

## HOW 529 PLANS AFFECT FINANCIAL AID

The Free Application for Federal Student Aid (FAFSA) determines federal financial aid eligibility. There is a different need analysis formula used for three student groups: dependent students, independent students with no dependents, and independent students with dependents. Because our primary audience concerns families saving for college this White Paper focuses on **dependent students**.

The **Expected Family Contribution (EFC)** for a dependent student assesses parental income and assets and the student's income and assets. EFC calculations assess parental income and assets on sliding scales depending on family size, and number of college students in the family.

In short, **parental income, student income, and student assets** are assessed far more heavily than **parental assets**. 529 plans are considered parental assets for financial aid considerations.

**Adjusted Available Income (AAI)** starts with parental adjusted gross income (AGI) from the prior-prior tax year (For 2017-18 aid year, the 2015 income tax return is used), and automatically deducts an income protection allowance, taxes, and an employment expense allowance. **22-47%** of adjusted available income is assessed toward the **contributions from parental income**, with higher assessments for higher incomes.

A dependent student usually qualifies for a **simplified EFC formula** if the parents' AGI is below **\$50,000**. Assets are not included in the simplified EFC formula, and students are often eligible for some level of Pell Grants, depending on student income, student assets, and cost of attendance.

A dependent student qualifies for an **automatic zero EFC** calculation if their parents' AGI is below **\$25,000**.

**Parental Assets** include real estate other than the primary residence, investments, cash, savings, and checking accounts, and educational savings accounts including **529 accounts**. Retirement accounts, home equity, family-owned small businesses, and life insurance policies are excluded from parental asset assessment. After deducting the **Parents Education Savings and Asset Protection Allowance** (a sliding scale increasing with the age of the oldest parent, up to \$31,900 for 2017-18) from total parental savings, **5.64%** of the balance of all remaining parental cash, investments, and savings, including 529 accounts, are assessed toward the EFC. **For every \$10,000 in a 529 or other parental assets, the EFC only increases by \$564.**

**Dependent students and independent students without dependents** are expected to contribute **50%** of their available income and receive a more limited income protection allowance (\$6,400 for dependent students). Additionally, **20% of all assets owned by the dependent** (savings, custodial UTMA/UGMA accounts, Coverdell accounts, and trusts) are assessed toward the EFC.

When more than one child is in college, the **parents' contribution toward the EFC is split on a per-student basis**, though student income and assets are assessed toward each child's EFC.

Assets in a grandparent-owned account are shielded from the FAFSA, but **distributions from a grandparent-owned 529 accounts are included as non-taxable income** for the student. Because the EFC assumes 50% of student income will go toward education, distributions from grandparent-owned accounts have significant implications in future years' EFC.

Because the FAFSA uses tax returns from two years prior, experts recommend **to wait until the final two years of college to withdraw from grandparent-owned 529s** to avoid these distributions being included as non-taxable income for the beneficiary.

## Sample FAFSA Applications - How Income and Assets Affect Financial Aid

The US Department of Education's FAFSA website allows you to estimate your federal student aid on their website (<https://studentaid.ed.gov/sa/fafsa/estimate>). Using this tool, the following information shows how assets and income affect **Estimated Expected Family Contribution**.

Married 45 year old parents, 2 children, 1 in college. \$50,000 Parental AGI, Student AGI \$6,400		Single 45 year old parent, 2 children, 1 in college. \$50,000 Parental AGI, Student AGI \$6,400	
Cash, Savings, Investments (including 529)	Estimated EFC	Cash, Savings, Investments (including 529)	Estimated EFC
\$0	\$2,829	\$0	\$3,703
\$20,000	\$2,861	\$20,000	\$3,982
\$50,000	\$3,671	\$50,000	\$4,936
\$100,000	\$5,271	\$100,000	\$6,839
\$200,000	\$9,811	\$200,000	\$12,088

  

Married 45 year old parents, 2 children, 1 in college. \$80,000 Parental AGI, Student AGI \$6,400		Single 45 year old parent, 2 children, 1 in college. \$80,000 Parental AGI, Student AGI \$6,400	
Cash, Savings, Investments (including 529)	Estimated EFC	Cash, Savings, Investments (including 529)	Estimated EFC
\$0	\$10,198	\$0	\$11,616
\$20,000	\$10,265	\$20,000	\$12,141
\$50,000	\$11,957	\$50,000	\$13,833
\$100,000	\$14,777	\$100,000	\$16,653
\$200,000	\$20,417	\$200,000	\$22,293

  

Married 45 year old parents, 2 children, 1 in college. \$120,000 Parental AGI, Student AGI \$6,400		Single 45 year old parent, 2 children, 1 in college. \$120,000 Parental AGI, Student AGI \$6,400	
Cash, Savings, Investments (including 529)	Estimated EFC	Cash, Savings, Investments (including 529)	Estimated EFC
\$0	\$23,558	\$0	\$23,872
\$20,000	\$23,626	\$20,000	\$24,397
\$50,000	\$25,318	\$50,000	\$26,089
\$100,000	\$28,138	\$100,000	\$28,909
\$200,000	\$33,778	\$200,000	\$34,549

  

Married 45 year old parents, 2 children, 1 in college. \$160,000 Parental AGI, Student AGI \$6,400		Single 45 year old parent, 2 children, 1 in college. \$160,000 Parental AGI, Student AGI \$6,400	
Cash, Savings, Investments (including 529)	Estimated EFC	Cash, Savings, Investments (including 529)	Estimated EFC
\$0	\$36,907	\$0	\$35,156
\$20,000	\$36,975	\$20,000	\$35,680
\$50,000	\$38,667	\$50,000	\$37,372
\$100,000	\$41,487	\$100,000	\$40,192
\$200,000	\$47,127	\$200,000	\$45,832

### KEY POINTS

Parental income usually has the greatest impact on EFC (**22-47%** of Adjusted Available Income).

Most non-retirement assets are assessed the same as 529 accounts, at **5.64%** toward the EFC. For every \$10,000 you save in a 529 account, your EFC only increases by \$564.

Custodial accounts, trusts, and other student-owned assets are assessed at **20%** toward the EFC.

Withdrawals from grandparent-owned accounts are counted as untaxed beneficiary income the following year. Beneficiary income beyond the first \$6,400 is assessed at **50%** toward the EFC.