



Five Important Things You Should Know About Financial Aid

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®
Thought Leadership Director

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 (EFC).¹ 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 \$23,000. At a private college costing \$60,000 per year, this family would have \$37,000 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 thought leadership director with T. Rowe Price. "At most, only 5.64% of additional assets

¹Key changes are being phased in by the Department of Education, currently scheduled for the 2024–2025 school year: (1) EFC will be renamed "Student Aid Index." (2) EFC will no longer be virtually cut in half if the family has two students attending at the same time. (3) Cash support and amounts paid on behalf of a student (for example, from a grandparent) will no longer be added to income.

Expected Family Contribution for a Family of Four With One Child in College, 2023–2024 School Year

Parents' Adjusted Gross Income (\$)	Total value of parents' cash and nonretirement investments (\$)									
	23,221	–	25,000	50,000	75,000	100,000	125,000	150,000	175,000	200,000
40,000	1,000	1,315	1,975	2,635	3,295	3,955	4,615	5,291	6,041	
60,000	3,752	4,412	5,072	5,811	6,589	7,459	8,424	9,445	10,645	
80,000	7,595	8,584	9,633	10,833	12,151	13,561	14,971	16,381	17,791	
100,000	13,782	15,192	16,602	18,012	19,422	20,832	22,242	23,652	25,062	
120,000	20,401	21,811	23,221	24,631	26,041	27,451	28,861	30,271	31,681	
140,000	26,732	28,142	29,552	30,962	32,372	33,782	35,192	36,602	38,012	
160,000	33,063	34,473	35,883	37,293	38,703	40,113	41,523	42,933	44,343	
180,000	39,394	40,804	42,214	43,624	45,034	46,444	47,854	49,264	50,674	
200,000	45,705	47,115	48,525	49,935	51,345	52,755	54,165	55,575	56,985	
220,000	51,848	53,258	54,668	56,078	57,488	58,898	60,308	61,718	63,128	
240,000	57,991	59,401	60,811	62,221	63,631	65,041	66,451	67,861	69,271	
260,000	64,134	65,544	66,954	68,364	69,774	71,184	72,594	74,004	75,414	
280,000	70,276	71,686	73,096	74,506	75,916	77,326	78,736	80,146	81,556	
300,000	76,839	78,249	79,659	81,069	82,479	83,889	85,299	86,709	88,119	

The table shows EFC based on 2021 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 12/31/23. The student is a dependent, has \$5,000 of assets, and has income below \$7,600. 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://fsapartners.ed.gov/sites/default/files/2022-08/2324EFCFormulaGuide.pdf>

are added to the EFC. An increase in income, on the other hand, can raise your EFC by as much as 47%.”

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. Their data suggest that many meet less than 75% of financial need. 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 26% of financial aid for undergraduates in 2020–2021, according to the College Board.² 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.

² Figure SA-3 in “Trends in College Pricing and Student Aid 2021”: <https://research.collegeboard.org/media/pdf/trends-college-pricing-student-aid-2021.pdf>

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

— Roger Young, CFP®
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4. Your child may not receive large merit or athletic scholarships.

Merit scholarship offers can be very hard to predict. Some colleges regularly give out scholarships as a form of discounting, while others don't offer any. 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](#).”

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