

Common Myths About Financial Aid

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College of My Choice

Myth #1: Our family makes too much money to qualify for financial aid.

Fact: There are essentially two types of financial aid: *need-based* and *merit-based*. The most common understanding of financial aid is need-based, which determines aid based on family income and other assets. This type of aid requires parents to fill out the FAFSA form or the PROFILE form. But be aware that need-based aid does take into account the tuition costs of the college and the number of children in college. So even families earning over \$150,000 per year may qualify for some form of need-based aid, especially at the expensive private colleges.

The second type of financial aid is merit-based. Students with GPAs in the top 25% of their high school class and SAT or ACT scores above the average for the college stand a good chance of being offered some kind of merit scholarship, typically in the form of tuition reduction or work-study or both. Many of my students are taking advantage of these offers. In 2011, several students turned down offers to attend slightly more prestigious colleges in order to go to those that offered merit aid. In at least three of these cases, the students saved anywhere from \$65,000-\$145,000. For example, one student turned down Boston College, which offered her no financial aid, to attend Southern Methodist University, which waived tuition costs *for all four years*.

Myth #2: Everyone pays the same tuition.

Fact: What most parents and students don't understand is that the price of tuition listed for a college in a guidebook or a website is very different from what people actually pay. This is especially the case at private colleges.

As harsh as this might sound, the bottom 50% of the class typically pays for the top 25% of the class. What I mean by that is that private colleges (not so much the public universities) reduce the price of tuition for their top applicants in the hopes of enticing them to come. And to make up that loss revenue, the school needs the other students to pay the full price! So two students from families that earn \$250,000 in income may pay many different costs for attendance if one of those students has grades and test scores or other qualifications that place him or her at the top of the applicant pool.

Myth #3: Never turn down your "Reach" school if admitted.

Fact: In Carol Stack and Ruth Vedvik's book *The Financial Aid Handbook*, these experienced college admission counselors recommend throwing out the terms "Reach" and "Safety" when describing potential colleges. Instead, they argue to use the terms "Funded" and "Unfunded". Colleges often entice wealthy students who can pay full tuition (in other words do not qualify for need-based aid) without awarding them a merit

scholarship. These students are typically in the bottom 50% of the applicant pool who would feel honored to attend such a prestigious school. Should they?

Well, that depends on what other offers are on the table (see Myth #1 and #2) and whether the student can do well at the college. Many students are opting to attend an Honors program at a slightly less prestigious college (but often one with a strong reputation for the field of study chosen by the student), taking advantage of a merit scholarship. Such an option places them in the top 25% of the class, most likely, and opens up more doors to graduate school later. Since many professions now recommend or require post-graduate work, the money saved in undergraduate schooling can now be applied to graduate school if needed.

Myth #4: Student loans are a necessary part of funding college.

Fact: Did you know that college now costs almost eight times more than it did in 1980? And that's after adjusting for inflation! Back then everyone took out student loans to pay for college and graduate school. But college was not that expensive! And these loans could easily be paid off as students entered the job market. Not anymore. And many students do not realize that student loans are not wiped away in bankruptcy. And private loans (not federal) require a parent to co-sign for the loan. So the parent will be on the hook to pay if the student defaults.

If you must take out loans, choose federally, subsidized student loans as the primary means that a student funds college. These loans typically will limit the amount a student can take out per year to around \$8,000. After that, the options would be unsubsidized private loans. And then credit cards.

Most financial planners and college counselors will recommend that students do not take out more in student loans than they expect to earn the first year out of college. And that number is typically, on average, \$35,000. If you plan to attend graduate school, consider cutting that number in half.

Please consider other options, such as applying to schools in which you stand a good chance of receiving a merit scholarship. Ask the colleges about work-study options. Do what ever you can to limit the amount you take out in student loans. Have these difficult conversations about money early in the applications process so that everyone understands what's at stake.

Myth #5: State schools are always the cheapest.

Fact: If a student plans to live at home and attend a local state school, then state schools will always be cheaper. But that is not because of the tuition break offered by state schools but because the student does not have to pay \$20,000 per year in living expenses. If the student plans to live away from home all four years, the state school may not be less expensive. How can this be?

Above I explained that the published tuition at schools differs from the actual amounts paid by students. Colleges use special formulas based on the FAFSA and PROFILE to determine the amount of tuition that is deemed “affordable” for each family. But even if you do not qualify for need-based aid (which is based on your income), you may still qualify for merit-based aid. Take the example of the girl who will attend SMU on a full ride (Myth #1). Since her parents earned too much to qualify for need-based aid at a state school, had she attended one, she would have paid at least \$50,000 more for her education. And that is *if she graduates in four years*.

“But of course my son or daughter will graduate in four years,” you say. When calculating the cost of attending a state school, especially during times of budgetary cuts, you must realize that many students cannot get the classes needed to graduate in four years. You should budget for five years, not four, if you plan to attend a public university in California. At most private colleges, graduating in four years is still the norm (and a big money saver).