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Leveraging Divorce to Maximize College Financial Aid

by Robert J. Falcon, CFP®, CPA/PFS

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Divorce is rarely a positive thing. But when it comes to helping your clients maximize college financial aid for their children, it can be used to their advantage.

Many complexities are associated with clients sending their child off to college. Perhaps the biggest factor that keeps parents up at night is the cost of college. Unfortunately, at $25,000 per year for many in-state public institutions to $50,000 a year or more at private institutions, a four-year education can approximate that of a small starter house. Multiply that by two or three kids, and the cost approximates that of a very nice house. Unfortunately, many students are taking on huge loans without regard to their post-graduate income, and parents are likewise assuming massive amount of PLUS loans and putting their retirement in jeopardy.

Complicating this process is the fact that the net cost students will pay varies significantly between schools. Just as very few people pay the sticker price of their new car, almost nobody pays full price for college. Each college doles out aid in very different ways to reflect their charter. For example, the Ivy League universities tend to give large amounts of need-based aid (but little merit aid), while other schools are more generous with merit-based aid.

Financial Aid Process

Each college accepts one of two financial aid documents as part of the financial aid process. Most schools accept the FAFSA (Free Application for Federal Student Aid), and the CSS Profile is utilized by a number of select elite colleges. Finally, 24 uber-elite schools that comprise the 568 Presidents Group (568group.org) apply the CSS Profile data differently to utilize the consensus approach (see sidebar for more).

The calculation of Expected Family Contribution (EFC) differs significantly among the three. Of the three approaches, the FAFSA is the only methodology that takes into account only the income of the custodial parent. (See the cover story beginning on page 22 for more on this.)

That's right. If your client makes the same salary as their spouse and they get divorced, the amount of family income that a FAFSA school attributes to the family is roughly half of that if they were married. Families filing FAFSA forms with only one parent's income reported will likely obtain a greater amount of need-based aid.

Strategies for Divorced Parents

Families with divorced parents need to leverage their situation to maximize the student aid they receive. These families should consider the following:

If your client is divorced, their students should focus on applying to schools that accept the FAFSA. They can still apply to non-FAFSA schools, especially if they might get merit-based aid, but they have a better shot to get need-based aid at a FAFSA school.

The FAFSA takes into account only the income of the custodial parent.

Since the custodial parent is defined as the one with whom the student spends the most time during the year, students should spend at least 183 days each year living with the parent who has lower income. Make sure your client plans for this and keeps a calendar if necessary. This point is especially important in families where there are significant income disparities between the divorced parents. If the custodial parent is considering remarrying, they may want to consider delaying the wedding if the impact on college aid is significant.

College financial planning is stressful and complicated no matter your clients' situation. Divorce adds an extra layer of stress and complexity. Leverage these differences to your clients' advantage by planning. ■

This column was originally published on the *Journal*'s Practice Management Blog. Read more at OneFPABlog.org.