

## ► Dollars & Sense

### **Before the First Financial Aid Application Arrives ...**

Just the words “financial aid” are enough to bring a moan, or at least a heartfelt sigh, from even the most seasoned administrators. The paperwork, the stress, the phone calls from parents, and the difficulty in matching available funds to evident need are just part of the tangle of financial aid decisions at private-independent schools.

However, a proactive, organized approach to financial aid\* – one that begins before you review the first application – can ease the process significantly. Use these suggestions to get started.

#### **Choose Your Financial Aid Committee Carefully**

Ideally, your Financial Aid Committee should be comprised of no more than four or five people. With more than that, the group becomes unwieldy.

Your committee might include the Business Manager, the Business Office Assistant, the Head’s Administrative Assistant, and the Admission Director. Of course, the ideal situation is to have a Financial Aid Director to manage everything from year to year.

Do not include parents (to preserve confidentiality) or Board members (because this is an operations, not governance, task) on your committee. The Head serves at his/her discretion.

#### **Review Your Mission Statements**

Financial aid is not a giveaway; it serves the school and its mission first and foremost. You and the other committee members must clearly understand that link.

Yes, you really do need a separate statement to define the mission of your Financial Aid Committee. It should answer the question, “Why do we offer financial aid?”

#### **Review or Create Procedures**

Will you hire an outside firm to compute your families’ ability to pay? Will you do it yourself? Or, will you use some combination of the two? Whatever choice you make, it is important that you understand how the calculations work and how they connect with your mission. In other words, do your financial aid computations really support the school in carrying out its mission?

#### **Establish Priorities**

In the event that there isn’t enough money to go around, consider how you will prioritize applications. For many schools, prioritization means that you provide aid to returning students first, followed by children of teachers and alumni.

However, there might be other considerations. If, for example, the Board has identified the need to increase enrollment in your middle school, you might consider allocating additional financial resources for that purpose, or moving the middle school applicants higher in the pecking order.

#### **Set Protocols and Application Deadlines**

When will you process applications? Will you review and award aid as each application comes in? Or, will you batch the applications and do an entire subset at one time? For example, you might set an application deadline for

returning parents a month earlier than that for new parents and make all awards to those families before you consider the needs of the new parents. Or, you might decide to review all applications at once so that you can consider the full range of needs.

#### **How Much Will You Give?**

At some schools, the answer is 100% plus. In addition to tuition, books and fees are also considered in the amount of aid to give. Other schools grant only partial awards. The basis for partial awards is that people tend to appreciate something more if they have to sacrifice to have it. Therefore, these schools award only a percentage of the calculated need – some 90%, some as low as 50%. ISM recommends that schools meet the demonstrated need to the greatest extent possible within the financial aid budget – up to 100%.

#### **To Impute or Not to Impute?**

What is your school’s policy on stay-at-home moms or dads? Some schools will choose to impute income to a non-working spouse. For example, if mom elects to stay home, the school adds \$15,000 income to the family’s total. This is roughly the amount that could be earned at a minimum wage job. Some schools choose not to impute income if there are children under age 5 in the household. Others wish to encourage stay-at-home moms and dads, and therefore elect not to impute income in this situation. It is all about self-definition.

#### **Define “Expenses”**

No matter how your financial aid is processed – whether you do it yourself, hire a service, or use a combination of the two – the final equation is always total income minus allowable expenses.

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## Financial Aid

Carefully defining “allowable expenses” in the abstract, before considering individual situations, will give you philosophical guidelines to follow when you are dealing with actual applications.

An obvious example is tithing. Suppose you are affiliated with a church that expects its members to tithe 10%. Will you consider that an allowable expense, or do you think tuition at your school should come before tithing? If your school is not religiously affiliated, do you want to consider charitable contributions as an expense? How does that fit with your mission?

Another example of defining an allowable expense is the decision about how to handle tuitions at other schools. Suppose a family has an older child in college. Should that child’s college tuition be considered an expense?

Some schools would say, “Absolutely not. It is not our job to subsidize college expenses.” Others might take the position that, because its mission statement includes college preparation, college costs are an allowable expense when considering a family’s ability to pay.

It helps to think of financial aid as a subsidy. You are giving a family money to spend on your school so they can spend the rest of their income on other items. If the “other items” are food and

shelter, there is usually no argument about the need for aid. Suppose, however, that one of the other items depleting a family’s income is credit card debt. If this family did not have so much short-term debt, it would be able to afford all or part of your tuition.

Where does your Financial Aid Committee stand on this issue? With your committee members, brainstorm all the different types of expenditures that might drain a family’s ability to pay your tuition and develop guidelines for your school.

## **Self-Employed**

Those who are self-employed have the greatest opportunity of all your applicants to hide income. This doesn’t mean that they will – just that due diligence for a self-employed applicant must be much more stringent. When you are setting up your guidelines, discuss decisions such as how you will treat a paper loss. Many business owners will report a negative number when asked for income because that is what they have on paper after all the IRS deductions. Is that the number you want to consider? Or, do you really want to look at gross income?

## **How Much Is too Much?**

Imagine that one of your applicants is a highly paid executive who has been laid off and is applying for aid on the basis of having no current income. However, he has a very large and expensive

house, several top-of-the-line cars, and a number of other toys. He has two sons – each applying for aid at a different school. At one school, our executive automatically receives aid because his income is zero. At the other, he is denied aid because his net assets are in excess of \$1,000,000. Which school are you? And if you are school No. 2, at what point do you consider that a family’s net assets are so large that you should not grant aid? ISM recommends that you establish a maximum allowable amount for assets, above which you will not provide aid.

## **Self Definition**

When this much preparation is done before you receive the first application, it forces you to define yourself as an institution – and to consider what is most valuable to you and how you will support it with your financial aid program.

Having well-thought-out guidelines helps to minimize conflict within the Financial Aid Committee and keep discussions on a non-personal level. The good news is that once you start this process, each year gets easier as you build your guidelines. **TTP**

\* For more on financial aid, see the free online demonstration of ISM’s FAST (Financial Aid for School Tuition) software at [isminc.com/fast](http://isminc.com/fast).

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