



Free Application for Federal Student Aid (FAFSA): How It Works

What is FAFSA?

The FAFSA (Free Application for Federal Student Aid) determines federal eligibility for needs-based financial aid including outright federal grants and scholarships (that do not need to be paid back), as well as low-interest parent or student loans (which must be paid back). For students looking to attend college, it is one of the first and most important documents to complete.

Administered and filed through the US Department of Education, FAFSA is also used by colleges and states to assist in determining eligibility for their grants or scholarships. Students need to reapply each year for FAFSA determination of aid eligibility for the following academic year.

To make filing a FAFSA easier for families, the timing for submitting FAFSA applications has recently been changed. For students attending college July 1, 2016 to June 30, 2017, the FAFSA is available for filing beginning January 1, 2016 through June 30, 2017 using income from 2015. For students attending college beginning July 1, 2017 through June 30, 2018, the FAFSA will be available October 1, 2016 to June 30, 2018 using income from 2015. This change should make the college application and decision process easier when taking financial aid into account.

How Does FAFSA Work?

FAFSA has a series of calculations that are used to determine your federal financial aid. It can seem a little complex, so let's break down how it works. Your amount of federal financial aid uses this formula:



The Cost of Attendance (COA) is relatively straightforward and you can obtain from the school you're interested in attending. **But how is the Expected Family Contribution (EFC) calculated?**

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There are four segments that make up the EFC, and are illustrated below¹:



22% – 47% Parent's Income

Parent's adjustment gross income, taxable income, untaxed income and benefits, adjusted due to size of household and number of students in college.



50% Student's Income

Student's adjusted gross income above \$6,130.



2.6% – 5.6% Parent's Assets

Parent's non-retirement assets including 529 plans, investments and savings, cash, checking accounts net worth of business and/or investment farm, less and allowance based on the oldest parent's age.



50% Student's Assets

Student's assets in bank accounts, CDs, UGMAs/UTMAs and any other savings account in the student's name.

Additional Info to Know About FAFSA

- The higher your EFC, the less federal aid will be available.
- Items not included in the EFC include: value of the family's home, retirement assets, grandparent income or assets including a grandparent-owned 529 account.
- If a family's adjusted gross income is under \$50,000, assets are not included in determining the EFC.
- Your family's current annual income, including your student's, counts far more in the formula than savings and investments, especially when they are in the parents' names. In addition, the formula protects the parent's education savings and assets by providing an allowance based on the age of the parent.
- Only 0.3% of students enrolled full-time at a 4-year college receive enough grants to cover the full Cost of Attendance².

There are many other nuances in calculating the EFC. Consult a financial or tax advisor.

What's Next?

Contact your financial advisor to learn more about saving for college with the **NEST 529 Advisor Plan**. You can also learn more at **NEST529Advisor.com** or call **1.888.659.NEST(6378)**.



¹ Mark Kantrowitz, President and Publisher of Edvisors.com. "Secrets to Winning a Scholarship" Slideshare.net, August 13, 2013.
² Percentages obtained from savingforcollege.com, April 2015.

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