



Teresa S. Sampleton, CFP®
Vice President
Sampleton Wealth Management

230 Park Ave. West
3rd floor
New York, NY 10169

(888) 336-6884

tsampleton@sampletonwealth.com
sampletonwealth.com



Filing the FAFSA: Do it Soon, Do it Right

By Lynn O'Shaughnessy

If you've started college planning at all you've heard about the FAFSA. Do you need to fill it out? For the vast majority of families, the answer is yes. This application is your gateway to all federal aid.

The FAFSA, which stands for the Free Application For Federal Student Aid, is the government application that millions and millions of parents fill out every year in order to qualify for federal and state college aid. The FAFSA gives families access to aid like federal parent and student loans and the Pell Grant, which is the major grant for middle- to lower-income families. There are also some minor grants from the federal government, for instance, for students who want to be a teacher in certain high-need subjects, or if a parent was killed in the Middle East conflict.

Some parents will want to complete the FAFSA even if they won't qualify for need-based financial aid. You need to fill out the FAFSA if you want your child to qualify for a work-study job on campus. Or if you think you might end up borrowing money for college. The federal Direct Loan for students is the best deal.

SOME SCHOOLS ALSO REQUIRE THE CSS PROFILE

The FAFSA is for federal and state aid and the vast majority of schools use only this application, including to determine who gets their in-house institutional money. But there are about 200 colleges and universities, almost all private schools, that believe that the FAFSA doesn't ask enough questions. They require not only the FAFSA, but the CSS Profile, which is how they decide who gets institutional need-based aid.

You can Google "CSS Profile" and find the list of participant institutions. To give you an idea of the schools that use the Profile, they include all the Ivy League members, University of Southern California, Stanford, NYU and elite liberal arts colleges that like Pomona, Claremont and Amherst. Not very many public schools use the CSS Profile, but a few do, including University of Michigan, Georgia Tech, University of North Carolina at Chapel Hill and University of Virginia.

FILE AS SOON AS YOU CAN

October 1st is the first day you can fill out the FAFSA. It's always a good idea to fill it out as soon as you can. Now, some professionals do recommend that families wait a week or so because of potential software bugs or so many people wanting to file the FAFSA right away that the website crashes. The same is true for the CSS Profile, which can be filled out starting October 1st as well. The Profile is more involved and more in-depth than the FAFSA, and it may take longer to fill out.

Why would you file early? Well, there are deadlines for financial aid and some schools could have early deadlines. And studies show that kids who qualify for state or federal aid are more likely to get money if they apply sooner. Especially for some state schools, there are rolling admissions and only so much money to give out. With some state aid programs, it's first come, first serve until the money runs out.

TAX RETURNS THE MAIN SOURCE OF DATA

It used to be that the FAFSA filing opened January 1 and you had to use the most recent tax returns. So you

had to rush, rush, rush to get your taxes filed and then fill out the FAFSA. For the past few years, it's been much easier because two-year-old tax returns are now used. Everybody should have those completed. Families are filing now for the 2023 school year, which means you need 2021 tax returns.

Your tax return is the primary document you need to fill out the form. The FAFSA includes something called the "data retrieval tool" which links to the IRS and populates all of the information from a household's tax return onto the FAFSA. It's really cool. So filling out the FAFSA doesn't take much time. This won't work in some cases, like if you are married filing separately, but it will for the majority of families.

WHAT ASSETS ARE COUNTED?

You also need to have statements from your non-qualified investment accounts, such as checking, savings, CDs, nonretirement brokerage accounts, and college accounts — 529s and Coverdells. The FAFSA, however, does not want to know about your retirement accounts. It also ignores non-qualified annuities, life insurance value, and the home equity of your primary home. It's important that you don't include these.

The CSS Profile is different. It doesn't assess retirement accounts, but it does consider non-retirement accounts, including non-qualified annuities. And some Profile schools will want to know the cash value of your life insurance.

Previously, the Profile inquired about your retirement account assets, but they didn't require it. For the first time in 2020, the Profile asked you to list your retirement accounts and their value and it is required. That's a little concerning because schools are not supposed to consider retirement assets when they decide how much aid you are qualified for.

ONLY CUSTODIAL PARENT'S ASSETS ARE CONSIDERED

The FAFSA can be good to families who are divorced or separated. You do not have to share the income or assets of the non-custodial parent. The custodial parent is the one with whom the child has physically lived the majority of the 12-month period before you file

the FAFSA. Let's say you file the FAFSA on November 1st of this year. You would go back to November 1st of last year and count the number of days the child lived with each parent. A year does not include an even number of days, so somebody would at the very least have one more day of custody.

Parents often assume that the parent who claims the child on the tax return and/or is paying child support is automatically the custodial parent. None of that matters, however, in the FAFSA definition of custody. The only thing that matters is where the child physically lived.

Of course, everything else being equal, it's more beneficial for the parent who makes the least amount of money and who has the fewest assets, to be the custodial parent. If financial aid is a possibility, typically one spouse has fewer financial resources. That person ideally would be the custodial parent. The rules are the same for separated parents.

The only rub is that you can't be separated or divorced and still live in the same house. If separated or divorced parents are living in the same house, both parents must share their financial information on the FAFSA.

SOMETIMES LIFE CHANGES

You do have to fill out the FAFSA every year because your income can change every year. It's the same with the CSS Profile.

The fact that both of these applications use two-year-old tax returns can be problematic. Things change in two years, even more so this year because of the

pandemic. Plenty of people no longer have the income or the assets they used to have. The CSS Profile has always asked, "Is there anything else you want to tell us about your finances?" You can tell them, "I lost my job and my tax return is irrelevant now." This year, they added a specific question about Covid-19 and whether it impacted you financially. Families should take advantage of that if it applies.

If you had to fill out the FAFSA and the Profile with financial information that's just not right anymore, you don't have the option of choosing to use a different year's tax return. What you can do is reach out to the school and tell them your financial picture has changed. Be sure to provide documentation to back up your claims. And, it's better to be proactive and reach out to schools when you file for financial aid, rather than waiting until you get your award letter. There's a finite amount of money to be given away, and you don't want to be at the end.

The Free Application for Federal Aid, or FAFSA, is meant to be easy and accessible for everyone. That means you need to just set aside the time and do it. If you have questions or concerns, find a financial professional who can help you understand certain definitions. That may be a good opening to the bigger discussion of how to pay for college, without ruining your retirement.

Lynn O'Shaughnessy is a nationally recognized college expert, higher education journalist, consultant, and speaker.