

Chapter 2

FINANCIAL PLANNING



PREPARING TO PAY



The answers to many of your questions about financial aid will be addressed in this chapter. But don't forget — your best source of information will be the financial aid office of the school you plan to attend.

Even if the school of your dreams seems too expensive, it may not be out of reach if you receive enough financial aid. You may qualify for financial help based on many different things, including academic achievement, athletic skill, musical ability or simply financial need. Contact the financial aid office to find out what's available.

The estimated costs (tuition and fees, room and board) for most Kentucky colleges are included in Chapter 3. For out-of-state schools, consult *The College Handbook* in your library or counselor's office.

Check with the schools you want to attend to find out the latest costs and what aid they can offer. It might not cost any more to go to a higher-priced school than a lower-priced one. You can compare the costs of different schools by using the Package Evaluation in the back of this book.

All colleges that participate in federal student aid must have a calculator on their website that will give you 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: Awards based on need that usually don't have to be repaid.

Scholarships: Awards based on some kind of special achievement — academic, athletic or service. These are merit-based and generally don't have to be repaid.

Work-study: Part-time employment (on or off campus) that lets you earn money toward tuition.

Student loans: Money borrowed from a bank, the government or a school. A student loan must be repaid. However, low interest rates are available, and repayment often doesn't start until you've either left school or graduated.

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

Waivers: An arrangement offered by some schools to eliminate certain costs for students who meet specific qualifications (if your parent was an Kentucky 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: An award received for education expenses in return for national or community service.

Where can I get financial aid? Sources of financial aid are everywhere: the state and federal governments, your college, and private businesses and organizations. Remember, though, that you and your parents are expected to pay as much as you can toward your college expenses.

How is financial aid awarded? The two main types of financial aid are need-based and merit-based. Need-based aid is awarded because you need help paying for college. Need is determined by the FAFSA. See page 22 to learn more about the FAFSA.

You earn merit-based aid by doing something well. Examples would include the KEES administered by KHEAA, an athletic scholarship and local scholarships based on your grades or abilities.

Where can I get information? Free financial aid information can come from your counselor, financial aid officers of the schools you're interested in attending and www.kheaa.com. More information can be found on the following pages.

How do I apply? You apply for most state and federal aid by filing the FAFSA.

Many colleges use the FAFSA to award grants and scholarships administered by the school (called institutional aid). However, separate applications are required for some institutional scholarships and most private scholarships.

When do I apply? If you're starting college in fall 2021, you can submit the FAFSA beginning October 1, 2020. If you do that, you can use 2019 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 plan to start college before July 1, 2021, you should file this year's FAFSA as soon as you know which schools you're considering.

What is need analysis and how is it determined? Need analysis determines what type and how much aid you are 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 the amount your family is expected to pay toward your college expenses. It is figured from the information on the FAFSA using a formula set by Congress. If you're an independent student, the EFC is figured on your own financial resources (and those of your spouse, if you're married).

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 for state and federal aid 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 cost of attendance and the aid the school plans to award you. The package usually includes grants, scholarships, work-study and loans. You have to accept or reject each type of aid the school offers you. Some schools do this online, while others send you a paper offer you must check, sign and return.

What can I use financial aid to pay for? Financial aid must be used to pay the cost of education, which includes:

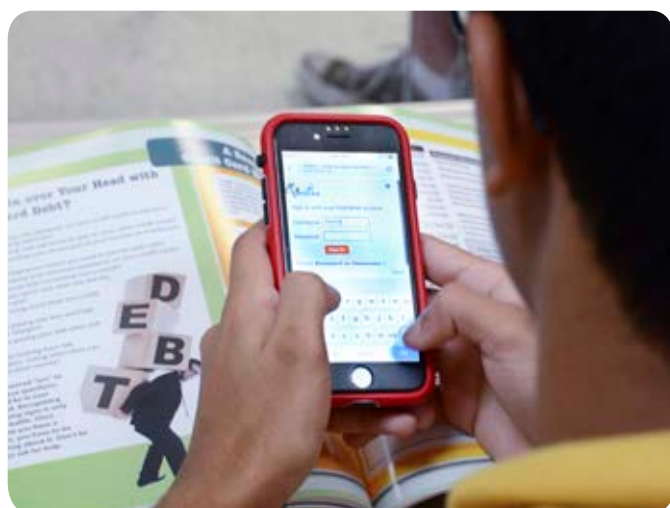
- Direct costs — tuition, fees
- Indirect costs — transportation, housing, food

What about next year? Many aid programs require you to maintain a certain GPA to have the award renewed. Others may require what is called satisfactory academic progress. This is usually based on earning enough credits to graduate in a certain length of time.

Even if you don't get aid this year, you should reapply each year. Things change — program requirements, your family's financial condition — lots of things.

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 of the policy 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 can I do if my parents claimed me as a tax exemption last tax year but gave me no money or support?

Although you don't meet the federal definition of an independent student, you should discuss your situation with the financial aid director of the school you plan to attend to find out if he or she can help you.

If I have a brother or sister attending 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 should complete the application. If you lived with each parent an equal length of time or lived with neither parent, the parent providing the most financial

support for you during the last year should complete the form.

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 considered dependent students. For the 2021–2022 academic year, you're a dependent student **unless** at least one of the following applies to you:

- You were born before January 1, 1998.
- You're married.
- You're enrolled in a master's or doctoral program during the 2021–2022 school year.
- You have dependents who will receive more than half their support from you through June 30, 2022.
- 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 any of the above apply to you, you're considered an independent student, which means you won't have to include your parents' financial information on the FAFSA. Your school may ask you to submit proof of your independent status before you can receive any federal student aid. If you think you have unusual circumstances that would make you independent even though none of the criteria above apply to you, talk with a financial aid officer at the school you plan to attend.

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 there tax considerations? Yes. Some scholarships are taxable. The basic requirement for a scholarship to be tax free, or a “qualified” scholarship, is that you are working toward a degree.

A qualified scholarship is any amount used for tuition and required fees, books, supplies and equipment. Any amount for incidental expenses is not tax free. Incidental expenses include room and board, travel, research and clerical help.

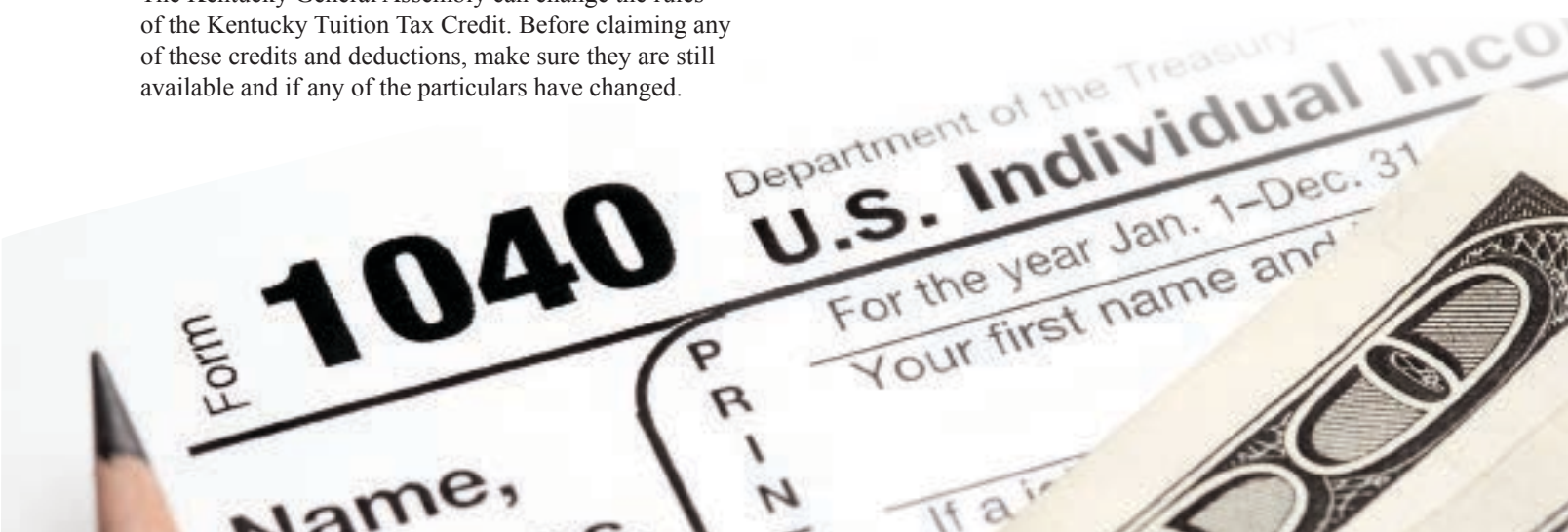
Taxpayers may also be able to take advantage of various credits and deductions. They include:

- **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 and if any of the particulars have changed.

For more information on federal credits and deductions, call the Internal Revenue Service (IRS) at 800.829.1040 or visit www.irs.gov/pub/irs-pdf/p970.pdf 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/formspubs/index.html. 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 financial aid officers at the schools you're interested in attending. They can tell you about aid programs available through the school. See Chapter 3 for contact information.

Visit www.kheaa.com, which features information about KHEAA financial aid programs, services and publications. You can also access information about your KHEAA grant or KEES awards by setting up a personal account.

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

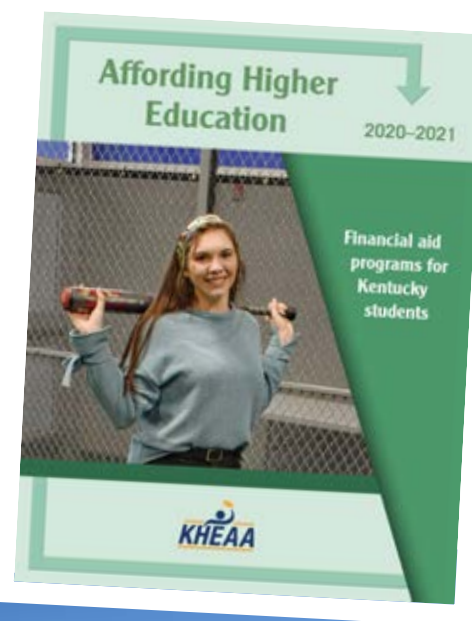
Check your high school or public library for other books about sources of student aid.

Check newspapers online and in print for scholarships offered through local community service organizations, businesses, clubs, unions, churches, fraternal groups, etc. Contact the group for more information.

Visit KHEAA's College Info Road Show, a mobile classroom that visits Kentucky schools, adult education centers and community events and provides materials, publications, live Internet access and a guided tour through www.kheaa.com. Visitors can create a personalized MyKHEAA 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. These organizations are listed in directories available in public libraries.



AVOIDING SCAMS

Student financial aid is a trillion-dollar business, which means it attracts people who may try to take advantage of you. Before you and your parents pay for help finding financial aid:

- Attend any free financial aid workshop sponsored by your high school, local colleges or the Kentucky Association of Student Financial Aid Administrators. Don't confuse these free events with events sponsored by companies that offer services for a fee.
- Check out the company by contacting 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 scholarship search companies and sites that claim:

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

Check with your counselor if you're notified that you're a finalist in a scholarship contest you didn't enter.

“We’ll do all the work.”

The company may send you a long list, but you'll have to fill out all the applications.

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

NEVER give these numbers to a person or company you're not sure about. Someone with your credit card number can charge something to your card, and someone with your bank account number can make withdrawals without your knowledge.

“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. To get a refund, you may have to receive a letter of rejection from **every** source on the list. That may be impossible to do if a scholarship on the list is no longer offered. The fine print may state that **all** types of student financial aid are included, so if you get a student loan and no scholarships, you still can't get your money back.

“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, visiting the high school or public library or doing a free online scholarship search.

For more information about scholarship frauds, check out this website:

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.

Remember, the absence of complaints may not mean the company or foundation is legitimate — it may just 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 to find out if you qualify for federal or state student aid. The information is automatically sent to the schools you list on the FAFSA and to KHEAA.

You should file online at <https://studentaid.gov/h/apply-for-aid/afsa>. A worksheet to guide you through the process is available from the U.S. Department of Education (ED) online or by calling 800.4FED.AID (800.433.3243). You must create a Federal Student Aid ID (FSA ID) username and password and will be asked to verify your identity to set up the account.

You're less likely to make errors filing electronically because your answers are edited automatically. Also, you'll receive your report 7 to 14 days faster than you will with a paper FAFSA.

You can get a paper FAFSA by calling the ED. If you want to be notified when your paper FAFSA is received, fill out the postcard in the FAFSA packet and put it in the return envelope with your FAFSA. When the application is received, the FAFSA processor will stamp the card with the receipt date and location and mail it back to you.

From the information on the FAFSA, each school to which you apply will create a financial aid package for you. Each college you list on the FAFSA will consider you for financial aid and will notify you in the spring.

KHEAA uses information from the FAFSA to award state grants. As KHEAA receives data from the FAFSA central processor, students are sent grant notices instructing them to visit www.kheaa.com to learn their grant eligibility at all schools listed on the FAFSA.

Men 18 to 25 years old who aren't registered with Selective Service (see page 4) are not eligible for federal student loans or grant programs. This includes Federal Pell Grants, Federal Supplemental Educational Opportunity Grants (FSEOG), Direct Loans/PLUS Loans and Federal Work-Study.

VERIFICATION

The U.S. Department of Education (ED) requires colleges to verify the information provided on a percentage of all FAFSAs. ED will tell each college which students must be verified.

If you're selected for verification, you'll be contacted by the college. The college or, in some cases, an agency with which the college has contracted will let you know what information you need to supply.

The easiest way to be prepared for verification is to use the IRS Data Retrieval Tool in FAFSA on the Web. The tool will transfer your information from the IRS to the FAFSA, either when you file the FAFSA or when you make corrections later.

Another method is to 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 your taxes electronically, your IRS information will be available about two weeks after you filed. If you filed by mail, the information may not be available until two months after your tax forms are received.

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 an application properly and neatly is important. 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.
- Keep copies of everything you mail and a record of the dates you sent 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 for them.
- Check the school's catalog or website for descriptions of any additional scholarships or financial aid for which you may be eligible to apply. Website addresses can be found 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://fsaid.ed.gov/> to complete the FAFSA online, print out a FAFSA form from <https://studentaid.gov/h/apply-for-aid/afsa>, or call 1-800-4-FED-AID to request a paper form.

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 copies of your FAFSA and a record of the date you submitted or mailed it.
- If you need to make corrections, follow the instructions on the Student Aid Report (SAR) you receive in the mail and return it immediately for reprocessing.
- Read financial aid award letters carefully and comply with requests from schools for clarification or 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 www.ed.gov or call 1-800-4-FED-AID.

Create an account on www.fafsa.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.

Ask your school counselor about financial aid nights.

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

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

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.

WWW.FAFSA.GOV