

Confusion to Clarity:
Understanding Financial Aid Options

Presented to

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Abstract

This paper examines the issues that led to the decision to create a website that would increase financial aid awareness among prospective and current college students and their families. The lack of financial aid literacy among these groups creates a barrier to enrollment, retention and graduation rates in higher education. This is concerning, not only to college administrators, but also to the economic development of our communities as many jobs now require specialized knowledge that must be acquired through post-secondary education. The goal of this project, and the financial aid awareness website, is to explain available financial aid options and to provide referral access to reliable online resources.

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Confusion to Clarity: Understanding Financial Aid Options

The employment outlook has changed considerably over the last several decades. A generation ago, an individual without an education beyond high school could find a job that paid well enough to afford a middle class status. Changes in the job market, such as advances in technology and outsourcing, have created an employment environment that demands training beyond a secondary education. It is projected that by 2018 most workers will need some post-secondary education in order to obtain gainful employment (Carnevale, 2010). For many people, community and state colleges provide this opportunity.

The accessibility and affordability of colleges, along with their capacity to tailor program development to meet the demands of local employers, make them uniquely suited to meet the communities' educational needs. Unfortunately, as prospective students prepare to enroll in college, there are many barriers to overcome. Arguably, one of the most prevalent barriers is the cost of a college education. Many students and families remain unaware of the wide variety of options available to help fund a college degree. Bell, Rowen-Kenyon, & Perna (2009) stated "large percentages of parents and high school students are unaware of sources of financial aid" (p.665). This lack of knowledge hinders enrollment, retention and completion rates at colleges and universities nationwide as students find financial obligations of a college education overwhelming. Often, the result is loan default, a subject making national headlines recently as it concerns not only students but also the country's higher education institutions. Lack of financial aid awareness increases the risk of loan default among students for a variety of reasons. These include limited access to non-loan funding such as grants and scholarships, and a lack of understanding regarding repayment rules and options for educational loans. This should concern colleges and universities as the Department of Education has determined that institutions with a

default rate of 30% or higher over a three-year period, or 40% in any single year, are at risk for losing their eligibility to offer federal aid to their students (Information for Financial Aid Professionals, 2014), further reducing enrollment opportunities for students. Ideally, students should be aware of all of their college-funding options before applying to college, choosing a college, and arriving on the college campus.

This project focuses on the need for increased financial aid awareness for current and potential students. It also highlights the critical role information and financial aid literacy play in students' decisions to enroll in college and their success in completing their education. Colleges and universities all face the issues of declining enrollment and retention rates. These issues can be alleviated by helping students understand and utilize financial aid.

Effects of Financial Aid Literacy

Enrollment

Increases in tuition and fees at colleges/universities have occupied the headlines of news stories detailing the rise in student debt. Potential students and their families often determine that college is unattainable due to financial challenges. Students with lower levels of information about college costs and financial aid are less likely to attend college (Bell, Rowan-Kenyon, & Perna, 2009). Without the necessary financial awareness and guidance, many low-income students do not attempt college or, when attempted, drop out of college and slip into loan default (Kezar, 2010). These unfortunate circumstances are not only an issue for low-income students, but also for many ethnic minorities, and first-generation college students due to a lack of college understanding and financial literacy among peers and family members. McKinney & Novak (2013) indicated under-utilization of financial aid creates an overwhelming barrier to college access. If students and families receive information and ongoing support about financial aid

options, then access to a post-secondary education is likely to escalate for low-income youth (Tierney & Venegas, 2009).

In recent years, colleges, specifically Florida's colleges, have seen a decrease in enrollment. As a result, these institutions find themselves with a need for improved recruitment strategies. An increasing number of campus employees are now involved in financial aid discussions, including recruitment and admissions officers. We must recruit students who have a real chance to succeed, not just academically, but also financially (Logue, 2011). The new recruitment process must focus on making students aware of financial aid options. This will help broaden the opportunity to increase enrollment.

Retention

A recent survey of community college students indicated that nearly half withdraw from classes due to financial hardship (Hoover, 2008). Yet, Kantrowitz (as cited in McKinney & Novak, 2013, p.63), stated that “during the 2007-2008 academic year, 42% of community college students who were eligible to receive Federal Pell Grant funding did not even file a FAFSA.” Kantrowitz is referring to the Free Application for Federal Student Aid form that must be completed to be considered for federal financial aid. A recent study by the University of Illinois found that students with at least one parent that had attended college or families with higher Expected Family Contribution (EFC) are more likely to complete a FAFSA in a timely manner than those with lower EFC and are first-generation in college (Feeney & Heroff, 2013). These studies demonstrate the importance of awareness and accessibility of financial aid information. A survey of financial aid counselors found that two-thirds reported that their students did not understand the term financial aid (McKinney & Novak, 2013). This lack of financial aid knowledge not only affects access and enrollment, but also retention.

In California, rising tuition rates have made college less accessible to many California residents. In response, community colleges throughout the state launched a financial aid awareness campaign. One facet of the crusade includes the “I Can Afford College” website (California Community Colleges). Since launching the campaign in 2004, organizers reported two million visitors and a 70% increase in the number of students receiving financial aid at one community college (Ullman, 2013).

Many students and their families are unaware that while tuition and fees have risen at colleges and universities across the nation, Pell Grant aid has increased as well. Pell Grant spending rose 58% over a two-year period, driven by a 16% increase in the maximum Pell Grant (Supiano, 2010). Diligent efforts to increase financial aid awareness can ensure that the students who can benefit most from such increases have an opportunity to take advantage of the available funds.

Financial Stability

Information and knowledge are the keys to the long-term benefits that come from maximizing the available financial aid options. Students will benefit through having access to all financial aid that may be available to them. Increased knowledge enables students to make more informed decisions that could affect their future finances. For example, increased awareness of available scholarships may reduce a student’s dependence on loans, thereby limiting total debt. Financial literacy for students and their families must include an understanding of the long-term repercussions of their choices. Grants and scholarships generally do not require repayment; but loan costs have the potential to affect a student’s future finances. A study showed that in 2012, 66% of all graduates from public colleges, graduated with student loans (Institute for College Access and Success, 2014). Awareness of financial aid options empowers students and their

families to take proper precautions and make informed decisions in order to avoid financial hardship due to debt or loan default.

College campus initiatives involve college-wide financial aid discussions. This can be seen in areas around campus such as academic advising. Academic advisors take responsibility to assist students in completing their degree in a timely manner, limiting debt accumulation and enabling higher graduation rates. As higher education levels are achieved, students' job opportunities and income potential increase and unemployment decreases (U.S. Bureau of Labor Statistics, 2013), thereby influencing students' personal financial stability as well as the economic development of our communities.

Confusion to Clarity Website

Overview

Prospective students and their families need clear, accessible, and trustworthy information about the options available to assist with funding their college education. In an effort to increase financial aid awareness for prospective/current college students and their families, a website was developed that outlines potential funding options for college. The projected audience of the website is college students; especially first time in college students, first-generation college students and their families who have limited knowledge of the financial aid options available. This website takes the broad term, financial aid, and clearly defines and illustrates the elements of the terminology grants, scholarships, personal/family payments and student loans.

The Internet medium is a popular way to obtain information in today's society and is available 24/7. Internet usage for adults is continuously increasing with the current percentage rate of 86% (Pew Research Internet Project, 2014). The best method of delivery for the financial

aid awareness project is through a website for a variety of reasons; including the ability to adapt to multiple learning styles, ease and affordability of maintenance, accessibility to a broad audience, and its ability to be translated to various languages. In an effort to address different learning styles, the interactive website utilizes many tools including video, text and links to additional creditable sources of information.

The website features an easy to browse design with an intuitive navigation function. Its functionality allows users to gain as much or little information as they need. While there is considerable information online about financial aid, not all of it is reliable, readily accessible or easily understood by college students and their parents. The *Confusion to Clarity* website simplifies information necessary to understand financial aid and acts as a resource to direct students to other reliable sources regarding specific college funding options. The website presents four main financial aid options, which are discussed below, with access to further information about each topic provided.

Website Topics

Grants. Grants are college funds awarded to qualified students. They generally do not need to be repaid, making them a first choice for students seeking financial aid. Grants include federal and state aid. Some are income based and some are based on other defined criteria. *See Appendix A for a list of federal grants, state grants, and other state aid.*

Scholarships. Scholarships are payments made to support a student's education. They are awarded on the basis of academic or other achievement. The scholarship provider assembles fund that are designated to help students pay for college. Scholarships generally do not need to be paid back, making them another top choice for students seeking financial aid. *See Appendix B for further scholarship information.*

Personal and family payments. Personal and family payments include savings, investments and other personal funds that pay for higher education costs. It is possible to pay out of pocket for a college education and many students and families are unaware of the variety of self-pay methods and their relative affordability. *See Appendix C for further personal and family payment information.*

Loans. Loans are borrowed money that must be paid back. There is also a small fee for the loan (annual fee or interest) that will be required in addition to the money borrowed. Types of loans vary, including federally funded student loans, parent loans, and private loans. After exhausting all grants, scholarships, self-pay options, and federally funded loans, private loans are a common choice to fill the gap for a student's education. Private loans are credit-based consumer loans that can be used for any education related expense. *See Appendix D for further information about federal loans.*

Conclusion

The economy and employers will increasingly rely on an educated workforce (Carnevale, 2010). Those who do not pursue an education or training beyond high school leave themselves exposed to the unpredictability of the economy. Unfortunately, many prospective students and their families determine that college is unattainable due to financial costs. They are frequently unaware of the financial aid available to them. The *Confusion to Clarity* website project's goal is to explain available financial aid options and provide referral access to reliable online resources.

As college costs rise, students will need to use a combination of the outlined aid to help them in their educational journey. Thorough research and planning can lead to wise and cost-effective choices in determining the best way to pay for college. With the aid of this website, students and their families will be able to make informed decisions regarding funding a college

education. The *Confusion to Clarity* website associated with this project will turn students' confusion to clarity and make a post-secondary education not only desirable but also attainable.

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Appendix A

Federal Grants, State Grants and State Aid

Table A 1 *Federal Grants*

Name	Definition	Criteria
Pell Grant	Federal grant awarded to low-income undergraduate and certain post-baccalaureate students to promote access to postsecondary education.	Amounts awarded are based on financial need, costs to attend school, status as a full-time or part-time student, and plans to attend school for a full academic year or less.
FSEOG (Florida Supplemental Educational Opportunity Grant)	Federal need-based grant to help low-income undergraduate students finance the costs of postsecondary education.	Priority given to students with exceptional need (lowest expected family contributions).

Note. Adapted from <http://studentaid.ed.gov/sites/default/files/federal-grant-programs.pdf>

Table A2 *State Grants*

Name	Definition	Criteria
FGMG (First Generation Matching Grant Program)	Need-based program for Florida undergraduate residents who demonstrate financial need and parents have not earned a baccalaureate degree.	Florida resident (US citizen or non-citizen), no previous baccalaureate degree, accepted at a Florida state university or Florida college and enrolled in a minimum of 6 credit hours per term as a degree-seeking undergraduate student; meet the eligibility requirements of postsecondary institution; be a first generation college student; demonstrated financial need based on the FAFSA.
FSAG (Florida Student Assistance Grant)	Financial aid program funded by the state of Florida for students who demonstrate substantial financial need.	U.S. citizen or eligible non-citizen, Florida resident, meet minimum enrollment requirements, enrolled in first undergraduate degree program, meet the Standards of Satisfactory Academic Progress, not be in default on a federal student loan, not owe repayment of a grant or scholarship unless satisfactory arrangements have been made to repay, must not exceed maximum EFC cutoff established by the state of Florida for each award year.

<p>ABLE (Access to Better Learning and Education Grant)</p>		<p>Florida resident and a U.S. citizen or eligible non-citizen, not owe a repayment or be in default on any loan, not have previously received a baccalaureate degree, enrolled for a minimum of 12 hours per term, not be enrolled in a degree leading to divinity or theology.</p>
<p>FSAG-CE (Florida Public Post-Secondary Career Education Student Assistance)</p>		<p>Be a Florida resident and a U.S. citizen or eligible non-citizen, not owe a repayment or be in default of any state grant or loan, not have previously received a baccalaureate degree, enrolled for a minimum of 180 clock hours (6 semester credits) at participating institution.</p>
<p>FRAG William L. Floyd IV Florida Resident Access Grant Program</p>		<p>Florida resident and a U.S. citizen or eligible non-citizen, not owe a repayment or be in default of a federal loan, not have previously received a baccalaureate degree, enrolled for a minimum of 12 hours per term at an eligible Florida Institution, not be enrolled in a degree of study leading to theology or divinity.</p>

Note. Adapted from https://www.floridastudentfinancialaidsg.org/home/1stGen_faq.asp
<http://www2.ed.gov/programs/fseog/index.html>;
<http://www.floridastudentfinancialaid.org/SSFAD/factsheets/FSAG.pdg>

Table A3 *State Aid*

Name	Definition	Criteria
<p>FWEP (Florida Work Experience Program)</p>	<p>A work program created to introduce eligible students to work experience that will complement and reinforce their educational program and career goals and provide a self-help student aid program that reduces student loan indebtedness.</p>	<p>Be a Florida resident and U.S. citizen or eligible non-citizen, complete the Free Application for Federal Student Aid (FAFSA), enroll in an eligible: college or university as an undergraduate degree-seeking student, or Certificate program of 450 or more clock hours at a career center operated by a district school board, or Educator preparation institute despite having a previously earned baccalaureate degree. Be enrolled at least half-time (six semester hours or the equivalent of 180 clock hours) at an eligible participating postsecondary institution. Have earned a minimum cumulative grade point average (GPA) of 2.0 on a 4.0 scale for all college work completed to continue receiving the award annually. Not owe a repayment under any state or federal grant or scholarship program unless satisfactory arrangements to repay have been made. Not be in default on any federal Title IV or state student loan program unless satisfactory arrangements to repay have been made.</p>

Note. Adapted from <https://www.floridastudentfinancialaidsg.org>.

Appendix B
Scholarships

Table B1 *Scholarships – General*

Definition	Types	Scholarship Tips
The scholarship provider assembles a pool of money that is designated to help students pay for college. Students apply and if qualified, may receive funding. Scholarship amounts vary from a couple of hundred dollars to thousands. There is no limit to how many scholarships a student can apply for and receive at a given time.	Scholarships for Minorities Community Service Scholarships Scholarships for Women Religious Scholarships Athletic Scholarships Corporate Scholarships Academic Scholarships Florida Bright Futures Program Creative Scholarships	Students should not limit themselves to a certain type of funding. Scholarships differ on their requirements and how much money they provide to students. Some scholarships are a one-time gift while others may continue if a certain grade point average or other criteria are maintained. Colleges and universities also have institutional scholarship funds available.

Table B2 *Florida Bright Futures Scholarship*

Definition	Criteria
Three scholarships funded by the Florida lottery and awarded to students based on academic achievement. Bright Futures Scholarships include Florida Academic Scholars (FAS) award, including Academic Top Scholars (ATS) award; Florida Medallion Scholars (FMS) award; Florida Gold Seal Vocational Scholars (GSV) award	Eligibility varies according to the award with criteria including GPA, standardized test scores, and community service.

Note. Adapted from www.floridastudentfinancialaid.org/SSFAD/bf

Appendix C

Personal and Family Payment

Table C1 *Investment Tools*

Name	Definition
529	Investment plan named for the section of the IRS code under which it was created. Contributions are made with after-tax dollars and can be withdrawn tax-free if used for qualified college expenses. No age limit for beneficiary and no limit on contribution amounts. Varied investment options. Earnings grow tax free. Some states offer matching grants or other incentives. Subject to market fluctuations. ^a
Florida Prepaid	Part of the 529 products and not subject to market fluctuations. Prepay tuition and fees at current prices. Guaranteed by State of Florida. ^b
Coverdell Education Savings Account	Also known as an Educational IRA, functions as an IRA specifically for educational expenses (including K-12 and higher education). All funds must be distributed to beneficiary by age 30. Annual maximum after taxes contribution is \$2000 and earnings grow tax free until distributed. No tax if distributions are less than the qualified educational expenses. ^c
Traditional or Roth IRA	Educational expenses can be withdrawn tax free. Benefit is pooling resources for retirement and college savings into one account. ^d
GerberLife	Term life insurance with investment benefits. Minimal risk. Beneficiary can use funds for anything at end of term. ^e

Note. ^aAdapted from www.collegesavings.org. ^bAdapted from www.myfloridaprepaid.com. ^cAdapted from www.ira-basics.com. ^dAdapted from www.ira-basics.com. ^eAdapted from www.gerberlife.com.

Table C2 *Other Family or Personal Payment Options*

Name	Definition
Employer Tuition Reimbursement	This is a common part of an employee’s benefits package at many companies or can also be negotiated if not already part of the plan.
Tuition Payment Plans	These are short term installment plans which split your tuition into equal monthly payments. Many plans are interest free but some have fees or finance charges. Students should check with their institutions to determine if payment plans are available.

Appendix D

Table D 1 *Federally Funded Loans*

Type of Loans	Definition
Stafford Loan	Subsidized Direct Loans are low-interest loans for students that help pay for the cost of college. <u>These loans are available to students who demonstrate need on the FAFSA.</u> Students must be enrolled at least half time to be eligible for this loan. The lender is the U.S. Department of Education. The maximum award amount varies as a function of financial need and federally mandated grade level. Repayment begins six months after graduation or when a student falls below half-time status.
	Unsubsidized Loans <i>Unsubsidized loans</i> are available to students <u>regardless of financial need.</u> A student must be enrolled at least half-time to be eligible. Interest accrues and is calculated only on paid disbursements.
Perkins Loans	A Perkins Loan is a low interest loan only awarded to undergraduate students demonstrating high financial need.
Parent PLUS Loan	PLUS loans and Graduate PLUS loans are federal loans that parents of dependent undergraduate and graduate students can use to help pay educational expenses. The borrower must have good credit history and the maximum loan amount is the student’s cost of attendance, determined by the school, minus any other financial aid received.

Note. www.studentloans.com