How 7 different assets can affect your financial aid eligibility

https://www.savingforcollege.com/article/how-7-different-assets-can-affect-your-financial-aid-eligibility

Need some help paying for college? The first thing you need to do is to file your Free Application for Federal Student Aid (FAFSA). Worried that you won't qualify for aid? Even parents and students who have some savings may still be eligible. Colleges and universities use the information from your FAFSA and federal tax return to calculate your Expected Family Contribution (EFC). However, not all funds are treated equal. The following slideshow explains the different effects that seven household assets can have on your financial aid eligibility.

Read on to get a better idea about how much you might be eligible for!

Since the 2017-18 FAFSA, instead of using prior year income as 'base year' income, the FAFSA uses prior-prior year income. For example, the FAFSA will report 2016 calendar year income for the 2018-19 Expected Family Contribution (EFC) determination instead of 2017 calendar year income.

A student's financial aid package can be reduced by as much as 50% of the value of student income reported on their FAFSA. That means if a grandparent gifts $10,000 to help pay for his grandchild's college, it could reduce the student's federal financial aid by $5,000 the following year. This includes withdrawals from a 529 plan. To avoid this, we typically advise grandparents to wait until the grandchild's junior year of college (after he or she files their last FAFSA) to help pay for college.

Prior-prior reporting offers grandparents greater flexibility in tapping their 529 accounts for grandchildren, allowing them to provide financial support as early as the student's sophomore year, after the second-to-last FAFSA is filed.

It's also worth noting that gifts to the parent do not get reported as income on the FAFSA. They must still be reported as an asset to the extent that they are not yet spent as of the date the FAFSA is filed. So, alternatively, the grandparents could give the money to the parent.

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1. Retirement accounts

- The good news: The value of your 401(k) and Roth and traditional IRA accounts are not counted at all when determining your EFC.
- The bad news: Although you can take a penalty-free withdrawal from a Roth IRA to pay for college, the entire amount you withdraw will count as untaxed income on the FAFSA*.
- When computing EFC, as much as 50 percent of income can be considered available funds to pay for college. Remember: higher EFC means less financial aid eligibility!

2. Equity in your home

- Home equity is the difference between the market value of your home and the amount you owe on it.
- This amount is NOT counted as an asset on the FAFSA, but it is included on the CSS Profile form, which caps it at 2-3 times income.
- Home equity in investment real estate, such as a second home, does count on both the FAFSA and the CSS Profile.
- When calculating the net worth of an asset, you can subtract only debts that are secured by the asset. So, if you used a home equity loan on your principal place of residence to buy a second home, the full value of the second home must be reported as an asset on the FAFSA. The home equity loan does not offset the market value of the second home, since the home equity loan is secured by the principal place of residence and not the second home.

3. UGMA/UTMA accounts

- Custodial accounts are considered a student’s assets on the FAFSA.

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- 20 percent of a student's assets are counted on the FASFA, 25 percent are counted on the CSS Profile.
- Any interest, dividends or capital gains reported on the student's income tax return is also counted as income on the FAFSA and assessed at 50 percent*.

4. Family-owned businesses

- The value of your family business is not counted on the FAFSA when:
  - More than 50 percent of your business is owned and controlled by your family, AND
  - There are less than 100 full-time or full-time equivalent employees

5. Value of insurance policies and annuities

- Cash values of whole life insurance policies and annuities are not reported on the FAFSA.
- However, non-qualified annuities are counted as assets on the CSS Profile, a form used by many schools to determine non-government aid eligibility.
- Keep in mind that there are also a number of other important differences between the FAFSA and the CSS Profile.

6. Mutual fund assets

- The value of a mutual fund will count as an asset on the FAFSA.
- Distributions from a mutual fund to pay for college will count as income on the FAFSA*.
- Dividends and capital gains that are reported on Form 1040 will also be counted as income on the FAFSA.

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7. 529 College Savings Plans and Coverdell ESAs

- Funds in 529 plans and ESAs owned by a dependent student or one of their parents are counted as parental assets on the FAFSA.
- Only up to 5.64 percent of a parent's assets are considered available funds to pay for college, compared to 20 percent of a student's assets. Higher EFC = less financial aid!
- Withdrawals used to pay for college are not included on the FAFSA, except when the account is owned by a grandparent or other third party.