

Gaming the Financial Aid Process

The Dirty Dozen

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Introduction

Attending college has become increasingly expensive in the last few decades and educational debt, both the student's and parents', has been steadily on the rise. This debt crisis has led to some unfortunate outcomes in the quest for the dream of a sustainable middle class living. The poorest families often avoid going to college while wealthier families are increasingly finding ways to "game" the system to ensure that their costs are as low as possible. As revealed by several high profile scandals this year, some families are resorting to more and more extraordinary means to reduce potential burden of debt on students attending college. Some of these methods are legal, some questionable, and some outright illegal. This report will explore the variety of legal ways that are often used to reduce the amount of income and assets that a family shows when applying for financial aid.

The "gaming" strategies for maximizing aid generally fall into 3 categories:

1. Inflating admissions criteria to qualify for institutional aid
2. Hiding assets and income to reduced Expected Family Contribution (EFC)
3. Making changes to personal and family status to misrepresent family structure

The objective of this report to ensure that policy makers and school administrators are aware of some of the questionable practices that provide greater advantage to the families that least need it, and to advocate for closing the loopholes that allow these practices.

Inflating Application Metrics

Academic achievements are rewarded by many colleges in the form of “merit aid,” which is scholarships automatically given by particular schools based on GPA and test score cut-offs. An investment in test prep, AP testing, or Advanced Classes, which weigh more heavily in the GPA calculation, can yield a return of thousands of dollars in merit aid discounting. However, there are other means that increase application metrics in order to gain admissions and secure tuition discounts. Two of the most popular strategies are:

1. Athletics

While many reports focus on legacy preferences as drivers of inequality in college admissions and funding, one of the largest influencers in getting students an edge in the admissions (and sometimes aid) process is athletics. Recruited athletes, [the majority of whom are already wealthier than average](#), comprise approximately 20% of the entering class in the Ivy league. (In PAC-10 athletic conference schools, in contrast, athletes only make up 5%.) These athletes tend to have not only higher wealth but also lower GPAs and test scores. [Giving an advantage to athletes skews the process in favor of wealthier students.](#)

2. Testing Accommodations

Most admissions tests have a process by which a test-taker can apply to have testing accommodations based on physical or learning disabilities. Accommodations take the form of extra time, separate testing rooms, or even someone to read the test to the test-taker. The testing to qualify for accommodations when handled through a private doctor can cost more than \$10,000 and thus often presents a real challenge for low income families. Some families have taken to “shopping around” to find the right doctor to provide a diagnosis that will lead to accommodations.

Since College Board and ACT stopped flagging accommodated tests in 2003, [the number of students applying for and getting extended time has increased significantly](#). The number of requests for accommodations for the SAT, of which 94% get approved, increased by 200% from 2010 to 2018 and the percent of ACT test-takers approved for accommodations rose from 4.1% to 5.1% in just 4 years.

In most public schools, students with learning disabilities have to pursue a free but far more onerous and time-consuming process in order to be evaluated for a learning disability. If a public school student is found to have a learning disability they are designated with IEP (individualized education plans) or 504s which qualify them for various accommodations in school settings - but those plans do not automatically translate into accommodations on the SAT or ACT. Nonetheless, from 2000 to 2016, the [proportion of students receiving a 504 designation across the United States has tripled](#).

While accommodations help students with learning disabilities compete on an equal playing field, they also further skew the results toward wealthier students who can afford to navigate this process.

Hiding Assets and Income

In applying for financial aid for college there are two standard forms used, the federal government's Free Application For Federal Student Aid (FAFSA) and the College Board's College Scholarship Search (CSS) Profile. (The latter is less common but used by several hundred institutions of higher education, many of them highly selective.) Because these two forms differ in the amount and type of information requested, the financial strategies used to maximize financial aid have to be tailored to account for each. Those who look for ways to reduce their cost for college broadly seek to reduce the reportable assets and income of every member of the family that must report income. In the case of the FAFSA these are the student and the custodial parent, while for the CSS Profile the non-custodial parent is also included. Here are some ways in which that is done. While no single strategy can have a huge effect on the calculations, the cumulative effect of multiple strategies can have an enormous financial benefit.

Note - it's no surprise that highly selective universities (which tend to attract and enroll a much greater proportion of wealthy students) have adopted the CSS Profile to more closely look at assets and income. Many of the strategies that would be effective on the FAFSA are much less so with the CSS Profile.

3. Increase Retirement Contribution

Since retirement assets such as 401k, 403b, IRAs, profit sharing, pensions, and Roth IRAs are not included in the calculation of EFC, some families have accelerated contributions to these accounts in order to reduce the potential financial aid contribution. Families with savvy tax and financial aid advisors learn that if they maximize their annual contribution to retirement accounts they can further reduce the calculated EFC. While the specific amounts that can be invested in the various types of retirement accounts vary, those contributions can easily top \$20,000 per year. The federal limits for a single employee's contributions a 401K is [\\$19,000](#) in 2019 and for an IRA it is [\\$7,000](#).

4. Home Equity

The FAFSA EFC calculation does not use primary residence value or home equity in its calculations. The CSS Profile typically only factors in a portion of the home equity in its formula. These approaches provide an advantage to families who have a large portion of their wealth invested in their home. And while this benefit is somewhat limited it is still part of the cumulative advantages that wealth grants certain families in this process. To take advantage of the value of a home's equity, some families have timed renovations to their primary residence in order to reduce cash on hand while concurrently increasing their value of the assets they actually have. This strategy might be doubly beneficial for those families planning to sell their homes once they become empty nesters. And while this may not be widespread, its effect would be especially pronounced at colleges that disregard home equity entirely (institutions relying solely on the FAFSA EFC). Assets are assessed at around 5%, meaning in general you can expect 5% of the total value to be added to the expected family contribution. So a \$100,000 asset would add \$5,000 to your expected contribution (and reduce your financial aid accordingly).

5. Shift Assets from Filer's Name

Given that the income and assets of the applicant for aid and the parents are the only ones that are factored into aid calculations, some savvy parents have taken to placing as many assets as possible in the name of a family member who is not college bound - for example, moving funds from a student's name to a grandparent's or aunt's name while the student is in college, and then gifting those funds after graduation to the graduate to pay off any loans. The strategy of moving assets from the filer's name helps to decrease the EFC and increases aid.

Even moving assets from a student to a parent can have significant impact. Under the federal aid methodology, 20% of a student's assets are expected to be contributed to their education while only 5.6% of parents' are. Further, students aren't afforded the asset protection allowance that parents are entitled to (meaning all assets are subject to the formula, whereas for parents only those above a certain allowance are taken into account). (Note these factors make part-time work for prospective students a double-edged sword: not only will the students' earnings be more heavily penalized by financial aid formulas, but paid part-time jobs tend to be less notable on the college application as compared to volunteerism.)

6. Spend Reportable Assets

Another strategy employed to disguise assets when applying for financial aid is to reduce the total value of assets by "cashing out" investment accounts and using that money on non-reportable benefits. This can be done by paying off debts, buying personal property (sometimes with high resale value or appreciation rates), or shifting money to trusts that are not included in FAFSA or CSS Profile methodologies. If a family purchases items such as clothing, books, and computer equipment and software the summer prior to senior year, it could help lower the family contribution for college.

If assets held in a child's name are likely to be detrimental to financial aid, families can move to spend them early in the child's college career in order to be free of those assets for later year FAFSA filings.

7. Accelerate Contributions to an Annuity

Cash values of whole life insurance policies and annuities are not reported on the FAFSA (and only some annuities are counted on the CSS Profile), so some families have cashed out the child's other accounts and put that money in annuities before filing for aid. Contributions to an annuity may allow the family to shelter more money more quickly.

8. Reduce Cash On Hand

The FAFSA asks filers to report the amount of money in checking and savings accounts as of the date of filing, thus one way to "honestly" lower the reported assets is to spend down amounts in those accounts in the days or weeks prior to filing. Some financial advisors have recommended to clients to make any large purchases that are planned in that time period.

9. Reduce Adjusted Gross Income

One of the most obvious strategies to reduce reportable income is to reduce the Adjusted Gross Income reported to the IRS. For high wealth individuals and families, there can be several options to accomplish this. Small business owners can find creative ways to report lower earnings and also pay themselves lower salaries; executives can request their bonus be deferred beyond the base aid year or be paid in stock options. In addition to any reduction of gross income, shifting income from the base year to subsequent years will reduce the EFC. Deferring receipt of payments or salary until after the base year, taking a distribution from an investment after the base year, paying income tax during the base year, and selling investments that have taken a loss (and aren't expected to recover) can all reduce the total calculated adjusted gross income and allow the family a lower EFC.

Changing Personal Status

In order to reduce their EFC, some families have sought to change the make-up or status of the family. All financial aid policies and programs evaluate the composition of the household and the status of the applicant and their immediate family to determine how much the family can and should contribute to the student's education. A few of the most common strategies are outlined below.

10. Guardianship

As [reported in Politico](#), some families, working with a consultant, hatched a scheme to change the legal guardian so that the student could file the FAFSA with independent status. Other families have "taken on" additional dependents in order to decrease their EFC. The discovery of families exploiting guardianship laws to tap into Illinois state education funding intended for low income families is particularly harmful since it will likely cause additional scrutiny to fall on not only students in guardianships, but also emancipated minors and independent students.

11. Divorce or Separation or Marriage

In the highly competitive world of college financing, changes in family status or living situations can radically change the award calculations. FAFSA rules only require students to report information for themselves and the parent they live with for the majority of the year. If a married couple were to divorce in a student's sophomore year of high school and the child were to live with the parent earning less, it would reduce the EFC significantly. Further, divorce has an additional benefit in the financial aid process because alimony payments are excluded from income. In fact, since financial aid calculations are based on the parent the filer lives with, separation has many of the same benefits as divorce.

Marriage of the filer allows them to claim independent status. Independent status allows a filer to exclude the reporting of the finances of parents; clearly, since most filers are students with little income, gaining independent status would lower the EFC.

12. Change State of Residency

Residency laws vary significantly from state to state, with some states requiring 2 years of residency before you can be considered a resident and others only requiring 6 months. The benefits of establishing residency if you plan to attend a state institution are significant given the [differences between in-state and out of state tuition pricing](#). It should not be a surprise that some college financing consultants advise clients to relocate in order to qualify for in-state tuition rates. In-fact entire [businesses](#) have been established to assist families who wish to establish residency in another state. With the growth in the number of students taking gap years between high school and college, there are opportunities for students to “legally” establish residency in another state prior to starting college. In states such as [California](#) that have different rules for married people, some people have even gotten married in order to benefit from in-state tuition pricing.

13. Go Back to School

EFC calculations take into account all students enrolled either half-time or full-time in college in the household in determining the total contribution, some parents have enrolled in school in order to be counted as a student rather than as an employable adult. Verifying whether a parent qualifies as a student for financial aid purposes is left to the professional judgement of the colleges financial aid office. The [Wall Street Journal covered in 2018](#) how financial aid offices are “wooing” the adult student.

Conclusion

One of the driving factors of unequal access to and success in college is access to income and funding to pay tuition, fees, room and board, and all other incidentals that come with living during colleges. Low income families are disadvantaged by not only having less available capital but also having less ability to game the system to protect the assets they do have. From greater [tax scrutiny](#) to more frequent FAFSA verification, low-income families are under a constant barrage of implicit accusations of duplicitous behavior that is actually more indicative of the behavior of wealthy families. We urge colleges and congress to examine and act to equalize the ease and access to higher education by closing some of the loopholes identified above.

About the Authors

Sabrina Manville and Nick Ducoff have spent years working in higher education and their work has been recognized by the U.S. Department of Education, major foundations, and industry leaders. Sabrina has worked for educational non-profits and technology companies and was an AVP at Southern New Hampshire University. She has degrees from Yale (BA) and Stanford (MBA). Nick was a VP at Northeastern University and has held leadership roles in several successful start-ups. He has degrees from Emory (BBA) and the University of Texas-Austin (JD). In 2017 they co-founded [Edmit](#), which provides award-winning tools and advice to families about choosing and paying for college.

Akil Bello is an educational access advocate and consultant with over 25 years' experience working with universities, schools, non-profit organizations, students and families on accessing educational opportunities from elementary to graduate level. Before his current role as an independent policy and business consultant, Akil worked as the Director of Equity and Access at the Princeton Review. He also founded Bell Curves, a test preparation company that focused on supporting underserved groups, which he sold in 2014.

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