

Qualifying for Federal Financial Aid

Understand the Cost of Attendance (COA), the Student Aid Index (SAI) and compare how parental vs. student vs. non-parental (grandparent) assets including 529s affect Federal Financial Aid.

Education Planning

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Updated: January 2022

There are several types of financial aid (federal, state and institutional), but federal aid is the most widely dispersed. A family seeking any financial aid must complete the Free Application for Federal Student Aid (FAFSA).

THREE BASIC INGREDIENTS FOR NEED-BASED AID

1. The cost of the school your child will be attending or is attending in general includes tuition, transportation, fees, books, supplies and room and board is known as the Cost of Attendance (COA).
2. The dollar amount provided to the student from outside sources. Scholarships would be considered an outside resource.
3. The Student Aid Index (SAI) reflects an evaluation of a student's/family's approximate financial resource to contribute towards higher education for the academic year. The SAI will be used to calculate need for need-based aid programs, not including the Pell Grant, such as the Federal Direct Subsidized Loan program, Federal Work-Study (FWS) program, the Federal Supplemental Educational Opportunity Grant (SEOG) program, and some state aid and institutional aid. This figure is determined each school year you apply for the Free Application for Federal Student Aid (FAFSA). The calculation considers the student's income and assets and the parent's income and assets. Refer to the chart on the next page.

THE FORMULA

Let's assume your child will be attending an in-state public college costing \$22,000 per year. Based on the FAFSA your Student Aid Index (SAI) contribution is \$10,000. Your child received a private scholarship for \$1,000. Your child's financial need is \$11,000 computed as follows:

(COA-SAI-Outside Resources = Financial Need)

COA	\$22,000
SAI	\$10,000
Outside Resources	<u>\$1,000</u>
Financial Need	\$11,000

After completing the FAFSA the school's financial aid office will provide information of what type of student aid is available and what amount will be available to your child. Federal student aid comes in different forms including grants, work-study programs and loans. A **grant** does not have to be repaid and are typically awarded to students with exceptional financial aid need. The **Federal Work-Study** program is a program where students while attending can earn money for college through an on-campus or off-campus job. A **loan**, either a subsidized or unsubsidized, must be repaid back with interest.

Qualifying for Federal Financial Aid, continued

The chart below shows the ranges of parent, student and non-parent income and assets used to calculate an annual Student Aid Index (SAI) for a student. Once SAI is determined, an institution's financial aid office subtracts it from the institution's cost of attendance to determine annual financial need.

	PARENT	STUDENT	NON-PARENT
INCOME	Anywhere from 22% - 47% of available income (prior, prior year look back)	50% of student income (prior, prior year look back)	Non-parent income is not included
ASSETS	<p>Assets not included:</p> <ul style="list-style-type: none"> Retirement Accounts such as IRAs¹, 401(k), pension funds Equity in your primary home A family-owned business ABLE accounts Insurance policies and annuities UTMA accounts for which you are the custodian on 	<p>Assets not included:</p> <ul style="list-style-type: none"> Retirement Accounts such as IRAs¹ or 401(k), pension funds 	Non-parent owned assets including grandparent owned 529 and Coverdell accounts are not included on the FAFSA
	<p>Assets reported on the FAFSA: (account value as of the day you apply for the FAFSA)</p> <p>Up to 5.6% of assets</p> <ul style="list-style-type: none"> 529 savings plan (where parent is owner)² Prepaid tuition plans (where parent is owner) Coverdell ESA (where parent is owner)² Trust funds Securities, stocks, stock options, bonds, mutual funds Bank accounts, CDs Real estate, rental property not including your primary home 	<p>Assets reported on the FAFSA: (account value as of the day you apply for the FAFSA)</p> <p>Up to 5.6% of assets</p> <ul style="list-style-type: none"> 529 savings plan (student owned 529 where student is a dependent)² UTMA-529 (where student is a beneficiary)² Coverdell ESA (where student is owner)² <p>20% of assets owned by student</p> <ul style="list-style-type: none"> 529 savings plan (student owned 529 where student is an independent)² UTMA accounts for which you are the minor on Minor trusts (trust in student's name) Securities, stocks, stock options, bonds, mutual funds (in student's name) Bank accounts, CDs Real estate, rental property not including your primary home 	<p>Note:</p> <p>Regarding student's untaxed income on FAFSA</p> <p>Due to the FAFSA Simplification Act as part of the Consolidated Appropriations Act of 2021 the new law has stated that the FAFSA will no longer require the student to report money received or paid on the student's behalf as untaxed income including distributions from a non-parent owned 529 such as a grandparent owned 529.</p> <p>This is planned to take effect starting with the 2024-25 FAFSA. Because the FAFSA does a prior-year look back at income this could be beneficial to students as early as the 2022 calendar year unless the change is delayed.</p>

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 future. The entire withdrawal, principal and earnings, counts as income. The FAFSA does a prior, prior year look back at income.

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.

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