

How Postsecondary Schools Package Financial Aid Awards

Main Objective: Participants will gain a better understanding of the considerations that affect packaging.

Time Estimate:

Lecture 30 minutes

Total Time: 30 minutes

In this session, we will be discussing how postsecondary schools package student financial aid awards.

DEFINITION AND PHILOSOPHIES OF PACKAGING

The “financial aid package” is the total amount of financial aid a student receives to attend a specific postsecondary school. “Packaging,” as shown on Session 5, page 2 of your Trainee Guide, is the process a financial aid administrator at a postsecondary school uses to determine: (OH 1)

- o the types of financial aid a student will receive—grant, scholarship, loan, or employment;
- o the sources of that aid—federal, state, postsecondary school, or private group; **and**
- o the amount of financial aid from each source.

In Session 2, we noted that students’ financial need equals:

- o cost of attendance (COA) **minus**
- o Expected Family Contribution (EFC).

Now we will discuss how financial aid administrators award financial aid to meet a student’s financial need. The grouping of financial aid awards that is made to the student is referred to as the “aid package.”

**TG 2****Note to Instructor:**

Types and sources of aid were covered in Session 2.

Note to Instructor:

As appropriate, illustrate the ideas in this session using examples from your own experience.

Instructor's Notes

Philosophies about packaging student aid vary from one postsecondary school to another. Not all schools have the same financial aid philosophy, nor do they all use the same method to package student aid. And not all postsecondary schools participating in federal student aid programs take part in **all** the federal programs.

A number of other factors can influence a postsecondary school's financial aid policy. Among these are: (OH 2)

**TG 3**

o **the school's available resources**

- A postsecondary school with a large scholarship endowment might be able to offer grants to every student who demonstrates need. Since each school has a different amount of resources available, each school's aid will vary.

o **the student body's overall need for money**

- The number of students eligible for need-based aid affects how much aid each student might receive.

o **the school's student demographics**

- Among the student statistics that might affect financial aid are:
 - ◇ whether students are state residents or come from out of state **or**
 - ◇ whether students mostly live on campus or commute from off campus.

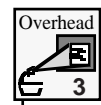
o **the school's cost of attendance**

- For example, community colleges sometimes choose not to routinely package loans because federal grant

Instructor's Notes

funds are enough to cover the low tuition and fee costs for students with the most need.

In developing a packaging policy, a postsecondary school is concerned about fair and equitable treatment of all its students. Considerations include: (OH 3)

**TG 4**

- o the percentage of financial need that can be met for most students;
- o the percentage of “gift” (scholarship and grant) money compared to the percentage of “self-help” (loan or employment opportunity) money available each year;
- o the average debt burden of their students; **and**
- o other factors, such as academic and/or athletic achievement.

Another important factor is the timeliness of students' applications. For example, even though a student may be eligible for campus-based aid, if his or her application is received after a school's financial aid deadline, the school might already have awarded all the campus-based aid it had available. Also, the award will vary depending on what year the student has attained at the college in which the student is enrolled.

Meeting deadlines

PACKAGING CONSIDERATIONS

When a financial aid administrator begins to put together the packaging puzzle, he or she must make sure that all the pieces fit together properly.

Each program at a school may have a different cost of attendance. A bachelor's degree in computer science, an associate degree in horticulture, and a certificate in paralegal studies may each have a different cost of attendance. So the need will vary—and so will the amount of student aid.

Types of Financial Aid

As we discussed in Session 2, there are three basic types of student aid: (OH 4)

- o grants and scholarships (gift aid);
- o loans (self-help aid); **and**
- o employment opportunities (self-help aid).

Of course, students like to receive as much gift aid as possible. But, for most postsecondary schools, reality dictates that a typical student's aid package will contain a mixture of gift and self-help financial aid. Moreover, the students with the most need on a campus will probably receive the most **need-based** gift aid in their packages. Students with relatively low to moderate financial need might only be awarded student loans.

The aid sources available affect a student's package. While **all** students who meet the general eligibility requirements discussed in Session 2 will be eligible for some form of federal aid (an unsubsidized student loan at the least), not all students will be able to qualify for funds from other sources.

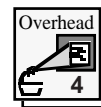
Coordinating Other Aid Sources

When packaging aid, most postsecondary schools look at federal (and other) financial aid to which a student is entitled before awarding aid from their own (or other) private resources.

Let's look at some examples. (OH 5)

- o Wayne, a sample student, has a cost of attendance of \$5,000 a year. He has an Expected Family Contribution (EFC) of zero, so his financial need is \$5,000. Wayne

Instructor's Notes

**TG 5**

Mix of gift aid and self-help aid

**TG 6**

Instructor's Notes

already qualifies for a Federal Pell Grant of \$2,470. This reduces his need to \$2,530.

- o Because Wayne is eligible for a Federal Pell Grant, he is also eligible for a Federal Supplemental Educational Opportunity Grant (FSEOG). In awarding its limited FSEOG funds, the school must give first priority to students with high financial need—that is, those students who have the lowest EFCs and are Pell Grant recipients. Wayne's college awarded him \$330 in FSEOG.
- o In addition to the Federal Pell Grant of \$2,470 and the FSEOG of \$330, the financial aid administrator awarded Wayne:
 - a Direct Subsidized Loan for \$1,700 **and**
 - a college grant for \$500.
- o This combination meets 100% of Wayne's need; \$1,700 of this amount, or 34%, is a low-cost loan.

Before packaging a student's financial aid awards, the financial aid administrator always checks to see if the student is receiving outside financial aid or benefits (such as veterans' education benefits or tuition remission) that will reduce the student's financial need. However, there are instances when the aid administrator awards the student 100% of financial need and then discovers the student will be receiving outside resources. This creates what is known as an "overaward." To correct this overaward situation, the aid administrator must adjust the student's awards.

- o For example, let's take another sample student, Susan, who attends a college that costs \$7,500 a year. Her Expected Family Contribution (EFC) is \$2,000; so, Susan's financial need is \$5,500. (OH 6)

Note to Instructor:
Students receive Direct Loan (and FFEL) proceeds minus loan fees. Because we assume the COA includes these fees, the gross amount of the loan is reflected in the student's award package.

Overaward situation



TG 7

Instructor's Notes

- o Susan's college offered her an aid package meeting 100% of her need:

Federal Pell Grant	\$ 400
FSEOG	200
Federal Work-Study	1,000
Direct Subsidized Loan	2,400
College grant	1,500
Total Aid Package	\$5,500

After the financial aid award is made, Susan is notified that the American Legion in her hometown is awarding her a scholarship of \$1,000. Since that additional \$1,000 now creates a financial aid package in excess of Susan's financial need, her financial aid administrator must adjust Susan's financial aid award package.

The financial aid administrator contacts Susan at once to notify her of the \$1,000 financial aid overaward. The FAA breathes a great sigh of relief when she hears that Susan will turn down her Federal Work-Study (FWS) award because she's already working in a well-paying, part-time job at a local health club. With the cancellation of the estimated \$1,000 FWS award, Susan isn't in an overaward situation any more.

Please turn to page 8 of your Trainee Guide.

TG 8

This is how Susan's financial aid package looks with the cancellation of her FWS award and the addition of her hometown scholarship. (OH 7)



Federal Pell Grant	\$ 400
FSEOG	200
Direct Subsidized Loan	2,400
College grant	1,500
<i>American Legion Scholarship</i>	<i>\$1,000</i>
Total Adjusted Aid Package	\$5,500

Instructor's Notes

It's also possible that after receiving the American Legion Scholarship Susan isn't interested in giving up her FWS job. In that case, the aid administrator must inform Susan that she doesn't have a choice about a change in her aid package—something **must** be subtracted.

The reason: According to federal law, when a student receives aid funds after the financial aid package has been awarded and those additional resources would lead to an overaward situation, the school is required to adjust the amount of federal aid in the student's package.

In adjusting student aid to cure an overaward situation, Pell Grant funds are never adjusted, as this is gift aid from the government that is considered the "foundation of the aid package." In this example, the aid administrator also doesn't want to cancel the institutional grant, as this is gift aid as well. If we look at the remaining financial aid awards in Susan's package, we see two types of self-help aid, the Direct Loan award and the FWS award.

Since, in this new scenario, Susan now wants a job on campus, the recourse for the aid administrator is to reduce Susan's loan debt. This can be done by requesting that the first or second disbursement of Susan's subsidized loan be canceled or reduced to eliminate the overaward. Susan's first Direct Loan disbursement will amount to approximately \$1,200. By reducing her second Direct Loan disbursement from \$1,200 to \$200, Susan's \$1,000 overaward has been reduced to zero.

If, however, Susan were attending a college that had not been able to meet her full need, the award package may **not** have to be adjusted.

Say, for example, that Susan's cost of attendance is \$9,500, her EFC is still \$2,000, and the aid package still equals \$5,500. Then, financial need would be \$2,000. An additional \$1,000 from the American Legion would not create an

Student Aid Adjustments

overaward. No adjustment to the aid package would be necessary. (OH 8)

Here is another reason a student's aid package would be adjusted.

- o A student's financial aid application has been selected for verification.
 - The school packages the student's financial aid award before the verification process has been completed and sends the student a preliminary award letter.
 - Subsequently, it is discovered that the student incorrectly reported his parents' Adjusted Gross Income—the AGI is \$40,000, not \$30,000 as was originally reported.
 - The school corrects the student's information and, as a result, discovers he has less need for financial aid.
 - If the student's full financial need has been met, the aid package will have to be reduced because of this error.
 - The student will receive a revised award letter with this change.

INTERPRETING SCHOOL AWARD LETTERS

Postsecondary schools must notify students about the types and amounts of financial aid they have been awarded using an "award letter." A student can accept or decline any of the aid offered. However, if a student declines a specific award, such as a loan, the school is not obligated to increase the

Instructor's Notes



TG 9

Verification

Instructor's Notes

award from other types of aid in the financial aid package, such as grants.

Remember, not all postsecondary schools package financial aid the same way, nor do they use the same type of award letter. Be sure students find out how the financial aid process works at each school where they are applying. Students may refer to the school's catalog or financial aid brochure to find out about the financial aid award process.

Sometimes schools send a preliminary award letter to the student and a revised award letter at a later date. It is very important to understand that an award letter is not a guarantee that a student will receive financial aid. The letter details a planned award package. To receive the award, the student must continue to meet all eligibility requirements and comply with any other rules of the school's financial aid office.

When students receive financial aid award letters, they should compare schools' financial aid offers carefully. Here are some factors to consider when assessing aid packages. (OH 9)

- o What percentage of the student's financial need is being met?
- o What portion of the student's **direct costs** will be covered by the package?
- o What types and sources of aid have been awarded?

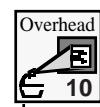
Now, let's look at a chart of some aid packages that illustrate these points. These are only examples; they are not meant to represent packages that your students will receive. (OH10)

» Your copy of this chart is on page 12 of this guide.



TG 10

Note to Instructor:
"Direct costs" are charges the student must pay directly to the school. These are charges that will appear on the student's bill.



TG 11

Instructor's Notes
TG 14

This chart and its more detailed version on page 14 of your Trainee Guide summarize packages that the same student is being offered from three different postsecondary schools.

Let's compare Colleges A, B, and C.

- o As you can see, the cost of attendance for College A is the highest, at \$17,000. Private colleges cost more, but might have more grant and scholarship resources to award to students. In this example, this student's financial aid package includes \$4,600 in college grant money. If this student accepts the whole financial aid package—grants, scholarship, work-study, and loan, she'll come within \$305 of meeting her financial need.
- o The cost of attending College B is much lower. While the student doesn't get institutional grant assistance at College B, her Federal Pell Grant, FSEOG, Federal Work-Study, state scholarship, and Direct Subsidized Loan cover all but \$80 of her educational costs.
- o College C is the lowest-cost school of the three colleges. In this instance, the cost of the school is so low that the Federal Pell Grant alone is more than the student's direct costs (\$1,300 for tuition and fees). College C meets 100% of the student's need.

Students need to consider how they will meet the expenses that aren't covered by family contributions or financial aid. In two of our examples (Colleges A and B) there is unmet need, but not much. Some schools will have larger unmet need amounts. In situations like this, aside from the possibility of parents' taking out loans, students might need your help to identify other nonfederal sources of aid. Or they might want to consider ways to reduce costs. (OH 11)

**TG 12**

Cost-reducing strategies may include:

- o analyzing and evaluating campus meal-plan options;
- o buying used books rather than new books; and
- o sharing transportation expenses with other students.

Understanding the financial aid package offered by a school is important, but it is only one of the many factors to consider when choosing a school. Students should look closely at all the factors before making this very important decision.

To help students make their decisions, ED has produced a video, “School Shopping Tips.” You’ll get a chance to see it in our next session. (OH 12)

Are there any questions before we begin the next session?

Instructor’s Notes

Note to Instructor:

There are colleges that require freshman living on campus to purchase a meal plan, but they may choose from among a number of meal-plan options.



TG 13

Comparing Award Packages

Packaging	College A	College B	College C
Cost of Attendance (COA)			
Includes			
Tuition and fees	\$10,500*	\$2,800*	\$1,300*
Books and supplies	500	500	500
Room and board	4,600*	3,600*	1,600
Transportation	500	500	900
Personal expenses	900	1,200	1,000
Total COA	\$17,000	\$8,600	\$5,300
Expected Family Contribution (EFC)	300	300	300
Financial Need	\$16,700	\$8,300	\$5,000
Financial Aid Package			
Includes			
Federal Pell Grant	\$2,470	\$2,470	\$2,470
FSEOG	2,000	1,125	700
FWS	2,200	1,000	700
Direct Subsidized Loan	2,625	2,625	1,130
College grant	4,600	0	0
Private grant	1,500	0	0
State scholarship	1,000	1,000	0
Total Package	\$16,395	\$8,220	\$5,000
Unmet Need	\$ 305	\$ 80	\$0

*Student's direct cost