information on federal credits and deductions, call the Internal Revenue Service (IRS) at 800.829.1040 or visit www.irs.gov/ to download Publication 970 Tax Benefits for Education. This and other free publications are also available from the IRS by calling 800.829.3676 or by visiting www.irs.gov/. If you’re still not sure, consult your family’s tax advisor. Contact your tax advisor for information about the Kentucky tuition tax credit.

The U.S. Department of Education operates a toll-free telephone service for students, parents and educators who have questions about federal student assistance programs. Call 800.433.3243 (800.4FED.AID). People who use a TTY or TDD device should call the Federal Information Relay Service at 800.730.8913.



KNOWING WHERE TO LOOK

Don't pay for this information!

Don't miss out on financial aid because you didn't know where to look. These tips may help you get the most financial aid you can.

Talk with your counselor, who can tell you about financial aid in general and where to look for help.

Talk with college financial aid officers, who can tell you about their school's aid programs. See Chapter 3 for contact information.

Visit www.kheaa.com, which provides information about KHEAA financial aid programs, services and publications. Set up an account to access information about your KHEAA grant or KEES awards.

Consult *Affording Higher Education*, a KHEAA reference book with thousands of sources of student aid for Kentucky students. Copies are available at libraries, counselor offices and www.kheaa.com.

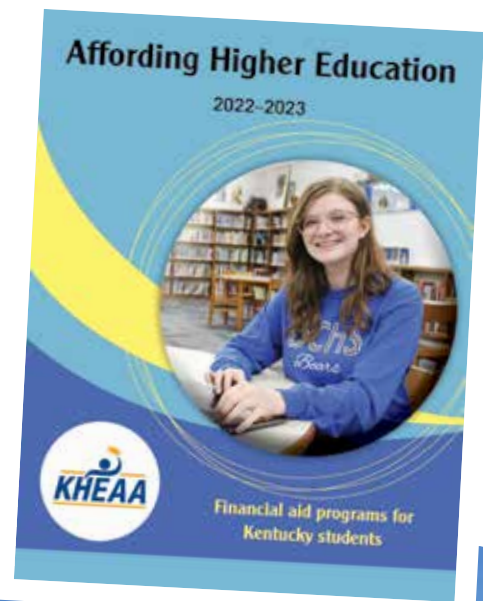
Check your high school or public library for other books about sources of student aid.

Check newspapers online and in print for scholarships offered by local sources

Visit KHEAA's College Info Road Show, a mobile classroom that provides materials, publications, live Internet access and a guided tour through www.kheaa.com. Visitors can create a personalized account and can access resources for career assessments, test preparation, scholarship searches and more. Take advantage of these free services when the College Info Road Show visits your area.

Check with community organizations and civic groups such as the American Legion, YMCA, 4-H Club, Kiwanis, Jaycees, Chamber of Commerce and Girl or Boy Scouts. Foundations, religious organizations, fraternities or sororities and service clubs are some other possible sources of aid.

Write to organizations connected with your field of interest. You can find these organizations online.



AVOIDING SCAMS

Like anything else involving money, student aid attracts people who'll try to take advantage of you. Before paying for help finding financial aid:

- Attend any free student aid workshops sponsored by your high school, local colleges or KHEAA. Don't confuse these free events with events sponsored by companies that offer services for a fee.
- Check out the company with the Better Business Bureau; the Kentucky Attorney General, Office of Consumer Protection, 1024 Capital Center Drive, Suite 200, Frankfort, KY 40601, 888.432.9257, <https://ag.ky.gov/about/Office-Divisions/OCP/Pages/default.aspx>; or the attorney general in the state where the company is located.

The Federal Trade Commission says be skeptical about these claims:

“You’ve been selected by a national foundation to receive a scholarship.”

If you didn't apply for a scholarship, check it out before responding.

“We’ll do all the work.”

This probably won't happen. You'll have to fill in the applications.

“I need a credit card or bank account number to hold this scholarship.”

NEVER give these numbers to people you're not sure about. Scam artists can use that information to charge things to your card or clean out your bank account.

“This scholarship will cost some money.”

A few legitimate scholarships may have up-front fees, but they shouldn't be more than \$5 to \$10.

“You’re guaranteed to win a scholarship or your money back.”

Read the fine print. It may tell you that to get a refund you have to receive a letter of rejection from every source on the list. You won't get a letter if the source no longer exists. The fine print may also state that all types of student aid are included. If you get a student loan, but no scholarships, you won't see a refund.

“You can’t get this information anywhere else.”

Nearly all the information can be found by working with your counselor and the college financial aid office or doing a free online scholarship search.

For more information about scholarship fraud, visit:

Federal Trade Commission, www.ftc.gov



You can also file a complaint with the FTC by submitting an online complaint form available on the FTC website.

Having no complaints doesn't necessarily mean the company is legitimate. It may be so new that no one has filed a complaint yet.

THE FAFSA

Don't let the challenge of filling out the FAFSA defeat you. These helpful hints will simplify the process.

You must file the FAFSA if you want federal or state student aid. Filing at <https://studentaid.gov> is faster. Plus, your answers are automatically edited, meaning you're less likely to make errors.

You'll need a Federal Student Aid ID (FSA ID) username and password and will be asked to verify your identity to set up an account.

If you prefer mail, you can download a fillable PDF of the FAFSA from <https://studentaid.gov>. You can also find a FAFSA on the Web worksheet that will guide you through the filing process.

The U.S. Department of Education will send your FAFSA information to KHEAA and the schools you list on the FAFSA. From that information, KHEAA will determine if you're eligible for state grants. The information on your FAFSA does not affect your KEES award. Visit your kheaa.com account to find out about your grant status.

Each school to which you apply will use the FAFSA information to create a financial aid package. The schools will send their package to you, generally in the spring.

If you're a male 18 to 25 years old and haven't registered with Selective Service (see page 4), you won't qualify for federal student loans, grants or work-study.

VERIFICATION

The U.S. Department of Education requires colleges to verify the information provided on a percentage of all FAFSAs. The department chooses which students must go through verification.

If you're selected, the college will let you know what information you need to supply. You may be contacted by KHEAA, which provides verification to colleges and universities in Kentucky and other states.

To prepare for verification, use the IRS Data Retrieval Tool in FAFSA on the Web. It will transfer your information from the IRS to the FAFSA when you file the FAFSA or when you make corrections later.

You can also have the IRS send you an IRS tax return transcript, which you can ask for at <https://www.irs.gov/individuals/get-transcript>. If you filed electronically, your IRS information will be available about two weeks after you filed. If you filed by mail, it may be two months before your data is available.

If you're selected for verification, you won't receive your financial aid until you complete the verification process.

Follow these steps to make sure you fill out the FAFSA correctly. A FAFSA checklist is also provided on page 129 of this book for easy reference.

Other financial aid applications

- Check with the financial aid office of the school you plan to attend to find out if you should file any other applications.
- Read and follow directions, filling out the application properly and neatly. You may be disqualified for failing to complete all questions, answering them incorrectly or missing the deadline.
- Pay attention to mailing addresses and filing deadlines. Like the FAFSA, other application forms should be filed as early as possible.
- If you apply by mail, keep copies of everything and a record of the dates you mailed them. You might want to send your materials by registered mail, return receipt requested.
- Talk with your counselor about scholarships available in your community. If you think you may be eligible, apply.
- Check the school's website for descriptions of additional scholarships or financial aid for which you can apply. You can find school websites in Chapter 3.
- Apply, apply, apply. By applying for several types of aid, you increase your chances of receiving enough to pay your school costs.

1. Create your FSA ID at <https://studentaid.gov/> to complete the FAFSA online or print out a fillable PDF.
2. Gather documents you will need to refer to in completing the FAFSA. These include:
 - Your Social Security card and driver's license.
 - Your W-2 forms and federal income tax return.
 - Your parents' W-2 forms and federal income tax return if you are dependent.
 - Records of other untaxed income received, such as veteran's benefits.
 - Current bank statements and records of stocks, bonds or other investments.
 - Business or farm records if applicable.
 - Your alien registration card if you are not a U.S. citizen.
3. Don't forget to:
 - Read and follow the instructions carefully.
 - **Submit the FAFSA as soon as possible after October 1** of your senior year to make sure you have the best chance of receiving aid for which you're eligible.
 - **Enter only whole dollars, not cents.**
 - Keep a copy of your FAFSA and when you submitted or mailed it.
 - If you need to make corrections, follow the instructions on the Student Aid Report (SAR) you receive and return make the changes immediately for reprocessing.
 - Read financial aid award letters carefully and comply with requests from schools for additional information as soon as possible. Submit corrections or additional information to the ED Central Processor, so the administrators of federal, state and school-based programs will have the updated information too.

FINANCIAL AID APPLICATION PROCESS

You should apply as soon as possible. However, applying early does not guarantee you'll receive an award. For more information about government financial aid programs, visit studentaid.gov or call 1-800-4-FED-AID.

Create an account on studentaid.gov so you can apply and sign your FAFSA online.



Gather your **income tax returns, W-2 forms** and other information needed to show your income when you apply.



Complete the FAFSA as soon as possible after October 1. Apply online at studentaid.gov.



Complete other applications for private, state or school financial aid. Watch for **deadlines!**



Ask your school counselor about financial aid nights.



Review your **SAR** to find out your family's EFC. Make corrections and resubmit if necessary.



Turn in any other documentation your school needs to verify your application information to the financial aid office.



Make sure that the financial aid office at each school you are applying to has all of the information it needs.



Review the award letter from each school and compare the amount and types of aid that you will receive if you attend.

STUDENTAID.GOV