



By LYNN O'SHAUGHNESSY / MONEYWATCH / January 14, 2013

A common myth about college financial aid

(MoneyWatch) Are you one of the millions of U.S. families that never bothers to [file for college financial aid](#)?

Parents offer lots of explanations for why they don't apply for such assistance, but one common reason is this: We have too much money saved to qualify for [financial aid](#).

What people often don't realize is that money set aside for college does not represent some sort of money time bomb. These assets usually don't hurt a family's chances for financial aid. Here are three reasons why many parents don't have to worry about their savings disqualifying them from college aid:

1. Retirement money isn't counted. Colleges don't care how much money parents or students have saved in retirement accounts. The "[Free Application for Federal Student Aid](#)," or FAFSA, the form required by college for need-based financial aid, doesn't even ask families if they have a retirement account.

2. Everyone can shield some cash. Colleges and universities will care about your non-retirement assets, but even then the FAFSA allows parents to shield some of this money from federal financial aid calculations. The amount that you can protect from the aid calculation is tied to the age of the oldest parent. Older parents get a bigger break because they are closer to retirement.

You can determine how much money you can shield by looking at the following federal asset protection allowance chart, which is subject to change every year:

Asset protection allowance example

Let's take a look at how this asset protection allowance works. Let's assume that the oldest parent is 57 years old, which would entitle a couple to an allowance of \$49,300. This would allow the parents to shield up to that amount of their non-retirement assets, including [529 plan](#) holdings.

What happens if the parents have non-retirement assets that exceed the allowance? These assets are assessed at the parental rate of 5.64 percent. Let's say for this example that the parents have saved \$100,000. Subtracting the allowance from \$100,000 would leave \$50,700.

You would then multiply 5.64 percent by 50,700 for financial aid purposes to get a final figure of \$2,859. This figure would be the amount that is added to the family's "[expected family contribution](#)" that represents, at a minimum, what a family would be expected to pay for one year of college.

Table A5: Education Savings and Asset Protection Allowance

for EFC Formula Worksheet A (parents only)

<i>Age of older parent as of 12/31/2013*</i>	Allowance if there are two parents	Allowance if there is only one parent	<i>Age of older parent as of 12/31/2013*</i>	Allowance if there are two parents	Allowance if there is only one parent
25 or less	\$0	\$0	45.....	\$36,200	\$10,600
26.....	2,100	600	46.....	37,100	10,800
27.....	4,300	1,300	47.....	38,000	11,100
28.....	6,400	1,900	48.....	39,000	11,300
29.....	8,600	2,500	49.....	39,900	11,600
30.....	10,700	3,200	50.....	40,900	11,900
31.....	12,800	3,800	51.....	42,100	12,200
32.....	15,000	4,400	52.....	43,100	12,500
33.....	17,100	5,100	53.....	44,200	12,800
34.....	19,300	5,700	54.....	45,500	13,100
35.....	21,400	6,300	55.....	46,800	13,400
36.....	23,500	7,000	56.....	47,900	13,700
37.....	25,700	7,600	57.....	49,300	14,100
38.....	27,800	8,200	58.....	50,800	14,400
39.....	30,000	8,900	59.....	52,200	14,800
40.....	32,100	9,500	60.....	53,500	15,100
41.....	32,900	9,700	61.....	55,000	15,600
42.....	33,700	9,900	62.....	56,900	16,000
43.....	34,500	10,100	63.....	58,500	16,400
44.....	35,400	10,300	64.....	60,100	16,900
			65 or over..	61,800	17,400

Put another way, having savings of \$100,000 would only hurt aid chances by less than \$3,000. And the aid that this family lost out on might only have been loans, rather than other kinds of financial support.

It's clear that saving [money for college](#) -- even a considerable amount -- won't significantly affect the ability to get college financial aid chances for most married couples. Single parents, however, receive a significantly lower asset allowance, which is unfortunate.

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Comments

Well, sort of. Ms. O'Shaughnessy's rather optimistic view about financial aid planning is similar to that of the vast majority of Guidance Counselors. Most parents would be well-served to be very careful with their FAFSA filing. Or seek the advice of professional college financial planners.

Technically, the FAFSA does not ask for IRA balances but it certainly asks about IRAs. Question 92 asks about parents' contributions to retirement plans which then gets added back as "financial aid income" (not to be confused with real, sane-world income). And since income - parent and student - counts far more than assets, the IRA add-back is a relatively important distinction.

Most parents of high school students, outside of New York and Malibu, are 50 or younger so the FAFSA allowance is only \$41k. Fifty year-old parents about to send Sally Student to college ought probably to have at least \$25k in liquid, emergency cash, leaving only \$16k of "protected" college savings room. Since 529 Plan balances are totaled for ALL children and then counted as a parent asset, the \$100k Mom & Dad saved for Sally and her younger brother Sam actually hurts SALLY'S financial aid eligibility by \$4,738 per year, not \$2,859 (a 65% aid eligibility reduction over the article example).

And that's the calculation for "parent assets." Were the children's savings in UTMA accounts instead, they would be treated individually but they would be "financial aid taxed" by the formulas at 20% annually. This equates to an aid eligibility reduction of \$10,000 per year (assuming each child has \$50k). UTMA withdrawals are then "taxed" as student income - at 50%.

Wall Street advises transferring UTMA balances to 529 Plans - which, perhaps not coincidentally, provides Wall Street salespeople with a sell commission on the UTMA and a buy commission on the 529 - and reduces the negative financial aid impact only from 20% (UTMA) to about 12% (two children's 529 plans, added together). And of course, does nothing to reduce the risk of a 2008-like 38% decline in principal value while Mom & Dad are in the middle of paying for college. A better solution is to shelter the money completely so it does not count for aid at all.

At "CSS Profile colleges" like USC, Notre Dame, Rice, Yale (and about 200 others), 529 Plan balances are counted as student assets and all of the siblings' assets are added together, then "taxed" at 25%. In my example, the 50 year-old parent, \$100,000 in student assets reduces aid eligibility for the first student (Sally) by \$25,000 per year, every year, a figure a bit more alarming than "only less than \$3,000" no?

College financial planning is complex, counter-intuitive and entirely different than tax planning. Since educating two children can now cost more than parents' homes or retirement balances, it might make sense to spend an hour with a consultant.