



# Everything You Need To Know About the FAFSA



**Parents of college-bound students must be familiar with FAFSA, a necessary acronym to know during the college search and throughout a student's college years. FAFSA, a Federal Student Aid filing, stands for Free Application for Federal Student Aid and is used to calculate a family's Student Aid Index (SAI) toward college expenses.**

The FAFSA is used to evaluate every college student's financial state and determine which students are eligible for need-based aid. The FAFSA takes a snapshot in time of a family's size, income, and assets. Parents of high school seniors will need to complete the FAFSA starting after October 1st of a student's senior year.

Families will also need to complete the FAFSA every year the student continues in college, even if the student does not qualify for need-based aid to continue to qualify for federal direct student loans as well as scholarships at many schools.

The U.S. Department of Education requires parents and students to each create an FSA ID login with a username and password in an attempt to eliminate the input of social security numbers online. [Click here to create IDs.](#)





# Here Are 3 Key Filing Tips For You To Keep In Mind

- 1. For many schools, the “Priority Filing” deadline is as early as October 15th of your student’s senior year.** Submitting the FAFSA by the deadline ensures a student will get the maximum award the college offers.
- 2. Even if a family KNOWS they will not qualify for need-based aid, they should still consider filling out the FAFSA annually.** Many colleges require the FAFSA to be completed for your student to receive non-need merit-based scholarships. Also, the FAFSA is required to apply for federal direct student loans. Finally, having a FAFSA on file can be very helpful if the status changes at some point during the year, affecting the financial aid.
- 3. We can’t repeat this too many times: keep track of deadlines.** Much of the financial aid available at colleges is given out on a first-come-first-serve basis. Paying attention to deadlines ensures you don’t miss out.

When filing the FAFSA, families will use the “prior-prior” federal tax return figures. For example, a student filing in October 2025 will use the tax returns of 2024, which are the most recent on file. Keep in mind, however, that a high school senior applying in October 2025 is applying for aid that will become effective when they start college in the 2026/2027 school year, hence the “prior-prior” terminology.

Families with freshmen, sophomores, and juniors need to be thinking about this too – not just seniors! It’s all about proactive planning to create an ideal outcome for the family and their student! The first tax year being assessed is the spring of the sophomore year of high school and the Fall of the student's junior year. Don’t wait until the Fall of your student’s senior year. It will be too late!



# 4 Things To Do BEFORE Senior Year

**1. Financial aid and tax planning for college need to begin in the freshman year of high school.** If a family has any opportunities to maximize their financial aid package, the most crucial planning year is the spring of the sophomore year and the fall of the junior year. This period will be the tax year used on the FAFSA as the “base year” for income assessment. Why is that year so important? The financial aid filing done for the freshmen year of college is called the “base year.” The base year is critical as colleges frequently award the most aid to incoming freshmen, and often the aid is in 4-year renewable scholarships and grants. Families want to look as poor as possible in the freshmen year, as it forms the basis of the financial aid package for all four years.

**2. Student Aid Index (SAI) determines your eligibility for need-based financial aid.** Your SAI is calculated using the information you provide on your Free Application for Federal Student Aid (FAFSA) application. This includes your family size, parents’ income, parents’ assets, student’s income, and student’s assets. Don’t rule out schools based on the cost of attendance AKA “sticker price.” Focus on the “net price” after scholarships and grants are awarded. The amount of aid you are eligible for is determined by taking the Cost of Attendance (COA) minus your Student Aid Index (SAI).





# COA - SAI = Demonstrated Financial Need

**Example 1:** \$50,000 COA - 25,000 SAI = \$25,000 Demonstrated Financial Need

**Example 2:** \$25,000 COA - 25,000 SAI = \$0 Demonstrated Financial Need

Keep in mind that just because you qualify for need-based financial aid, that doesn't mean the school can meet all of your demonstrated need. Let's take a look at two examples, **The University of Alabama** and **Stanford University** for a family that has the same demonstrated need of \$10,000 at both schools.

	Total Need Met %	Need Met with Grants %	Free Money %	\$10,000 of demonstrated need
University of Alabama	60%	89%	53.40%	\$5,340 Grant
Stanford University	100%	95%	95%	\$9,500 Grant

Free money in the form of need-based grants or scholarships is the good stuff. Grants and scholarships will reduce your out of pocket cost of college. The remaining need may be met with "Self Help" in the form of subsidized federal direct student loans, or federal work study, which can help you **PAY** for college, but they do not reduce your **COST** of college.

The University of Alabama			
Admissions	Financial Aid		Outcomes
GPA	3.77	SAI Basis	Federal
SAT Verbal Range	550-680	Cost of Attendance	\$55,916*
SAT Math Range	530-690	Tuition	\$33,372
ACT Range	22-31	Fees	\$800
Common App	Yes	Room and Board	\$15,016
Test Optional	Yes	Book Fees	\$700
Website	<a href="http://ua.edu">ua.edu</a>	Travel, Misc.	\$6,028
Forbes Ranking	#194	Total Need Met %	60%
US News Ranking	National Universities - #170	Need Met with Grants %	89%
Money Ranking	★★★★☆	Merit Transparency Grade	A
Undergraduate Majors	41	% Receiving Non-Need Merit	35.9%
Enrollment	34,616	Avg Non Need Merit	\$15,640
% Admitted	80%		
Graduation Rate	55%		



Stanford University			
Admissions	Financial Aid		Outcomes
GPA	3.95	SAI Basis	Institutional
SAT Verbal Range	730-780	Cost of Attendance	\$94,392*
SAT Math Range	770-800	Tuition	\$65,127
ACT Range	33-35	Fees	\$2,400
Common App	Yes	Room and Board	\$21,315
Test Optional	Yes	Book Fees	\$825
Website	<a href="http://stanford.edu">stanford.edu</a>	Travel, Misc.	\$4,725
Forbes Ranking	#3	Total Need Met %	100%
US News Ranking	National Universities - #3	Need Met with Grants %	95%
Money Ranking	★★★★★	Merit Transparency Grade	N/A
Undergraduate Majors	25	% Receiving Non-Need Merit	-
Enrollment	9,144	Avg Non-Need Merit	-
% Admitted	4%		
Graduation Rate	73%		





**3. After the homework is done, have the “college money” conversation in a student’s high school junior year at the latest, so parents and students can discuss realistically affordable colleges.** This is not a conversation they want to have after your student has been accepted to a great school your family cannot afford. Need to know more about how to have this talk? [Click here.](#)

**4. Create a comprehensive 4-year college funding strategy** incorporating college selection, financial aid, asset and income tax strategies, and a plan to minimize a student’s debt. Understand exactly how you will pay for all four years of college, including the resulting student loans and loan payments upon graduation. Your budget will remain the same, but the out-of-pocket cost and hence the funding gap can vary wildly.

College▼	Four Year Net Cost▼	Budget Amount▼	Funding Gap (Loans)▼	10-Year Loan Payments▼	10-Year Total Payments▼	25-Year Loan Payments▼	25-Year Total Payments▼
<a href="#">Penn State University Park</a>	\$212,804	\$98,000	\$114,804	\$1,275	\$152,947	\$740	\$221,905
<a href="#">The Ohio State University at Columbus</a>	\$120,688	\$98,000	\$22,688	\$252	\$30,226	\$146	\$43,854

# Filing The FAFSA Can Generate a Lot of Questions. Let’s Get You Some Answers

## Do I have to file the FAFSA?

NO — However, all schools that award need-based financial aid will require the FAFSA be completed to receive federal student aid. As we mentioned before, many colleges require the FAFSA for merit aid and federal student loans. Also, having it on file is a good idea if a parent loses a job, there’s a divorce in the family, or if a parent unexpectedly passes away. This will allow you to go in and say things have changed in the middle of the school year.



## **What assets need to be reported on the FAFSA?**

In general terms, assets in retirement funds like 401(k), 403(b), and IRA plans are NOT included. Assets in savings and checking accounts, CDs, money markets, commodities, investment real estate, etc., are included.

One important thing to point out is the changes made to the formulas as a result of the FAFSA Simplification Act -- which became effective with the 2023-24 academic year. 529 plans owned by a parent ARE included as an asset, but only the plan that the student is listed as the beneficiary is included. If siblings are listed as the beneficiary of a 529, they are NOT reported as a parental asset.

## **Other changes to the FAFSA for the 2023-2024 award year and beyond include:**

- Child support received in the previous year is now listed as an asset, not as income. Assets are assessed at 5.64%, whereas income is assessed as high as 47%. Big win for the consumer!
- Increased income protection allowance for families
- Contributing more money to your pre-tax at-work retirement plans (401(k), 403(b), 457) will reduce your adjusted gross income, and in turn will reduce your Student Aid Index

## **Do I have to file the CSS Financial Aid Profile?**

Some private schools (about 300 of them) also require the CSS/Financial Aid PROFILE® form and use an institutional formula to determine your eligibility for institutional need-based aid. The Profile form will look at a lengthier list of assets and expenses than the FAFSA.

For example, your home equity will NOT be included as an asset under the federal formula form, but some schools WILL include it as an asset on the CSS form at most Profile schools.



One benefit of the CSS form is a parent's ability to include their expenses—monthly mortgage, medical expenses, elementary & high school tuition, and parents' student loans, to name a few. By including your expenses, colleges are trying to get a complete picture of your financial need. [Click here](#) for more about the CSS/Financial Aid PROFILE® application.

### **Should we save in our student's name or in a parent's name?**

What about assets in a student's name? Most of the time having the assets in a parent's name will be the way to go. A parent is expected to contribute a maximum of 5.64% of their assets to a child's education. The student is expected to contribute 20%.

It is common for students to have a custodial checking account that essentially functions like a joint checking account with one of their parents. So how does this get reported on FAFSA? Technically, it would be 50% owned by the student and 50% owned by the parent. If there was \$10,000 in the account on the day you file your FAFSA, \$5,000 would count as the student's checking and savings account assessed at 20%, and \$5,000 would be reported as the parents' checking and savings account assessed at 5.64%. One strategy to consider would be simply moving the entire balance to the parents' checking account before you file your FAFSA forms and have the entire amount counted as a parent asset assessed at the lower rate.

### **How can Grandma & Grandpa save for their grandchild without hurting financial aid?**

529 plan dollars in a grandparent's name are not counted as assets for financial aid purposes.

One possible strategy for well-meaning grandparents is to save into a 529 plan in their name. If parents already have 529 dollars saved, they may want to consider transferring ownership to the grandparent early in the student's high school years. Parents can continue to contribute to the plan. Be sure your state's college savings plan allows for transfer of ownership, and consult your tax professional for any tax or gifting ramifications.



Grandparents with good intentions may save in an UGMA or UTMA custodial account. Technically, these are the student's assets that should be reported on the FAFSA and assessed at 20%.

Impact on Student Aid Index (SAI):

A lower asset contribution leads to a lower Student Aid Index (SAI), which in turn qualifies the student for more need-based aid.

How to Make the Conversion

- **Sell the Assets:** You cannot directly transfer assets from a UTMA to a 529 plan. You must sell the assets in the UTMA first.
- **Transfer the Funds:** The cash proceeds from the sale are then transferred to the UTMA 529 plan.
- **Tax Implications:** Selling the assets in the UTMA may trigger capital gains taxes. These gains are reported on the child's tax return (or the parent's, depending on the situation). Consider a multi-year staged liquidation of the UTMA securities and stay below the kiddie tax limit for the tax year, \$2,700 in 2025. For the 2025 tax year, the kiddie tax rules apply to a portion of a child's unearned income, taxing it at the parents' higher tax rate once the income exceeds \$2,700. The student will pay 0% tax on the first \$2,700 of gains in a given year. Check out this example of a 5-year staged liquidation:





## What about situations involving divorce?

When parents are divorced, the FAFSA looks at the finances of what's called the "custodial parent," defined as the parent who provides the most financial support. It does not matter who claims the student on their taxes.

Also, if a stepparent lives with the student, their assets and income will be reported.

If you are a family with legitimate joint custody and equally support the student, consider having the less financially successful parent file the FAFSA form.

Most schools requiring the CSS Profile will require both the custodial and non-custodial parents to submit their financial information. All of this and more is covered in our [How Divorced Families Pay for College Ebook](#).

## Still Have Questions?


The ins and outs of financial aid can be confusing for parents. It is imperative to have the knowledge to help plan early and for all situations to get the most possible aid available! Get your [FREE College Money Report](#), or schedule a [FREE 30 Minute Get Acquainted Meeting](#) to explore how we can help you navigate the college funding maze with confidence and ease.

### Get your free College Money Report™

Answers to 3 critical things every family needs to know before entering the college funding maze.

Get a fully customized report and demystify your student's college financial aid outlook.

[GET MY REPORT](#)



capstone  
WEALTH PARTNERS



Joe Messinger

#### Get Acquainted Meeting

🕒 30 min

A complimentary Zoom meeting or phone call to discuss your planning needs and give us both a chance to make sure your situation matches our expertise.

©2025 Capstone Wealth Partners