

By the numbers

Average tuition and fees per year for four-year colleges in 2006-07:¹

- **Private institutions: \$30,367**, up 4.6% from the previous year
- **Public colleges: \$12,796**, up 5.5% from the previous year

¹ Source: *Trends in College Pricing 2006*, College Board

Winning at the college financial aid game

With college expenses rising each year at almost twice the rate of inflation, financial aid can be a critical part of paying for college for many families. Fortunately, there are student aid options available that can help families meet the increasingly higher cost of higher education.

Over the past decade, total financial aid — including grants from all sources as well as federal loans, work/study programs and tax credits — increased by 95% in inflation-adjusted dollars. For the 2005 – 2006 academic year, student aid reached a record \$134 billion, with 44% in grants and 51% in loans. Grant aid averaged about \$4,400 for full-time graduate and undergraduate students, with colleges and universities providing over 40% of all grant aid received by students. In addition, over \$17 billion were borrowed in private unsubsidized loans from nonfederal sources.²

To help your family qualify for as much aid as possible, start thinking about aid well before you have to complete your

² Source: *Trends in Student Aid 2006*, College Board

first financial aid form. This is a complex endeavor, so be sure to consult a college planning specialist or investment professional who can help you choose the best options for your child. Here are a few tips to help you get started:

1. Don't assume you're ineligible.

A key part of the financial aid formula is an assessment of what the family is able to pay toward the cost of college. This out-of-pocket amount is known as the “expected family contribution” or EFC. Your eligibility for need-based aid is calculated by comparing the EFC to the projected costs of tuition, fees, and related expenses. If the cost is greater than the EFC, then you may be eligible for need-based aid.

Key points

- Opportunities for financial aid are greater than ever and widely accessible. Make sure that your finances are in order when it's time to apply for aid.
- Start planning for college aid in your child's sophomore year of high school.
- Reposition assets that are in your child's name.
- Suggest aid-friendly gifting strategies to relatives.
- Be aware of the drawbacks of third-party scholarships.
- Apply for aid early.
- Look into grants, work/study, and subsidized loans.

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Every family's circumstances are different. A number of factors — such as having several children in college at the same time — can dramatically increase your eligibility for aid. Given the high cost of college, even families with relatively substantial incomes may find themselves eligible for aid, especially at the more expensive schools. In other words, you don't have to be "needy" to demonstrate need.

2. Start planning for aid before your child's junior year in high school.

Your child's junior year is just as critical for you as it is for your child. When college aid officers review a family's financial need, they base their decisions in large part on the family's income for the calendar year beginning on January 1 of your child's junior year. In financial aid terms, that year is considered your "base income year." So even though you won't have to complete financial aid forms until January of the year your child starts college, you'll need to start thinking about ways to increase eligibility for aid when your child begins his or her junior year of high school — and preferably even a year or two before then.

3. Consider shifting assets and income before you have to complete aid forms.

If you start planning early enough, you'll have the opportunity to adjust income, assets, debt, certain expenses, and retirement provisions so that you may qualify for more aid.

Parental income, rather than parental assets, drives the financial aid formula. That's because up to 50% of your income in that key junior year — but no more than 5.6% of your assets — may be applied to the EFC. Another important factor, which many parents don't realize, is that they'll have to reapply for financial aid every year their child is in school. Therefore, in order to reduce your income in that base income year, you'll want to take as much income as possible in the years prior, rather than postpone income into the following year. For example, if you have stock that has increased in value, you'd be better off selling it before January 1 of your child's junior year so capital gains won't raise your income. If you're self-employed, try to generate invoices as early as possible.

4. Think twice about putting savings in your children's names.

Colleges expect children to contribute up to 20% of their assets to the cost of their education but parents are expected to contribute no more than 5.6% of their assets. For that reason, putting assets in your child's name, such as in a Uniform Gifts/Transfers to Minors Act account or trust fund can reduce the amount of aid you may get. Because parents control the assets in 529 savings plans and certain Coverdell Education Savings Accounts, money in these accounts is usually considered the parents' assets and will have much less of an impact on eligibility for aid.

5. Encourage grandparents to help pay for college in the right way.

Many grandparents know that if they make payments directly to a college to help cover a grandchild's tuition, those payments are exempt from any gift taxes and may help reduce the size of their estate. But under the current aid formulas, such direct payments to the college by the grandparent or any person other than the student or parent could reduce student aid eligibility dollar for dollar. Even trusts set up for a grandchild are viewed as a student asset and may reduce the aid package. However, grandparents can still receive estate tax and gifting benefits if they establish a 529 college savings plan for the benefit of the student. They also can take advantage of the unique accelerated gifting feature of 529 plans, which allows them to make a one-time gift equal to five years of the annual gift tax exclusion (in 2007, \$60,000 for individuals, \$120,000 for couples) without gift tax ramifications.

6. Don't spend too much time looking for third-party scholarships.

If you take money from a third party, such as a foundation that supports female pianists, colleges will view that scholarship as an additional family resource and may reduce the amount of your aid dollar for dollar. If aid from colleges is a possibility, spend your time trying to boost your eligibility for need-based aid from the federal government, your state government, and the college.

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However, if you have no hope of receiving need-based aid, you should tap every other potential source.

Applying for aid

The aid application process begins long before your teenager goes off to college. It includes looking at your family's financial situation, gathering financial records, filling out forms, and researching available grants, loans, and scholarships. Two forms lie at the center of the application process — the Free Application for Federal Student Aid (FAFSA) and the CSS/Financial Aid PROFILE (PROFILE).

FAFSA

Virtually all students applying for federal need-based aid are required to fill out the FAFSA form. Because many colleges and some states also use this form to determine eligibility for institutional and state aid, it's important to complete the FAFSA even if you believe you may not be eligible for federal aid.

How to file

You can file an electronic version of the form on the U.S. Department of Education's Web site at www.fafsa.ed.gov. Or, if you prefer, you can fill out a paper version and mail it in. The paper form is widely available in high school guidance offices, college aid offices, and public libraries, or you can order it from the Federal Student Aid Information Center by calling 1-800-433-3243. Make sure that the form you complete is for the correct academic year.

What happens next

After your FAFSA form is processed, a Student Aid Report (SAR) will be available either online or will be mailed to you, depending on how you filed the form. The SAR provides a summary of the information you provided on your FAFSA and will include your expected family contribution (EFC). In addition, the SAR will be sent to the schools listed on your child's application. You should review the SAR to make sure your information is correct and that it is going to the schools you specified.

Filing dates

The earliest you can file the FAFSA form is January 1 of the year your child is starting college. Each school sets their own filing date for the FAFSA, so be sure you submit your completed application by your first priority date. If you are waiting for official financial forms, such as W-2s, and can't complete your taxes to meet your earliest filing deadline, don't wait to file the FAFSA — provide your best estimate now and submit your corrected figures later.

CSS/Financial Aid Profile

Many private colleges, universities, and scholarship programs require another form to award nonfederal student aid funds. This form, known as the PROFILE, is the financial aid application of the College Board, a not-for-profit association.

How to file

You can register and complete the PROFILE form online at www.collegeboard.com, under the

tab "Pay for College." After you submit the information, you'll receive an online acknowledgement with a summary of the information provided. The profile has a processing fee that is based on the number of schools involved. Fee waivers may be granted for students with high need. For questions about the application process, call 1-305-829-9793.

Filing dates

The due dates for PROFILE are set by each school or scholarship entity. Consult the literature of individual schools or programs for specifics.

Other required documents

In addition to the FAFSA and possibly the PROFILE application, individual schools may require additional documents. These may include the school's own financial aid application, information from noncustodial parent (if the biological parents are separated or divorced), tax returns, W-2 forms, and possibly other paperwork for those who own their own business or are self-employed. Check each school's financial aid literature for specific requirements and deadlines.

Types of aid

Financial aid comes in three forms: grants and scholarships that are given outright to the student, work/study opportunities that provide students with part-time jobs, and different types of loans for both students and parents. Many of these programs are sponsored by the

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federal government. Some of these federal programs fall under the umbrella of campus-based aid, which means they are administered directly through the college's financial aid office. It's important to realize that not all schools participate in every federal program, and you'll need to check with specific schools on what they offer.

Grants

Grants and scholarships are given outright to the student and do not need to be paid back. These awards may be based on need, merit, or both. Grant money can come from the federal government, the state government, the college itself, or from outside private sources and is generally need-based aid. A scholarship is usually awarded based on some demonstrated merit — athletic, academic, or artistic. Some scholarships, however, are based in part or in full on need, and sometimes the terms “grant” and “scholarship” are used interchangeably by schools.

Federal grants

Although the money in these grants comes from the federal government, typically, they are distributed by a school's financial aid office. Here are two of the most common federal grants:

Federal Pell Grants. The Pell Grant is usually awarded to undergraduate students who demonstrate financial need according to criteria set by the U.S. Department of Education. The factors considered include the EFC, total cost of attendance, student status (full- or part-time), and atten-

dance period (whether the student will attend for a full academic year or part of the year). The maximum amount for this grant in the 2006-2007 academic year is \$4,050.

Federal Supplemental Educational Opportunity Grants (FSEOGs). This federal grant program provides additional amounts, generally less than the Pell Grant, to students demonstrating strong financial need. The maximum amount for the FSEOG is \$4,000 but students typically are awarded far less.

State grants

All states have need-based aid available to their residents. Some states restrict these funds to residents who attend public or private colleges in their home state, while other states will give students money even if they attend school in another state. Depending on your state, you may have to submit an additional application besides FAFSA to be considered for this type of aid.

Institutional grants

Institutional grant is the term used for aid awarded by colleges and universities from their own funding sources. These grants are really discounts off the sticker price — rather than giving you money, colleges give you a credit against the tuition bill. It's important to check with each school about their specific procedures and deadlines for these grants.

Federal work/study program

This federal need-based program helps students earn money for college expenses by providing them

with part-time jobs. The student may work on campus for the school or off campus with private nonprofit organizations or public agencies.

Work/study income, unlike wages from a regular part-time job, is not included in financial aid calculations for the following year. Although non-work/study jobs may pay better, those earnings need to be balanced against the effect that money may have on your eligibility for financial aid the following year. Work/study programs are also campus-based aid and may not be offered by every school.

Loans

Loans make up about half of the total aid awarded to students and their parents each year. In fact, most financial aid packages include a loan of some sort. College loans fall into two broad categories: need-based (subsidized) loans and non-need-based (unsubsidized) loans.

Need-based loans

The federal government is the principal provider of these subsidized loans, which offer a lower interest rate than private loans and allow payments to be deferred until after graduation. These loans also provide another major benefit — the interest that accrues while the student is in college is paid for, or “subsidized,” by the federal government.

These are the federal need-based loans:

Perkins Loans. Offered to students with the greatest financial need, these loans charge no fees and offer

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a 5% interest rate plus a longer repayment grace period than other federal loans. The maximum that can be borrowed is \$4,000 per year. Although Perkins Loans are federally funded, they are administered by the school's financial aid office and repayments are made to the school.

Subsidized Stafford loans. These loans charge a fee of up to 4% of the loan amount. Following are the two kinds of subsidized Stafford loans — most schools offer only one or the other; some schools offer both.

Federal Family Education Loan (FFEL) Program. These loans come from private lenders who are approved by the school's financial aid office. Once you complete the application and the loan is approved, the lender sends the money to the school.

Direct Loans. These loans are similar to the Stafford FFEL Loans except that the federal government is the lender.

Non-need-based loans

These loans are used to help families pay their portion of the expected family contribution. When you calculate how much money you need to contribute, these loans may help you take care of any shortfall.

Unsubsidized Stafford loans. Even if you're not eligible for a subsidized loan, virtually all students can obtain an unsubsidized Stafford loan. These federal loans have lower interest rates and payment is deferred until after graduation. However, the unsubsidized Stafford loans have no in-school subsidy — interest is

charged from when the loan begins until it is paid off. The interest can be paid while the student is in school or interest can accrue and be paid after graduation. Like the subsidized Stafford loans, these loans come in two varieties, FFEL, where funds come from a participating lender, or Direct Loans, where funds come from the federal government.

PLUS loans. These federally sponsored Parent Loans for Undergraduate Students can be taken out to cover those costs that are not covered by financial aid. The maximum that can be borrowed is the cost of attendance minus any other financial aid awards. This loan is not based on income or assets, is always unsubsidized, and charges a fee of up to 4% of the loan amount. A credit check is required.

Private or alternative loans. These loans can be obtained from banks or other financial institutions. They are not government loans and usually carry a higher interest rate and fees than the federal loans already described. Credit checks and formal approval are almost always required.

With so many financial options, it's important to investigate each one thoroughly to decide what is best for your situation.

Resources

College Board collegeboard.org

Financial Aid finaid.org

Contact your investment professional for more information or visit mfs.com.

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