Mistakes Parents Make With Financial Aid

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Deborah Carney-Gumpper's son, Brian, owes nearly $140,000 in college loans. *Peter Ross for The Wall Street Journal*

By
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Updated Sept. 21, 2014 4:57 p.m. ET

Most families know the basics of college financial aid: Several months before school starts, students apply for assistance, parents detail their financial situations, and then everybody waits for the powers that be to tab the bill.

What many don't know—or at least, don't realize until it's too late—is that the timing of certain financial decisions made well before and even during college can significantly alter a student's eligibility for aid from both the federal government and the university itself.

"It's like trying to pilot a plane from New York City to Los Angeles," says Kalman Chany, a college financial-aid adviser in Manhattan. "If you're off by a half of a degree in the beginning and you don't notice early enough, by the time you're on the other side of the country, you'll be hundreds of miles off course."

Unwelcome Surprise

That's how Deborah Carney-Gumpper feels now.

As a single mother, Mrs. Carney-Gumpper pushed college on her son, Brian Carney, figuring that her $50,000 annual income would qualify him for a lot of need-based aid.

When she remarried several years before her son applied to college, the East Brunswick, N.J., mother says she never imagined that her new husband's income would be factored into financial-aid calculations. Brian was her son, after all, and when the time came, she figured the government and her son's future alma mater would understand.

They didn't.

According to the Higher Education Act of 1965, remarried parents like Mrs. Carney-Gumpper, whose incomes will be used in filing for financial aid, must report their new spouses' incomes on the Free Application for Federal Student Aid (Fafsa). Many private colleges use additional forms, such as the College Scholarship Service (CSS/Financial Aid Profile), which can take into account the incomes of as many as four adults—both parents and their respective spouses, if a couple is divorced and each party remarried.

Suddenly, Mrs. Carney-Gumpper found herself with what looked like a much higher income and a much smaller aid package than she expected.

To pay for his degree at Fairleigh Dickinson University in New Jersey, Mr. Carney would go on to borrow $89,380 in Higher Education Student Assistance Authority NJClass loans, which actually are private loans with more restrictive terms than their federal counterparts.

Costly Moves

Various factors could alter a student's eligibility for federal and institutional aid throughout undergrad and graduate school, depending on the school and a family's overall financial situation.

- **REMARRIAGE** of one or both parents
- **BUYING** an expensive car
- **PURCHASE** of a vacation home by one or both parents
- **PARENT** or child coming into an inheritance
- **PLACING SAVINGS** in a student's name
- **USING** outdated valuations of a home or business
- **GRANDPARENTS** paying part of tuition to school directly
- **SALE** of family home
- **PARENT** or child winning a financial prize
- **RECEIVING** substantial monetary gifts from grandparents
- **A CHANGE** in family expenses, including medical bills and private school tuition for siblings

Sources: Mark Kantrowitz of Edvisors; Dean Skarlis of the College Advisor of New York; Joe Bagnoli of Grinnell College; financial advisers Deborah Fox and Tim Higgins

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After graduation, a long search for full-time employment, a series of loan deferments, collection fees and interest, Mr. Carney now owes nearly $140,000 to NJClass and is facing default at age 25.

"Had I known all this, I would have just waited to remarry," his mother says on a recent Sunday afternoon, sitting at the Red Lobster near the Jersey Turnpike, where her son now works as a server on the two days off from his full-time job at software reseller SHI International Corp.

Retiring? Think Carefully

The biggest mistake people make in these situations is thinking that intentions matter to financial-aid committees, says Mark Kantrowitz, a financial-aid expert and publisher at Edvisors Network Inc.

He comes across parents who think financial-aid officers will accept informal agreements about money, or who believe they can explain that assets from, say, the sale of a home or an inheritance are intended for retirement and shouldn't be factored into any aid calculation. Aid officers, he says, tend to make decisions on something more concrete than intentions—specifically, how much money there is, where it is and when it will be available.

Tim Higgins, president of 3meritus Wealth Management in Southborough, Mass., says some families make another big mistake: They forget or don't understand that financial-aid eligibility is recalculated annually. After the first year's aid is granted, many of these parents go on to make financial moves that make them look less needy than they first appeared, he says.

They buy vacation homes without realizing that colleges view such equity as liquid assets. Grandparents make substantial gifts to students—or pay universities directly—as the school year is gearing up, which only makes a family's income appear larger, reducing aid eligibility for the next year.

Some parents take out home-equity loans to cover college expenses, only to find themselves penalized for having a lot of cash sitting around.

"If you put it in your checking account, it's going to be fully assessed in financial-aid eligibility," says Mr. Higgins. (A better bet, he says, is a home-equity line of credit, which functions more like a credit card, allowing users to withdraw money as needed rather than all at once.)

Even retiring can cause problems, according to Deborah Fox, a San Diego financial planner and founder of Fox College Funding, an advisory firm that specializes in helping families reduce their college expenses. Sure, most of the time family income declines in retirement, she says, but things like stock-option vesting, requirements to sell a former employer's stock within a short time frame, and other corporate retirement perks could mean a temporary asset spike, skewing a family's eligibility for aid.

Dean Skarlis, president and founder of The College Advisor of New York, a college-admissions and financial-aid counseling firm, says the entire four-year period between Jan. 1 of a student's junior year of high school all the way through to Dec. 31 of the student's senior year of college is a danger zone, a time when parents need to be very careful about their money decisions.

No Control

To be sure, the timing of some events can be beyond a family's control.

Karri Mickelson was receiving around $27,000 in federal and institutional aid for her second year at the University of Washington in Seattle in 2013 when her aunt died, leaving the student with $140,000 in life-insurance payouts. Although the history major says she was fine using the inheritance to pay for college, reporting it reduced her aid eligibility to about $5,000 in grants and $3,000 in work study.

While families may not be able to time something like an unexpected bequest, advisers say there could be ways to mitigate its effect on financial aid.

Estates, for example, take time to settle, says Ms. Fox, the San Diego financial planner. "If an estate is in the process of being settled, even if there are dedicated assets, they don't have to be reported until they're settled," she says, and that could take years.

Make Your Case

Parents who believe they are the victims of bad timing can appeal their case to the school's financial-aid office.

Some colleges will reassess a family's financial situation through a process called "professional judgment," says Sandy Baum, a senior fellow at George Washington University who focuses on higher-education finance.

Although professional judgment is typically intended for those whose financial situations have worsened during the course of college, some schools may adjust aid offers for those whose families may have appeared at the time of reporting to have more resources than they actually do.

The key, she says, is to be honest and up front with financial-aid officers, who often deal with many parents making similar appeals.

She says there is a fine line between wealthy parents gaming the system, and families whose needs truly are inaccurately calculated.

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