



Understanding Financial Need

Many financial aid programs are based on financial need, but what exactly is "financial need"?

Many students and families assume they don't have financial need since they live a comfortable lifestyle. In fact, the amount of need depends on many factors, including not only income, but also the cost of each school and the number of people in your immediate family who are enrolled in college at one time.

Financial need is determined by formulas that take into account student income, parental income for financially dependent students, savings, and the cost of attending a particular school. But at its simplest level, need is simply:

$$\begin{array}{r} \text{Cost of Attendance} \\ - \text{Expected Family Contribution} \\ \hline \text{Financial Need} \end{array}$$

So "Financial Need" equals the Cost of Attendance (COA) minus the Expected Family Contribution (EFC). In other words, **the more expensive the school, the greater the need**, and the expected family contribution doesn't change with different schools – only the cost of attendance changes. So, using round numbers with a family whose Expected Family Contribution is \$12,000:

	Public 2YR	Public 4YR	Private 4YR
Cost	\$12,000	\$20,000	\$40,000
EFC	\$12,000	\$12,000	\$12,000
Need	\$ 0	\$ 8,000	\$28,000

If the student chose to attend the public two-year school, they would not qualify for any need-based aid since the family contribution equals the total cost.

On the surface, it really is that simple. Of course, the reality is that coming up with the funds to meet the need is complex. First, let's talk about cost and expected family contribution.

The Cost of Attendance includes all the expenses involved in attending a particular school. These expenses include tuition, room and board, student fees, textbooks, supplies, transportation, and other costs, which vary per school. Each school prepares a budget that takes into account all those costs,



including many others. Essentially, the budget is what an average student would spend for the year while living frugally.

The Expected Family Contribution is, in theory, the amount your family can afford to pay for your college education. A formula derived by Congress takes into account your family income, savings, other assets, the size of the household, and the number in the household attending college, among other factors, and comes up with a dollar amount. The Expected Family Contribution is calculated through information gathered on the financial aid application, and in some instances, through multiple applications. You can calculate your own family's EFC, or an approximation of it, by using online calculators.

The financial need is what remains after subtracting the EFC from the cost of attending school - the higher the cost, the greater the need since the EFC does not change. You can borrow the EFC amount through federal PLUS loans and/or private student loans.

The most important thing to understand here is that "financial need" is relative since the cost of attendance varies greatly from school to school.

Never let a school's tuition discourage you from applying – the school with the higher tuition may just be less expensive after factoring in an aid package.

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