What Parents Can Do To Increase a Child's Federal Financial Aid

John Csiszar

Updated: Nov 04, 2019

College costs are always rising, and it seems like there is no end in sight.

For many parents, getting the most federal financial aid possible is the only way to afford to send a child to college.

The good news:

There are a number of tips and tricks that you can use to increase your child’s federal financial aid -- and reduce the need for **student loans**.

The first step is to understand the federal financial aid process, especially when it comes to expected family contribution.

Quick Links

Expected Family Contribution

Expected family contribution, or **EFC**, is a measure of a family's financial strength.

It is a tool used by colleges to determine how much a family can afford to contribute to college costs. Thus, it's the starting point for colleges to calculate how much financial aid a family is eligible for.

However, EFC is not as straightforward as it might seem.

"Expected family contribution" is not the amount that you'd have to pay for your child's college education. It is merely a figure used in the final federal aid calculation.

The EFC calculation follows a formula established by law.

Data is obtained from the Free Application for Federal Student Aid, or FAFSA. This form must be completed by all students intending to apply for financial aid.

Applicants must include all income, both taxable and nontaxable, on the FAFSA. All benefits must be listed, including Social Security and unemployment income. Assets must be disclosed as well.

All of this financial information is analyzed to compute an EFC for each applicant via a formula that can get complicated.

Certain children can qualify to file a simplified needs test for the EFC.

With the simplified needs test, household assets are not included in the EFC.

This typically increases the amount of financial aid available.

The qualifications are extensive, but the first step is that dependent children must have parents earning $49,999 or less. Parents must also either receive certain types of federal aid or qualify to file Form 1040A or 1040EZ.

Independent children falling into these same categories can qualify on their own.

Other children may qualify for an EFC of zero right off the bat.

The qualifications are the same as students who are allowed to file a simplified EFC application, except the income requirement drops to $25,000 or below.

Once an EFC is calculated, it's used as a guideline as to what each family may reasonably be expected to afford when paying for a child's college education.

Although the EFC is not the exact amount of money that a family is expected to pay, it's a critical element in that calculation. Thus, the best way to increase a child's federal financial aid is to get the EFC as low as possible.

There are plenty of strategies you can use to lower your EFC legally.

However, navigating the ins-and-outs of federal financial aid can be tricky, and the penalties are severe. You may want to consult a tax expert when planning out your EFC-reduction strategy, as the penalties for fraud include up to $20,000 in fines and up to five years in prison.

Steps to Increase Financial Aid

Here are some steps to consider to get that EFC number down and to get your federal financial aid offers up.

1. File Your FAFSA Early

A 2015 study showed that **applicants who filed their FAFSA in the first three months of the year received twice as much in financial aid** as those who waited until later.

Part of the reason is that some colleges respond to FAFSA requests on a first-come, first-served basis.

In fact, seven states award money on this basis until funds are depleted. So, filing a FAFSA early can be a particularly good strategy in Illinois, Kentucky, Washington, Vermont, South Carolina, North Carolina and Tennessee.

2. Amend Your FAFSA

Filing a FAFSA early can be a good strategy, except when you have a reduction in assets as the year goes along.

If your financial picture changes after you file your FAFSA, you may get a better aid package if you amend your FAFSA.

This is perfectly legal and is actually a sound planning strategy. Just remember that your amendment must reflect the true state of your finances.

3. Pay Off Debt

Paying off debt is always a good financial strategy. But what does it have to do with getting student financial aid?

Remember:

The EFC formula includes all of your available cash. If you have $20,000 in debt and $20,000 in cash, the EFC will include the $20,000 in cash as an asset that you can use to pay for college.

If, instead, you use that $20,000 to pay off your debt, not only will you be out of debt, you will have zero in cash assets instead of $20,000.

A reduction in assets will lower your EFC.

4. Transfer Assets

Typically, before you file your FAFSA, you want to reduce the amount of parental assets, as this can reduce your FAFSA.

However, the opposite may prove to be true if your children hold a substantial amount of assets in their own name.

Not only does the EFC consider the amount of assets that children have, but it also assigns them a higher value.

According to the formula, the EFC factors in parental contributions at a rate of 5.65%. However, assets in the name of children at assessed at a rate of 20%.

If you can transfer assets from your children's names to your name, you can reduce the total amount of assets considered for the EFC.

5. Spend Down Assets

The lower your household assets, the better you're likely to end up in the EFC calculation.

If you can spend down your available assets, you might be able to tip the scales in your favor.

Obviously, you shouldn't just blow all your money in an effort to get a better financial aid package.

But, if you have been putting off some major expenses that you were planning anyway, getting that cash off your household balance sheet before you file your FAFSA can be a good move.

However, there's an important proviso in this recommendation.

You're not allowed to spend down your assets for things that a parent is expected to provide, such as food, shelter and medical care for your children.

6. Save for the Long Run

Most assets are reported on FAFSA, but **money in retirement accounts is not considered in the calculation**.

If you move some of your money to long-term **retirement accounts**, you'll benefit over the long run; in the short run, you could lower your EFC and increase your federal financial aid.

This strategy can be used as a way to remove assets from your EFC equation without spending your cash on other purchases.

In other words, you can create a win-win situation. Rather than spending assets out of your estate simply to lower your EFC, you can still remove those assets from the equation while keeping them in your household.

Note:

Contributions during the application year are counted as income. So, it is best to have made retirement contributions leading up to the FAFSA application.

7. Drop Income Below $50,000

This option isn't available to a lot of applicants, but the strategy could be one of the most valuable.

If your household income is slightly above the $50,000 threshold, see if you can find a way to defer income to the following year or otherwise reduce the amount of your reportable income under $50,000.

Then, you can qualify for the simplified needs test, which can result in a significantly improved financial aid offer.

8. Avoid Overstating Assets

You're legally required to provide an accurate financial picture when you file your FAFSA.

However, you're also legally allowed to exclude certain assets when you make your declaration.

For example, you don't have to include the value of your primary residence, car, boat or household furniture when you file your FAFSA. This is because these assets are not generally liquidated to pay for college expenses.

You can also omit any untaxed Social Security payments you receive as income.

According to the **FAFSA website**, other excluded assets are:

- The value of life insurance
- UGMA and UTMA accounts for which you're the custodian, not the owner

Start at a Lower-Cost Institution

One way to make college more affordable is to choose a more affordable college.

Many students spend the first two years of their college careers at local or community colleges, then transfer to their higher-cost, first-choice schools to receive their degrees.

This can greatly reduce the overall total cost of a college education, while still resulting in the same degree.

It also gives you another two years to plan out your finances and apply for financial aid before transferring.

Conclusion

Applying for federal student financial aid can be a complicated process.

However, at the end of the day, the main determinant of how much financial aid you might receive is your expected financial contribution or EFC.

Anything you can do to legally reduce your EFC will help your cause.

There are many sound strategies you can pick and choose from to lower your EFC, based on the particulars of your individual financial situation.

If you start your planning as early as possible and research all your available options, you'll have a leg up when it comes to getting the most federal financial aid you can.

John Csiszar

John Csiszar is a freelance writer who has 18 years of experience as a registered investment advisor. He covers a wide range of personal finance topics with an emphasis on investing and retirement planning. John has written for other notable publications and companies including USAToday.com, The Huffington Post, US News & World Report, Quicken, TurboTax, SF Gate, Experian, and TransUnion.

Related Articles

- Ways to Get Rid of Your Student Loans Without Paying
- How to Fill Out FAFSA Application Correctly to Avoid Common Mistakes
- Your College Won't Tell You About These 10 Ways to Get More Financial Aid Money
- Which Military Education Programs Helps Maximize Future Careers
- Pay the Minimum for a Student Loan or Consolidate: Which is Best?
- How to Pay Off $100,000 in Student Loans