6 Things Schools Don't Want You to Know about Financial Aid

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A school that promises to meet a student's financial need isn't promising a debt-free education. Rather, it’s promising to provide a financial aid "package."

Typically, the package will include scholarships and grants, awards of money that need not be repaid, and loans, which must be repaid. Often, the award is designed to cover the difference between the price of tuition and the family's expected contribution.

Even if colleges meet the family’s full need, students whose parents are paying for college could still be required to borrow up to $31,000 in federal loans while earning a four-year degree. Many schools, in fact most, don't promise to meet a student's full financial need. Like admitting students without regard to their financial situation, it's a promise many schools can't afford to make. Students (in truth, their parents) at those colleges likely will borrow even more.

Now that we’re beginning to paint the world of financial aid in a negative light, let’s briefly look at 6 things schools don’t want you to know about financial aid:

1. Financial aid is not about helping students pay for school. Rather, it’s an element of an elaborate strategy school use to attract students they want, admit students they need, and encourage others to stay away.

   The goal of the award package might be to persuade a student to attend that particular school. In the perverse world of college admissions and aid, this is an “admit-deny” scenario. Here, the school admits the student, but offers an aid package so paltry, the family would be crazy to accept it.

   Colleges can leave a wide gulf between financial aid offers and the price of tuition, far too wide to be filled with federal loans alone. Sometimes, the school expects the family to take out additional private loans; at others, they expect the poor award package to discourage them from coming at all. Unfortunately, many families don’t get the veiled message and end up amassing tens of thousands in school debt each year.

   Admitting students with an offer of aid not designed to meet their needs is a common practice. Over half of all schools and 65% of private schools admit to under-awarding, according to a survey of admissions directors. In fact, two-thirds thought the practice ethical.

2. Admitting students without considering the ability to pay is considered the gold standard of college admissions. It’s typical for in-state students at public institutions that tend to charge lower tuition. But, at private institutions, it’s rare and getting rarer. Of the 1,600 private nonprofit schools in the U.S., few admit students without ever considering family income at all.

   Whether or not you need financial aid can affect your admission. Especially, if you are a student barely qualifying for admission, if you’re a wait-listed student, or a student transferring in.

Transfer students, wait-listed students and international students are the most likely to have financial need considered at some point. This happens even at selective, wealthy universities with huge endowments. Admissions officers say financial need is rarely the determining factor and is most likely to affect students who would just barely make it in otherwise.

3. Federal grants overwhelmingly awarded to poor students. Pell Grants recipients typically come from families earning less than $40,000 annually. But scholarships and grants offered by schools themselves, which accounts for 19% of all financial aid, aren't necessarily based on need.

   Private schools pioneered grants and financial aid offers to boost rankings and attract the wealthy; but, in an era of shrinking state budgets, public schools have begun to play the same game.

4. Even though federal loans must be repaid, with interest, they're considered financial aid because they are handed out without a credit check at lower rates than students would pay a bank or credit card company. The largest share of aid, federal loans exceed $100 Billion annually, dwarfing Pell Grants ($32.3 Billion or more), school grants and scholarships ($44.4 Billion or more), and state grants ($9.7 Billion or more).

5. "Merit-based" aid isn't just for smart kids. A school with $30,000 in aid to give can either use the entire amount to cover the full price for a single, low-income student, or flatter 5 students with $6,000 scholarships and let them pay the rest themselves. Which is better for the school's bottom line?

   The unspoken role for merit-based aid – enticing students to choose one school over another. Sometimes the awards are true scholarships, given to students with impressive achievements, high grades, and/or high test scores, thereby helping the school raise its academic profile and its ranking in the U.S. News & World Report rankings.

   Some recipients of merit aid are academically below average. One in 5 students with combined SAT scores below 700 received "merit" aid in 2007, according to the National Center for Education Statistics. So did more than 25% of students with SAT scores below 1000, as did 1 in five students with below a C-average in college.

   Some of those awards might recognize talents in areas other than academics (athletic scholarships, for example, often go to athletes with relatively low SAT scores). But, many are small scholarships meant to attract students who can afford to pay the rest

6. The federal government assists high-earning families with the cost-of-attendance. Middle class and wealthy families benefit from tax credits and deductions for tuition payments and student loan interest. Total tax credits and deductions for higher education expenses will add up to around $34 Billion or more, somewhat larger than the Pell Grant program. There is overlap between the programs, as some students receive both Pell Grants and tax credits, particularly the American Opportunity Tax Credit.

> The average tax credit benefit (approximately $1,330 per recipient) is less than the average Pell Grant (more than $3,000 per recipient). Wealthier families receive a higher benefit. According to the College Board, those families earning $100,000-$180,000 average almost $2,500 in annual tax benefits.

As you can see, there is much to understand and consider in just this single facet of the college planning campaign. This is only one piece of a very large puzzle, a puzzle that quickly can become very, very confusing.

As college planning advisors, we at College Planning Strategies, Inc. are here to assist families in the development, maintenance, and administration of their college planning campaigns.

As Benjamin Franklin once said, *"If you fail to plan, you are planning to fail."* If you don't take action now, when will you? And, if you fail to take any action at all, what consequences can you expect?