Qualifying for Financial Aid

Investors saving for college often wonder what effect saving may have on a student's chances of qualifying for financial aid. There are several types of financial aid (federal, state and institutional), but federal aid is the most widely dispersed, and a family seeking any financial aid must complete the Free Application for Federal Student Aid (FAFSA).

The chart below shows the ranges of parent, student and grandparent income and assets used to calculate an annual Expected Family Contribution (EFC) for a student. Once EFC is determined, an institution's financial aid officer subtracts it from the institution's cost of attendance to determine annual financial need. The chart below shows income is more heavily factored than assets.

	PARENT	STUDENT	NON-PARENT
INCOME	22% - 47% of available income	50% of student income (after certain allowances)	Not included
ASSETS	**0% of assets** • Retirement Accounts such as IRAs[1] or 401(k) • Equity in your primary home, a family-owned business, insurance policies and annuities **0% - 5.6% of assets** • 529 savings plan (where parent is owner)[2] • Prepaid tuition plans (where parent is owner) • Coverdell ESA (where parent is owner)[2] • Securities • Mutual Funds • Bank accounts, CDs	**0% of assets** • Retirement Accounts such as IRAs[1] or 401(k) **0% - 5.6% of assets** • 529 savings plan (where student is owner)[2] • Coverdell ESA (where student is owner)[2] **20% of assets held in student's name** • UGMA/UTMA accounts • Minor trusts • Savings bonds (in student's name) • Money, investments, business interests and real estate	**0% of assets** • Retirement Accounts such as IRAs[1] or 401(k) • 529 savings plan (where a non-parent is owner)[3] • Coverdell ESA (where a non-parent is owner)

[1] Though the tax law now permits penalty-free withdrawals from traditional or Roth IRAs to pay for qualified college costs, doing so could jeopardize financial aid in the following year. The entire withdrawal, principal and earnings, counts as income on the following year's aid application.

[2] Withdrawals from a 529 plan and an ESA are treated advantageously. Such withdrawals when used for college are excluded from your federal income tax return, and according to the U.S. Department of Education are not required to be "added back" when reporting your family income on the student's federal financial aid application.

[3] Most financial aid offices interpret the rules as requiring distributions from grandparent-owned and other non-parent owned 529s to be included as student income, even when the distributions are not reportable for federal income taxes (i.e. they are tax-free).

Note that some colleges will calculate financial need using a different formula when offering their own grants and tuition discounts. The "institutional methodology" used by many of these colleges may count home equity, sibling assets, and certain investment accounts in a manner that differs from the federal methodology.

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