

# Financial aid and college savings

Saving for college is one of the most important decisions a family can make – and once made, the process involves diligent preparation. You can save in a variety of ways, such as 529 college savings plans, custodial accounts and zero coupon bonds. Regardless of how long your family has been saving or how much has been saved, federal financial aid may be available. Federal financial aid is need-based and determined by one equation:

$$\frac{\text{Cost of Attendance (COA)} - \text{Expected Family Contribution (EFC)}}{\text{Financial Need}}$$

## Examining financial need

All families applying for financial aid must complete the Free Application for Federal Student Aid (FAFSA). Once your application has been submitted, the U.S. Department of Education will send you a Student Aid Report (SAR) – the result of your FAFSA, which will contain your Expected Family Contribution (EFC). The EFC is then subtracted from a school’s cost of attendance (COA) to determine the student’s financial need. However, this need does not guarantee a student will receive that amount in financial aid.

The COA is the total amount it will cost you to go to school for one year, and includes tuition and fees, on-campus room and board (or a housing and food allowance for off-campus students), and allowances for books, supplies, transportation, loan fees and, if applicable, dependent care. It also includes miscellaneous and personal expenses as well as costs related to a disability. Talk to the financial aid administrator at the school you’re planning to attend if you have any unusual expenses that might affect your cost of attendance.

## Changes to the federal aid application process in 2016

For the 2016–2017 school year, the process for applying for federal aid will remain the same – you can apply for federal aid beginning Jan. 1, 2016. For the following school years, however, you will be able to apply for federal aid on the Oct. 1 prior to the school year for which you are applying – almost a full year before school starts. This will be in effect on Oct. 1, 2016, for the 2017–2018 school year. Remember that when you use the FAFSA to apply for financial aid, your application is

often reviewed for state and institutional financial aid as well as federal aid. States and colleges have varying deadlines for submitting the FAFSA, so it’s important to check [www.fafsa.ed.gov](http://www.fafsa.ed.gov) for these details.

Expected Family Contribution: Income Is Considered More Than Assets		
	Parents	Student
<b>Income</b>	<b>22%–47% of available income<sup>1</sup></b>	<b>50% of adjusted gross income over \$6,260</b>
<b>Assets</b>	<b>2.6%–5.64% of assets</b> <ul style="list-style-type: none"> <li>- Mutual funds</li> <li>- Securities</li> <li>- Bank accounts, CDs</li> <li>- 529 savings plans (parent- or student-owned)</li> <li>- Custodial 529 plans</li> <li>- Coverdell Education Savings Accounts</li> </ul>	<b>20% of assets</b> <ul style="list-style-type: none"> <li>- UGMA/UTMA accounts not held in a 529 plan</li> <li>- Minor trusts not held in a 529 plan</li> <li>- Savings bonds (in student’s name)</li> </ul>
<b>Exclusions</b>	<ul style="list-style-type: none"> <li>- Qualified retirement accounts</li> <li>- Primary home equity</li> <li>- Annuities and insurance policies</li> <li>- Family-owned businesses</li> </ul>	<ul style="list-style-type: none"> <li>- Student-owned qualified retirement accounts</li> </ul>

The table above shows the percentages of income and assets included in calculating your EFC. As you can see, income is more heavily weighted than assets. Some families worry that contributing to a 529 college savings plan may hurt their chances of receiving financial aid. In reality, a maximum of only 5.64% of parental assets are considered in the EFC calculation.<sup>2</sup>

<sup>1</sup> The amount of parental adjusted gross income after allowances for federal, state, local and FICA taxes, as well as an income protection allowance based on the number of people in the household.

Source: U.S. Dept. of Education, 2015

<sup>2</sup> This is based on guidance and is not encoded in the law or regulations. Such guidance is subject to change, and families should exercise caution before relying on it for a long-term investment in their children’s education.



## Income and assets affecting EFC

Understanding how the federal financial aid system views income and assets will help you develop a more realistic expectation of your potential financial aid eligibility. Here is how certain income and assets affect the calculation of the EFC:

- **Parent- or student-owned 529 and Coverdell accounts** - These accounts are considered an asset of the parent and are required to be disclosed when applying for financial aid. Distributions from these accounts do not count as income.
- **529 and Coverdell accounts not owned by the parent or student** - These accounts are considered an asset of the owner and therefore are not required to be disclosed when applying for federal financial aid. However, distributions from these accounts are reported as the student's income for that year on the next FAFSA filed.
- **Retirement accounts** - The federal financial aid formula does not include retirement account balances in assets. However, distributions from these accounts (whether taxable or not) and Roth conversions are counted as income for that year.  
  
Distributions from 529, Coverdell and retirement accounts not owned by the student or parent could reduce the student's financial need, as determined by the formula. You may wish to delay such transactions until the student's final two years of college, when distributions will no longer affect the student's financial aid.
- **Independence of student** - If a student is legally independent, parental information is not considered.

Remember, whatever you can save today will help your child or grandchild graduate with less debt to repay in the future.

## Additional notes and resources

Families must complete the FAFSA and qualify in order to receive federal financial aid. Even those who believe they may not be eligible should submit the application. This application is also required to apply for various loans. A change in family circumstance (such as a parent death, disability, divorce or unemployment) could establish a new financial need.

### [www.fafsa.ed.gov](http://www.fafsa.ed.gov)

Free Application for Federal Student Aid  
800-4-FED-AID or 800-433-3243

### [www.studentaid.ed.gov](http://www.studentaid.ed.gov)

Federal student aid programs; applying for financial aid; other tools and resources

### [www.finaid.org](http://www.finaid.org)

Details on financial aid, scholarships and loans

### [www.savingforcollege.com](http://www.savingforcollege.com)

Guide to college savings as well as detailed information on 529 college savings plans

Edward Jones does not employ financial aid experts or give financial aid advice. This is a highly specialized field, and specific questions should be directed to a qualified financial aid officer. This does not include most tax professionals.

This material is offered for broad, informational purposes only. Many important details of the federal financial aid system are not mentioned or fully described. The information provided is a simplified explanation of the federal financial aid system and how savings vehicles fit into it.

This information discusses federal financial aid only. Information on aid from schools and states and on private scholastic and athletic scholarships is not provided.



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