



UNIT 3

Financing Your Future

Topic

Understanding Education Financing Options

LEARNING OBJECTIVE(S)

Students will:

- **compare** financial aid offers.
- **explain** why a student would choose one financial aid offer over another.

Title

Not All Financial Aid is Created Equal

Overview

How do you compare education financing options and make an informed choice? After considering how much debt they would be willing to incur for higher education, students work in groups to critically evaluate a hypothetical student's financial aid offer and formulate a recommendation.

Financial Literacy Theme

Financing Your Future

21st Century Skill(s)

Collaboration, Communication, Critical Thinking

Key Terms

Loan, grant, total cost of attendance, expected family contribution, FAFSA, Pell grants, work-study, financial aid award letter

Materials

- **Dalton's, Marissa's, and Aaliyah's Financial Aid Offers Student Handouts**—Each student will receive one of the three handouts. Determine in advance how many copies of each will be needed based on your anticipated student groupings.
- **Internet access**—at least one device with Internet access per group of 3–4 students

Pathway to Financial Success

In Schools

Connect

How does this connect to the student?

Postsecondary education and training typically comes at a cost. Finding ways to lower one's cost and weighing the benefits and tradeoffs of investing in higher education is important—both in terms of current expenses and long-term debt repayment.

How does this connect to careers?

Financial Aid Officer: Most colleges and universities have staff dedicated to helping current and prospective students finance their higher education and training. Some conduct workshops and most work directly with students and their parents.

How does this connect to the world?

It wasn't too long ago that student aid letters came in the mail; now almost all are done online. If students and their parents are not comfortable accessing the school's online aid and admissions system, they might miss important information and/or deadlines. It is important that students check for their financial aid awards online and obtain help as needed.

Prepare

Background: For many students, the decision about furthering their education comes down to a matter of cost. Financial aid comes in many forms including grants, scholarships, loans, and work-study. Make sure students have an understanding of the various types of financial aid before completing this activity. The College Board provides a [glossary of financial aid terms](#) that may be useful in preparing for the activity.

In order to receive assistance to fund their higher education, students must complete one or more applications. All students should be encouraged to complete the FAFSA (Free Application for Federal Student Aid) along with forms for the scholarships for which they might be eligible. Depending on the college, the CSS Profile may be required to unlock school aid. A list of these schools is available from the [College Board](#). Once students have maximized scholarships, grants, and other public loans, they may still need to borrow additional money. In these cases, private loan applications may be warranted. Applications for private loans will vary depending on the financial institution providing the loan.

Once a student has completed the necessary financial aid application and applied for admission to the school or program, his/her **financial aid award letter** should accompany or shortly follow the offer of admission. The Consumer Finance Protection Board (CFPB) has led efforts to standardize these letters, but the information and formatting is not consistent between schools. For more information on types of financial aid and the information found in a financial aid award letter, visit the CFPB [website](#).

Understanding a financial aid award letter is important for both the student and the family. The “biggest” award of financial aid may not be the one that makes the most sense when all the variables are considered. In this activity, students review sample financial aid offers and evaluate the benefits and tradeoffs of the various offers. If desired, create additional offers to reflect various family income scenarios using an online expected family contribution calculator such as this [one](#) or adapt the offers provided by researching the total cost of attendance at colleges that are popular with your students.

Pathway to Financial Success

In Schools

Engage

- Label two ends of a wall with the following: \$0 and \$50,000. Tell students that the average student graduating from college has debt somewhere between \$0 and \$50,000. Invite students to stand at the point between \$0 and \$50,000 that represents how much debt they think the average student has. Ask students to explain the rationale for their guesses.
- Students often take out loans to pay for a portion of their education. This is money that they will need to pay back later—often with interest. Share that recent graduates with student loans leave school with an average of approximately \$34,000 in student loan debt to repay¹ (Note: State averages vary. Debt in your state may be higher or lower. Go [here](#) to check your state’s average.)
- Explain that individuals who seek advanced degrees such as teachers, psychologists, and lawyers can often have much greater debt amounts - often exceeding \$100,000. Roughly 1 in 20 graduates with debt owe more than \$100,000.¹
- The cost of a post-secondary education can vary based on many factors. Invite students to guess what impacts the price. Responses may include the degree being sought (2-year vs. 4-year), the type of school (public vs. private), and where the school is located (in-state vs. out-of-state).

Teach

1. Remind students that loans are not the only way to finance higher education. Invite students to share what they already know about how people finance their education and training beyond college. Inform students that the most important first step in receiving financial aid is to complete the **FAFSA or Free Application for Federal Student Aid** each year beginning when they are a senior in high school. The information on the form is used to calculate the amount the student and his/her parents will be expected to pay each year the student is in school and how much federal aid they are eligible to receive.
2. Share that once a student is accepted into a college, he or she will receive a financial aid award letter. This letter will outline:
 - the cost of the school for the upcoming academic year (i.e., tuition, living expenses, books, supplies, transportation, fees, etc.) or **total cost of attendance**.
 - what grants, loans, scholarships, and work-study the student is eligible to receive.
 - how much the student and parent will be expected to pay—called the **expected family contribution**.
3. Explain why it is important to carefully review these award letters and the steps students and their families should take to analyze them and see how much they will be paying. These steps could include:
 - First, locate the total cost of attendance for each school. Compare the total cost of each school.
 - Second, compare the scholarships and grants. Which school is offering you more “free” money?
 - Third, understand the loan offers. How much debt will you need to repay? Are you okay with this amount?
 - Fourth, review the work-study offer. How many hours will you need to work to earn that amount? Can you handle that amount of work in addition to your studies?
 - Fifth, do the math. Find out how much each school will cost you once you subtract the grant and scholarship offer from the total cost of attendance. How much is left to pay either from savings, current family income, or loans?

Reference 1?

¹<https://www.newyorkfed.org/medialibrary/media/press/PressBriefing-Household-Student-Debt-April32017.pdf>

Pathway to Financial Success

In Schools

4. Form students into groups of 3–4 and distribute one copy of the **Financial Aid Offers Student Handout** to each student. Members of a group should receive the same student loan offer information—Dalton, Marissa, or Aaliyah.
5. Tell students to read over the scenario they have received. Point out that, in each award letter, the student’s expected family contribution remains the same because this is determined by a formula set by federal law. Note that the financial need is different because the total cost to attend each school is different and different schools have different formulas for distributing financial aid.
6. Tell students that, once they have compared their award letter options, they will be asked to determine which one is offering the most favorable financial aid package. They should appoint a spokesperson to share their conclusion with the class.
7. Allow 20 minutes for student discussion. Encourage students to conduct online research, including locating colleges or universities with similar costs to those provided and/or seeking more information about the types of aid offered by each school. The following can be used to guide group conversations:
 - Dalton’s Financial Aid Offer:
 - Do all of the schools meet Dalton’s financial need? What could the difference in work-study between the schools mean to Dalton? How do you think his family will pay for their expected family contribution? How much debt will Dalton have if he graduates after four years from the selected school?
 - Marissa’s Financial Aid Offer:
 - Do all of the schools meet Marissa’s financial need? Why is the amount for Federal Supplemental Educational Opportunity Grants (FSEOG) different for each school (*the college or university determines how much to offer for the FSEOG whereas the Pell Grant is a guaranteed amount if need is demonstrated*)? How much debt will Marissa have if she graduates after four years from the selected school?
 - Aaliyah’s Financial Aid Offer:
 - Aaliyah does not qualify for a Pell grant or other federal financial aid. Should cost still be a factor for her? Can you think of a reason Aaliyah was offered a scholarship from School 2 even though she does not demonstrate financial need? Why is it important for all students to complete the FAFSA even if they think they won’t qualify for financial aid?
8. Debrief by asking groups that considered Dalton’s situation to share their recommendations and rationale. Discuss similarities and differences between the group responses. Continue with groups discussing Marissa and Aaliyah.
9. Share with students that it is important to carefully examine and consider any financial aid offers they might receive in the future. Discuss what happens when a student’s expected family contribution is more than a family is comfortable paying in one year and/or if the financial aid offer from a school does not meet a student’s need. In these cases, families might consider private student loans from a bank, credit union, or other financial institution. Remind students to use caution when taking out any loans and to give careful consideration to how and when those loans will be repaid.
10. Explain that some schools offer more financial aid to students than others. Encourage students to investigate costs and financial aid using online tools such as the [College Scorecard](#) from the U.S. Department of Education.

Extend

- **Action:** If appropriate, have students compare their own financial aid offers using online financial aid comparison tools and information such as those from the Consumer Finance Protection Bureau ([Choose a Student Loan](#) and [Compare Financial Aid and College Cost](#)) or College Board ([Selecting a Financial Aid Package](#) and [Compare Aid Calculator](#)).

Pathway to Financial Success

In Schools

- **Research:** Financial aid award letters can vary significantly from one school to another. Encourage students to conduct research and locate examples of award letters from the schools they are considering. If samples cannot be found online, students can often contact the school's financial aid office to request them.
- **Reflect:** Invite former students to visit your classroom and discuss their education financing choices. Do they wish they had done anything differently when they were still in college? Are they content with the decisions they made?
- **Family:** Challenge students to talk to their parents about their expectations for higher education and how it will be paid for. Will the student be expected to take out loans or use a portion of their savings to pay for college? Are the parents willing to apply for loans to finance education? What role will having multiple children in the household play in education financing choices?

Standards Correlation

[National Standards for Financial Literacy](#) from the [Council for Economic Education](#)

1. Education, training, and development of job skills have opportunity costs in the form of time, effort, and money.
 1. People can make more informed education, job, or career decisions by evaluating the benefits and costs of different choices.
 1. People often use a portion of their savings to help themselves or their family members build human capital through education or job training.
4. People can use credit to finance investments in education and housing. The benefits of using credit in this way are spread out over a period of time and may be large. The large costs of acquiring the education or housing are spread out over time as well. The benefits of using credit to make daily purchases of food or clothing are short-lived and do not accumulate over time.

Dalton's Financial Aid Offers

Dalton is a 17-year old student from Ohio. He and his older sister will both be in college next year. His younger brother is in middle school. Both his mother and father work full-time jobs and together earn \$139,700. They have \$130,000 in home equity and \$95,000 in savings. Dalton has saved \$1,300. His parents made sure they completed the FAFSA early in October so they would have a better chance of him getting more aid, such as work-study.

Dalton has received financial aid offers from three schools and put together a table below to help him and his parents compare them. Compare the offers. Which, if any, school(s) should Dalton choose to attend? Be prepared to defend your response.

	School 1: Private, 4-Year College	School 2: Public, In-State, 4-Year University	School 3: Public, Out-of-State, 4-Year University
Total Cost of Attendance (COA) Includes tuition, room, board, books, travel, and fees for one academic year	\$71,185	\$25,539	\$50,870
Expected Family Contribution (EFC) Includes the expected parent and student contributions for one academic year	\$23,449	\$23,449	\$23,449
Financial Need (COA-EFC)	\$46,634	\$2,090	\$27,422
FINANCIAL AID AWARD			
Scholarship from School	\$43,934	\$1,200	\$2,347
Federal Pell Grant	—	—	\$5,920
Unsubsidized Federal Direct Stafford Loan	—	—	\$5,550
PLUS Loan	—	—	\$6,855
Federal Work-Study	\$2,700	\$890	\$2,800
TOTAL AID OFFERED	\$46,634	\$2,090	\$23,422

Marissa's Financial Aid Offers

Marissa is an 18-year old student from Texas. She will be the first person in her family to attend college. She has a younger sister at home. Her total family income is \$25,000. They do not have any money saved and do not own a home.

Marissa has received financial aid offers from three schools and put together a table below to help her and her parents compare them. Compare the offers. Which, if any, school(s) should Marissa choose to attend? Be prepared to defend your response.

	School 1: Private, 4-Year College	School 2: Public, In-State, 4-Year University	School 3: Public, Out-of-State, 4-Year University
Total Cost of Attendance (COA) Includes tuition, room, board, books, travel, and fees for one academic year	\$45,362	\$27,452	\$39,704
Expected Family Contribution (EFC) Includes the expected parent and student contributions for one academic year	\$0	\$0	\$0
Financial Need (COA-EFC)	\$45,362	\$27,452	\$39,704
FINANCIAL AID AWARD			
Scholarship from School	\$33,118	\$18,632	\$7,946
Federal Supplemental Educational Opportunity Grants (FSEOG)	\$3,254	\$1,200	\$2,534
Federal Pell Grant	\$5,920	\$5,920	\$5,920
Unsubsidized Federal Direct Stafford Loan	\$2,100	\$700	\$5,500
PLUS Loan	—	—	—
Federal Work-Study	\$970	\$1,000	\$2,800
TOTAL AID OFFERED	\$45,362	\$27,452	\$24,700

Aaliyah's Financial Aid Offers

Aaliyah is an 18-year old student from Virginia. She is the only child of two working parents. Together her parents earn \$262,000. They have \$242,000 in equity in their home and \$186,000 in savings and investments. Aaliyah has \$3,500 in savings.

Aaliyah has received financial aid offers from three schools and put together a table below to help her and her parents compare them. Compare the offers. Which, if any, school(s) should Aaliyah choose to attend? Be prepared to defend your response.

	School 1: Private, 4-Year College	School 2: Public, In-State, 4-Year University	School 3: Public, Out-of-State, 4-Year University
Total Cost of Attendance (COA) Includes tuition, room, board, books, travel, and fees for one academic year	\$72,710	\$35,991	\$49,712
Expected Family Contribution (EFC) Includes the expected parent and student contributions for one academic year	\$109,687	\$109,687	\$109,687
Financial Need (COA-EFC)	\$0	\$0	\$0
FINANCIAL AID AWARD			
Scholarship from School	—	\$8,500	—
Federal Grant	—	—	—
Unsubsidized Federal Direct Stafford Loan	—	—	—
PLUS Loan	—	—	—
Federal Work-Study	—	—	—
TOTAL AID OFFERED	\$0	\$8,500	\$0