



# Financial Aid: 5 Things to Know

Consider these points when developing a savings strategy for your child's college education.

## KEY INSIGHTS

- Trying to save for the full sticker price of your child's four-year college education can be daunting.
- Remember that most schools don't meet 100% of a family's financial need and that loans are often part of the financial aid package.
- Don't let the quest for financial aid eligibility deter you from saving. You don't often hear about people who are unhappy that they saved too much.



**Roger Young, CFP®**  
*Senior Financial Planner*

Parents of young children receive a lot of advice about saving for college. Trying to cover the full sticker price can be overwhelming—even for an in-state public school. For most people, it makes sense to estimate how much financial aid your family might be eligible for when developing a savings strategy. As you factor financial aid into the total savings you will need, consider these five points.

### 1. Colleges probably expect you to pay more than you think you can afford.

The government and most colleges award financial aid based on your FAFSA—the Free Application for Federal Student Aid. The information you provide on your FAFSA determines your expected family contribution, or EFC. The EFC depends on many factors, with the most important being your family's income. If your EFC is less than a college's cost of attendance, the difference is considered your "need."

For example, based on the EFC formula, a hypothetical dual-income family of four earning \$120,000 with \$50,000 saved in a 529 college savings plan (or other nonretirement accounts) would have an EFC of around \$25,000. At a private college costing \$60,000 per year, this family would have \$35,000 of need. At an in-state public college with a \$22,000 annual cost, their need would be zero. The EFC amount may surprise you and could be a higher portion of your annual income than you would expect.

"Keep in mind that accumulating more savings doesn't increase your EFC nearly as much as increasing your income," says Roger Young, CFP®, a senior financial planner with T. Rowe Price. "Some assets are excluded from the calculation—the amount depends on your age—and at most, only 5.64% of additional assets are added to the EFC. An increase in income, on the other hand, can raise your EFC by as much as 47%."

## Expected Family Contribution for a Family of Four With One Child in College, 2021–2022 School Year:

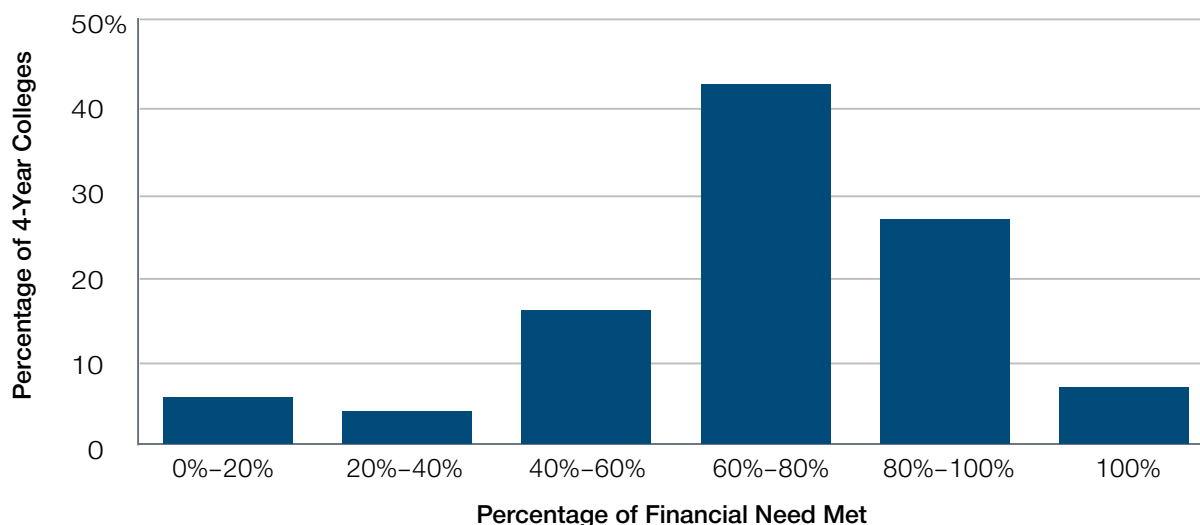
	Total value of parents' cash and nonretirement investments (\$)								
	-	25,000	50,000	75,000	100,000	125,000	150,000	175,000	200,000
40,000	1,407	1,882	2,542	3,202	3,862	4,522	5,231	5,989	6,859
60,000	4,484	4,977	5,727	6,565	7,475	8,495	9,652	10,915	12,325
80,000	8,976	9,840	11,136	12,546	13,956	15,366	16,776	18,186	19,596
100,000	15,982	16,997	18,407	19,817	21,227	22,637	24,047	25,457	26,867
120,000	22,470	23,485	24,895	26,305	27,715	29,125	30,535	31,945	33,355
140,000	28,801	29,816	31,226	32,636	34,046	35,456	36,866	38,276	39,686
160,000	35,132	36,147	37,557	38,967	40,377	41,787	43,197	44,607	46,017
180,000	41,463	42,478	43,888	45,298	46,708	48,118	49,528	50,938	52,348
200,000	47,726	48,741	50,151	51,561	52,971	54,381	55,791	57,201	58,611
220,000	53,869	54,884	56,294	57,704	59,114	60,524	61,934	63,344	64,754
240,000	60,012	61,027	62,437	63,847	65,257	66,667	68,077	69,487	70,897
260,000	66,155	67,170	68,580	69,990	71,400	72,810	74,220	75,630	77,040
280,000	72,211	73,227	75,137	76,547	77,957	79,367	80,777	82,187	83,597
300,000	79,437	80,452	81,862	83,272	84,682	86,092	87,502	88,912	90,322

The table shows EFC based on family income on the left and certain assets at the top. Those assets can include cash, stocks, bonds, mutual funds, and other investments, as well as the value of real estate other than your primary home and any business ownership. It excludes retirement accounts (such as an IRA or 401(k)), but 529 college savings accounts are included. Assumptions that affect EFC: The older parent is 50 years old as of 12/31/21. The student is a dependent, has \$5,000 of assets, and has income below \$6,500. The family has no non-work income or other assets for FAFSA purposes. The family uses the married filing jointly status and standard deduction for federal income tax and lives in a state with the median FAFSA tax allowance

Source: T. Rowe Price calculations based on The EFC Formula: <https://ifap.ed.gov/efcformulaguide/attachments/2021EFCFormulaGuide.pdf>

## Colleges and the Financial Need They Meet as of August 2020

Most colleges provide aid that only meets a portion of undergraduates' needs.



Source: T. Rowe Price calculations from College Board data.

“Save what you can and work toward a plan that enables your child to graduate.

— Roger Young, CFP®  
Senior Financial Planner

## **2. Colleges may not give you the amount of financial aid you need.**

Fewer than 10% of four-year colleges meet 100% of their students' demonstrated financial need, according to the College Board. (See “Colleges and the Financial Need They Meet.”) Over 40% of colleges meet between 60% and 80% of financial need, and even then, the exact amount can vary widely from student to student. Be conservative in estimating how much need-based aid your family will receive.

## **3. Financial need provided includes loans.**

Your aid package is not necessarily “free money”—loans can represent a large part of your overall financial aid, especially for families with significant income. In fact, federal loans accounted for nearly 30% of financial aid for undergraduates in 2018–2019, according to the College Board.\* So, even if a college offers financial aid equal to your need, your family could still ultimately have to pay more than your EFC. Saving more now can help you limit the number of loans you may need to take in the future.

## **4. Your child may not receive large merit or athletic scholarships.**

You may hear about scholarship opportunities that are available from a variety of sources. But many are relatively small compared with the scholarships offered by colleges, which can be very competitive. And elite schools such as the Ivies don't offer merit scholarships at all. Meanwhile, athletic scholarships are primarily offered at Division I schools and generally don't provide a full ride for most sports.

## **5. Rely on your numbers instead of hypothetical amounts.**

There are tools available that can help you estimate your financial aid and the amount you may need to save each month. To get more specific with your estimates, check out the online net price calculator (NPC) provided by each college. Just enter your financial data (anonymously, if you wish), and you'll receive an estimated financial aid package for that school. Results from the NPC can then inform your inputs into a savings calculator, such as the T. Rowe Price College Savings Planner.

“If a calculator suggests what seems to be an unrealistic amount, don't despair,” offers Young. “Save what you can and work toward a plan that enables your child to graduate. And whatever you do, don't let the quest for financial aid eligibility deter you from saving.”

\*Figure 3 in “Trends in Student Aid 2019”: <https://research.collegeboard.org/pdf/trends-student-aid-2019-full-report.pdf>.

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