KJM COLLEGE PLANNING CONCEPTS & FINANCIAL CONSULTING

Notes

Paul S. Beers

Paul S. Beers began his financial consulting career in 1988 after receiving his MBA from New York University. Upon entering the field, he began a journey to assist people in achieving both their insurance and investment goals. Along the way, he has helped families see the protective value of life, disability and long-term care insurance. Additionally, he has worked with clients to make prudent investments.

Paul works with small businesses, business owners and individuals. He has helped set up company benefit packages including 401k plans, group life, health, disability and long-term care insurance programs. He works with high net worth individuals and shows them how to protect assets for their loved ones. Paul also proudly works with retirees by setting up programs to secure a lifetime of income flow.

Throughout his career, Paul has been helping families meet the promise of funding the cost of a college education. He has expanded this part of his business to include assisting families with the actual process of applying to colleges. This work includes, but is not limited to, helping families understand their Expected Family Contribution, assisting parents in putting together lists of schools to meet their children's needs, finding schools that will provide the most aid, and helping families position themselves to qualify for more aid. Paul also provides guidance with filling out the necessary financial forms, including the FAFSA.

Paul lives in Washington NJ with his wife, Dee. His 3 adult children are now out on their own and thriving in their differing areas of interest.

COLLEGE FUNDING STRATEGIES

- Calculate your personalized Expected Family Contribution (EFC)
  - Analyze your ability to qualify for college funding and to what extent you qualify
- Develop college planning concepts that may lower your out-of-pocket costs by increasing your eligibility for funding
- Provide a college search which evaluates colleges your student has specified
  - Evaluate those schools in relation to cost, grants/scholarships, and loans
- Provide financial aid award estimates for an unlimited number of schools and recommend additional schools to be considered
- Provide recommendations regarding the best way to pay your share of college costs
- Provide tax-efficient borrowing strategies, along with cash flow strategies for college years and beyond
- Provide a complete financial overview on college, taxes, cash flow, retirement and develop a plan to improve each area
- Provide strategies that legally protect your savings and retirement accounts from the financial aid formulas

FINANCIAL AID DATA GATHERING & PROCESSING

- Provide a college planning checklist with timelines and deadlines
- Complete the Free Application for Federal Student Aid (FAFSA)
- Complete the CSS Profile, if applicable
- Complete any additional forms required by the individual colleges, if applicable
- Confirm the accuracy of the Student Aid Report (SAR)
- Make any necessary adjustments to the SAR
- Provide information on student loan options

APPEALS

- Professionally evaluate offers received from colleges
- Provide tested appeal letters if it has been determined that you were under-awarded

STUDENT COUNSELING

- Student Assessment:
  - Provide a personality profile evaluation
  - Develop an advanced search of careers, majors and studies based on specific student interests
  - Conduct an innovative college search based on demographics and personalized areas of importance
  - Conduct a personalized and private student interview by a NACAC Certified Admission Counselor
  - Provide a written summary report of the interview and recommendations to the parent and student
- SAT/ACT Prep Course, Method Test Prep

- Personalized College Scholarship Eligibility Report
    - Know EXACTLY which merit-based college scholarships your student will be eligible for. This report, used in conjunction with our SAT/ACT courses, can be worth tens of thousands of dollars in additional merit-based aid
- Admission Application Review
    - Our admission consultants will review your student's admission application(s) to make sure everything is the way it should be
- Admission Essay Review
    - The NACAC certified counselor will review, edit and critique essays for your student. These essays are an essential part of the college admissions process
- In-Depth Personalized Analysis on your chances of enrollment
- Know, in advance, your student's chances of admission at over 150 of the top colleges (including the Ivy League!) with a 94% accuracy rate! Developed by Ivy League-educated experts that assess hundreds of variables, from extracurricular activities to GPA, and tells your student how likely he/she is to get accepted into each college.
- Access to a personalized Q&A follow-up interview with your NACAC Certified Counselor/Admissions Coach where both the student and the parent can ask ANY follow-up questions regarding schools, admissions and applications

VALUE ADDED SERVICES

- Each client receives our KJM College Organizer aimed to keep the student on track and organized during this busy process
- KJM Financial is available to answer any and all of your questions as they arise and provides unlimited support for parents and students
- Access to our KJM Financial Loan Manual, if applicable, where you can compare financial options that suit your family

AND MUCH, MUCH MORE!

KJM FINANCIAL

The Basics of Financial Aid

Financial Aid is a term used to describe money that is awarded to help a student pay for college and the necessities related to college. Financial aid consists of grants, scholarships, loans, and work-study programs.

How do you get financial aid? In order to be eligible for either "need-based" or "merit-based" financial aid, you must fill out financial aid forms. These forms can be filed as early as October of the student's senior year.

There may be up to 4 financial aid forms you need to be familiar with**:**
1) The FAFSA 2) The CSS Profile 3) IDOC 4) Proprietary College Forms

All colleges require the FAFSA to be completed. Many schools will also require a more detailed view of your income and assets by having you complete the CSS Profile. An increasing number of families are also being asked to complete information in the IDOC system. In addition, many schools will have you complete their own institutional financial aid forms, as well.

Your financial aid will usually come in an award letter or package directly from the colleges, as well as, being available on the student's portal.

The financial aid process is based upon the following calculations:

COA (Cost of Attendance)
- EFC (Expected Family Contribution)
"Need" / Eligibility

Financial "need" is calculated by taking the Cost of Attendance (tuition, fees, books, room and board, living expenses, transportation costs, etc.) and subtracting your Expected Family Contribution. The EFC is a very complex calculation. It is calculated by taking the parent's income and assets, the child's income and assets, the age of the parents, how many siblings are in the family, as well as, a variety of other factors.

Remember that the COA is not just tuition. If a school does not include all relevant costs in their award letter, it is imperative to immediately bring this to the attention of the Financial Aid Officer (FAO) at the college. An increase in the COA will cause an increase in the eligibility for financial aid.

What percentage of the parent's and the student's income and assets are used to determine the Expected Family Contribution (EFC)?

a) Parents: Up to 47% of the parent's income is assessed into the financial aid formula and up to 5.56% of the assets, over an asset protection allowance, are assessed. The asset protection allowance is determined based upon the age of the oldest parent. **b) Student:** 50% of the child's income, over a $2,380 income allowance, is assessed into the financial aid formula and 20% of any assets in the child's name.

For example, let's say the COA at a particular college is $34,000, and the EFC is $14,000. The family would have a "need" or eligibility for $20,000 in financial aid.

COA (Cost of Attendance)
- EFC (Expected Family Contribution)
"Need" / Eligibility

Just because a family has a "need" or eligibility of $20,000 doesn't mean the family is going to get $20,000 in financial aid. Not every school is in the position to give you 100% of your "need". Some schools are only in the position to give you 60% of your "need" and other schools are in the position to give you 82%, 95%, or even in the ideal situation, 100%. It is important to know this information ***before*** you apply to the schools. You don't want to find out when you receive the award letters in March of your child's senior year that the schools your child applied to were never in the position to offer you enough financial aid in the first place. By that time, it's too late!

How do schools meet your "need"?

In addition to knowing how much "need" each school will meet, it is equally important to know, before applying, what percentages of "need" based financial aid will be from gift aid (free money, i.e. grants and scholarships) and self-help aid (loans, work-study). Again, not every school will give you the same type of award package. Some schools will meet 100% of your "need" in grants and scholarships, and some will meet 100% of it in loans and work-study. You need to know which schools will meet more of that "need" in free money rather than loans you'll need to repay. For the most part, it will be a combination of grants, scholarships, loans and work-study.

What sources of financial aid are available?

Financial Aid comes from four primary sources:
1. Federal Government
2. State Government
3. Campus-based programs
4. Private Scholarships

1. Federal Government:

a) Grants: (Never need to be paid back)

There are four major Federal-based grant programs: 1) Pell Grant, 2) Federal Supplemental Educational Opportunity Grant (FSEOG), 3) Teacher Education Assistance for College and Higher Education (TEACH) Grant, and 4) Iraq and Afghanistan Service Grant.

b) Loans: (Need to be paid back)

There are three major Federal-based loan programs: 1) Direct Subsidized Loan, 2) Direct Unsubsidized Loan, 3) Direct Parent PLUS Loan.
Subsidized and Unsubsidized Loans are also known as Stafford Loans.

2. State Government:

Each state differs in its own programs. These can include the following: tuition assistance grants, scholarships, and loans. Additional information about available sources of funding for New Jersey residents can be found at **The State of New Jersey Higher Education Student Assistance Authority (HESAA). www.hesaa.org**

The following is a partial list of New Jersey available programs:

a) NJ STARS: This scholarship is available to students graduating high school within the top 15% of their class who will be attending community college. STARS covers the cost of tuition and other approved expenses for up to 5 semesters. Students must maintain a college grade point average of 3.0 or higher to remain eligible for this program.

b) Tuition Aid Grant (TAG): This grant is given to NJ residents attending in-state New Jersey public or private colleges, as well as, a short list of approved out-of-state colleges. Your NJ Eligibility Index, which is calculated by the state, will determine your approximate Tuition Aid Grant. TAG Awards may cover up to the cost of tuition and the amount received depends on financial need, cost of attendance and available funding.

c) World Trade Center Scholarship (WTC): This scholarship benefits dependent children of NJ residents who were killed or died as a result of injuries sustained by the terrorist attacks against the U.S. on September 11, 2001. The award also benefits the dependents of those who died as a result of illness caused by exposure to the attack sites. Those incurring the full-time cost of attendance at an eligible institution, having lost the financial resources of a parent, are deemed to have financial need.

d) New Jersey Survivor Tuition Benefits Program (STB) & Law Enforcement Officer Memorial Scholarship (LEOM): This Survivor Tuition Benefits Program assists eligible children of NJ firefighters, emergency service workers and law enforcement officials killed in the line of duty, to earn a bachelor's degree. The Law Enforcement Officer Memorial Scholarship benefits dependent children of NJ law enforcement officers killed in the line of duty.

e) Governor's Industry Vocations Scholarship (NJ-GIVS):
In 2013, New Jersey introduced the Governor's Industry Vocations Scholarship which pays up to $2,000 per year or up to the cost of tuition, less any federal, state, or institutional aid in an eligible certificate or degree program at one of New Jersey's eligible institutions. The award benefits women and minority students pursuing a certificate or degree program in a construction-related field.

f) NJCLASS Undergraduate Loan:
This is a loan in the student's name, but typically a parent/family member must co-sign. The student must be a NJ resident attending a school in NJ or attending an approved out-of-state school. There is no limit on how much a student may borrow, up to the cost of attendance minus all other financial aid received. The student is offered three payment options: 1) Repayment of both Principle and Interest 60 days from the time the funds were disbursed 2) Payments of Interest only on a quarterly basis 3) On an "exception only" basis, the student is allowed to defer all payment until they are out of school for six months. The interest does accrue immediately for all three options, but the loan can be amortized over 20 years.

3. <u>Campus Based Aid/Programs</u>:

Campus-based programs are funds that colleges and universities receive from the Federal Government and from private endowments. Generally, a specific amount of money is given to a college each year. Once that money is awarded, there are no more funds available until next year. It is imperative to file the financial aid forms not only on time, but also correctly, since financial aid is awarded on a first-come first-served basis. If the forms are not filled out correctly, the forms will get rejected and sent back to you to be corrected. That may cost you 4-6 weeks in delays, and thousands of dollars in lost financial aid.

There are several sources of campus-based aid/programs: 1) Supplemental Educational Opportunity Grants (SEOG) 2) Federal Work-Study 3) TEACH Grants and 4) Endowments.

1) Supplemental Educational Opportunity Grants (SEOG): These are “need” based grants awarded to students with extreme financial need. Priority is given to students who receive the Pell Grants. There is no guarantee that all eligible students will receive SEOG Grants. Grants range between $100-$4,000.

2) Federal Work-Study (FWS): This award is based upon “need”. The student is offered a specific amount of money for the year. The student is then expected to work on campus, part-time, for the Federal Government at minimum wage until the student has earned the total amount awarded. At that point, the student’s work commitment is over. If the student is offered Work-Study, he/she should take it because it is money they will not have to pay back.

3) Teacher Education Assistance for College and Higher Education Grant (TEACH): This grant is offered to students who are/will be taking course work necessary to become elementary or secondary teachers. The student must agree to serve, for a minimum of four years (within eight years of completing an academic program) as a full-time teacher in a high-need field in a school that serves low-income students. The student must attend a participating college and meet certain academic achievement requirements. Failure to complete the teaching service commitment will result in the grant funds being converted to a Federal Direct Unsubsidized Stafford Loan that must be repaid.

4) Endowments: Endowments are funds that are given to schools from private sources, alumni, corporations, and other foundations. Private schools have a lot more of these types of funds available. State colleges rely almost entirely on Federal and State funds.

4) Private Scholarships:

Millions of dollars are given away each year to deserving students by private organizations. Finding these scholarships and applying for them can be a frustrating, but rewarding process.

The best place to start looking for scholarships is in your high school guidance office. Once you have a handle on what is available locally, then move onto the *free* scholarship search services available on the internet. It is recommended *NOT* to pay for scholarship searches.

Be persistent! Use more than one service. Don’t take the application process lightly. Be sure to meet deadlines and to complete applications thoroughly and accurately. Follow application instructions to the letter. You cannot be complacent when it comes to asking for other people’s money.

Federal Financial Aid Programs and Tax Provisions

Federal Financial Aid Programs:

Federal Pell Grant

For many students, this provides a "foundation" for financial aid to which aid from other sources may be added. It is the government's largest grant program in terms of cost and is for undergraduates only. The Federal Pell Grant, unlike a loan, does not have to be repaid. Federal Pell Grants are awarded only to undergraduate students with extreme financial need. It is presumed to be the first source of aid to the student; therefore, it does not consider other sources of aid.

The amount of a Pell Grant is based on the family contribution as determined by EFC Methodology. A grant decreases in relation to the Expected Family Contribution (EFC) so that together, the grant and the EFC, do not exceed the cost of attendance. The Federal Pell Grant is an entitlement and therefore everyone who qualifies will receive the grant.

Federal Supplemental Education Opportunity Grant (FSEOG)

This is also a grant or free money to help first-time undergraduates with exceptional financial need as determined by the school. Students may receive up to $4,000 a year with a minimum grant of $100. There is no aggregate limit on the amount of FSEOG that can be received.

Federal Work-Study

The Federal Work-Study program enables undergraduate students to be paid by the hour (at the current federal minimum wage) on the student's college campus. The students must be paid at least once a month, and students cannot earn more than their total Work-Study award.

Federal Direct Subsidized Loan (also called The Stafford Loan)

The Federal Direct Subsidized Loan is a low interest loan offered to students based upon "need" and who have at least half-time status. The Federal government pays the interest on the loan until the loan enters its repayment phase. The Department of Education is the lender and payment is owed to them, as well. The Stafford Loan is an entitlement and anyone and everyone who qualifies will receive it.
Repayment options: The student does not have to begin paying this loan back until six months after graduating from college. The interest does not accrue while the student is in college, meaning the interest is in effect, paid by the government. The borrower may prepay all or part of a loan at any time without penalty.

Federal Direct Unsubsidized Loan (also called The Stafford Loan)

A student may receive a Federal Direct Unsubsidized Loan, even if he or she does not demonstrate financial need. The unsubsidized loan cannot exceed the student's cost of attendance minus other aid. Thus, this loan is essentially allowed to replace a student's Expected Family Contribution.

The government does not subsidize the interest payments on this loan, and the interest payments will begin to accrue immediately. Only loan principal is deferred. Payments of interest must be made during the in-school period, the grace period and during periods of deferment. Interest may be allowed to accrue and be capitalized and added to the loan principal when payment begins, thus increasing the principal.

It is quite common for a student to qualify for a combination of subsidized and unsubsidized loans. In this case, the maximum loan amount is applied to the total of the two loans. For example, a first-year student receiving a $3,500 need-based Federal Direct Subsidized Loan could also receive a $2,000 Federal Direct Unsubsidized Loan. Independent students and students whose parents have been turned down for a PLUS can borrow an additional unsubsidized $4,000 the first two years and $5,000 the remaining years.

Maximum amount for the Subsidized Loan is limited to $3,500 for the student's freshman year in college, $4,500 for the student's sophomore year, $5,500 for the student's junior and senior years in college. In addition to the Subsidized Stafford Loan, another $2,000 is available in an Unsubsidized Loan per year.

Interest rates for Federal Stafford Loans are fixed and are adjusted annually on July 1st.

Federal Stafford Loan Limits:

Annual Limits- Dependent Students

	Freshman	Sophomore	Junior	Senior	Graduate Student
Subsidized	**$3,500**	**$4,500**	**$5,500**	**$5,500**	**Not Available**
Unsubsidized	**$2,000**	**$2,000**	**$2,000**	**$2,000**	**Not Available**

Annual Limits- Independent Students/Denied PLUS

	Freshman	Sophomore	Junior	Senior	Graduate Student
Subsidized	**$3,500**	**$4,500**	**$5,500**	**$5,500**	**Not Available**
Unsubsidized	**$6,000**	**$6,000**	**$7,000**	**$6,000**	**$20,500**

Cumulative Limits- Dependent Students

Undergraduate	Graduate + Undergraduate
$ 31,000	**$ 138,500**

Cumulative Limits- Independent Students/Denied PLUS

Undergraduate	Graduate + Undergraduate
$ 57,500	**$ 138,500**

Federal Parent Loans for Undergraduate Students (also called PLUS)

The PLUS is for parents of undergraduate students. This loan lets parents borrow money to cover any costs not already covered by the student's financial aid package, up to the full cost of attendance. There is no cumulative limit and these loans are in the parent's name and are not based upon "need", but a credit approval is required.

The PLUS is a fixed rate loan and just like the Stafford Loan, it is adjusted annually on July 1st. This loan is amortized over 10 years (or you have ten years to pay it back). This may not be the *best* option to pay for college, but it is still an option. Repayment begins within 60 days of disbursement and will generally extend from five to ten years. The loan may be deferred while students are attending college, but parents are responsible for the current interest. There is no prepayment penalty on the PLUS.

Graduate and professional students are also able to borrow money through the PLUS program to pay for their own education.

Tax Provisions:

The American Opportunity Tax Credit (AOTC) (formerly The Hope Scholarship Tax Credit)

- The maximum credit per student per year is $2,500 (40% refundable up to $1,000)
- The credit is equal to 100% of the first $2,000 of qualified higher education expenses for each eligible student and 25% of the second $2,000 of qualified higher education expenses you paid for that student
- The credit is only allowed for the first four years of post-secondary education
- The student must be enrolled at least half time for at least one semester that begins during the tax year
- The family may claim multiple American Opportunity Tax Credits in the same year if the family has multiple students that meet the guidelines. It is on a per-student basis

Lifetime Learning Tax Credit (LLC)

- The student must be enrolled at an eligible education institution and working toward a degree or acquiring or improving job skills at the institution
- The credit is equal to 20% of the first $10,000 of qualified higher education expenses for all eligible students or a maximum credit of $2,000 per tax return
- The credit does not vary according to the number of students. The credit is determined using qualified higher education expenses of all family members. It is on a per-taxpayer basis
- The credit may be claimed for an unlimited number of years
- For tax year 2018, the amount of your LLC is gradually reduced (phased out) if your Modified Adjusted Gross Income (MAGI) is between $57,000 and $67,000 ($114,000 and $134,000 if you file a joint tax return)

Interest Deduction on Student Loans

The IRS requires loan servers to report payments on IRS Form 1098-E if the interest received from the borrower in the tax year was more than $600. If the borrower paid less than $600 in interest to a loan servicer during the tax year and do not receive a 1098-E, contact your servicer for the exact amount of interest paid during the year.

The interest must be paid on a qualified education loan for you, your spouse or someone who was your dependent when the money was borrowed. You must not be claimed as an exemption on someone else's tax return. The person for whom the expenses were incurred must have been enrolled at least half time in a degree program. Parents who do not qualify because of the income phase outs should consider having their child borrow the funds. Not only does the Stafford Loan have a lower interest rate than the PLUS, but the student is less likely to exceed the income phase outs.

Coverdell Education Savings Account

A Coverdell Education Savings Account (Coverdell ESA) is a trust or custodial account set up in the United States and created exclusively for paying the qualified higher education expenses for the designated beneficiary of the account. Tax-free withdrawals from a Coverdell ESA can be used to pay for qualifying higher education expenses, and qualifying elementary and secondary school education expenses, including expenses at private schools.

There's no limit to the number of accounts that can be established for a specific beneficiary, however, the total contribution to all accounts on behalf of a beneficiary in any year cannot exceed $2,000. All contributions must be made in cash and are not deductible. Any individual whose modified adjusted gross income is under the limit set for a given tax year can make contributions. The designated beneficiary of a Coverdell ESA can receive tax-free distributions to pay qualified education expenses. The distributions are tax-free to the extent the amount of the distributions doesn't exceed the beneficiary's qualified education expenses. If a distribution exceeds the beneficiary's qualified education expenses, a portion of the earnings is taxable to the beneficiary.

Amounts remaining in the account must be distributed when the designated beneficiary reaches age 30, unless the beneficiary is a special needs beneficiary. Certain transfers to members of the beneficiary's family are permitted.

The Coverdell ESA is treated as an asset of the account owner, not the beneficiary. If a parent owns the Coverdell ESA then the value is included in the EFC. If grandparents own the account, none of the value is included. A Coverdell ESA owned by a dependent student or by a trust or custodian for the student is not counted as the student's asset.

529 Plans

A 529 plan is a tax-advantaged savings plan designed to encourage saving for future education costs. 529 plans, legally known as "Qualified Tuition Plans," are sponsored by states, state agencies, or educational institutions and are authorized by Section 529 of the Internal Revenue Code. All fifty states and the District of Columbia sponsor at least one type of 529 plan. In addition, a group of private colleges and universities sponsor a prepaid tuition plan.
There are two types of 529 plans: 1) Education Savings Plans and 2) Prepaid Tuition Plans.

Education Savings Plans

529 Education Savings Plans are federal tax-exempt college savings vehicles that allow participants to save money in a special college savings account on behalf of a designated beneficiary for qualified higher education expenses including tuition, mandatory fees and room and board. Withdrawals from education savings plan accounts can generally be used at any college or university, including sometimes at non-U.S. colleges and universities. Education savings plans can also be used to pay up to $10,000 per year per beneficiary for tuition at any public, private or religious elementary or secondary school.

A 529 Education Savings Plan is treated as an asset of the account owner, not the beneficiary. **If a parent owns the 529 Education Savings Plan then the value is included in the EFC. If grandparents own the 529 Education Savings Plan, none of the value is included. A 529 Education Savings Plan owned by a dependent student or by a trust or custodian for the student is counted as an asset of the parent.**

Prepaid Tuition Plans

529 Prepaid Tuition Plans let a saver or account holder purchase units or credits at participating colleges and universities (usually public and in-state) for future tuition and mandatory fees at current prices for the beneficiary. Prepaid tuition plans usually cannot be used to pay for future room and board at colleges and universities and do not allow you to prepay for tuition for elementary and secondary schools.
Most prepaid tuition plans are sponsored by state governments and have residency requirements for the saver and/or beneficiary. Prepaid plans are not guaranteed by the federal government. Some state

governments guarantee the money paid into the prepaid tuition plans that they sponsor, but some do not. If your prepaid tuition payments aren't guaranteed, you may lose some or all of your money in the plan if the plan's sponsor has a financial shortfall. In addition, if a beneficiary doesn't attend a participating college or university, the prepaid tuition plan may pay less than if the beneficiary attended a participating college or university. It may only pay a small return on the original investment.

The Section 529 Tuition Prepayment Plan is treated as an asset of the account owner, not the beneficiary. If a parent owns the Sections 529 Tuition Prepayment Plan the value is included in the EFC. If grandparents own the Section 529 Tuition Prepayment Plan, none of the value is included. A Section 529 Tuition Prepayment Plan owned by a dependent student or by a trust or custodian for the student is counted as an asset of the parent.

The Section 529 Tuition Prepayment Plans will no longer be treated as an available student resource in the Federal needs analysis formula when determining eligibility for financial aid. Under the Higher Education Reconciliation Act of 2005, it is treated the same as a Section 529 Education Savings Plans. Most states exempt earnings from state income tax and some states allow families to deduct the full or partial amount of their contribution from their state income taxes.