

# **Filling the Piggybank: Saving for College**

**Instructor's Guide**



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# Filling the Piggybank: Saving for College

Time 45 minutes

Objectives by section Participants will be able to:

- Understand the importance of saving for college;
- Identify various saving options;
- Describe the benefits of 529 plans; and
- Understand the impact of savings on eligibility for federal financial aid.

Materials PowerPoint Presentation  
*College Savings Options*

College Savings Plan Network, [www.collegesavings.org](http://www.collegesavings.org)

Sources Elliott, W. and Wagner, K. (2007). *Raising Parent Expectations: Can Wealth and Parent College Accounts Help?* St. Louis, MO: Washington University, Center for Social Development.

Elliott, W., Sherraden, M., Johnson, L., and Peterson, S. (2007). *College Expectations Among Young Children: The Potential Role of Savings*. St. Louis, MO: Washington University, Center for Social Development.

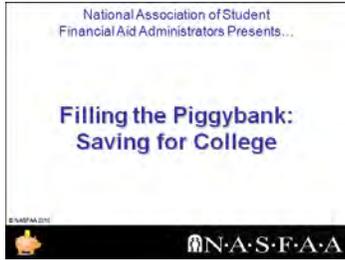
The Department of the Treasury (2009). *An Analysis of Section 529 College Savings and Prepaid Tuition Plans*. Washington, DC: U.S. Department of the Treasury.

Internal Revenue Service (2008). *Publication 590: Individual Retirement Arrangements (IRAs)*. Washington, DC: U.S. Department of the Treasury.

Internal Revenue Service (2008). *Publication 970: Tax Benefits for Education*. Washington, DC: U.S. Department of the Treasury.

Treasury Direct at <http://www.savingsbonds.gov/>

**SLIDE 1**



**I. Introduction**

**A. Icebreaker**

**Note to Instructor:** *The following icebreaker is intended to relax the audience and to emphasize the need to take the guesswork out of financially planning for college. Before the workshop, fill a glass or clear plastic jar with candy, buttons, or beans, keeping track of the number of items it takes to fill the jar. As participants come in, hand each a small piece of paper and ask them to guess the number of items in the jar. Begin the presentation by revealing how many pieces it took to fill the jar. Depending on what you used to fill the jar, you could use it as a prize for the person who came closest to guessing the correct number.*

**B. Paying for College**

Paying for college can often seem like guessing the number of beans in a jar. Guessing is okay for some things, such as games, but not for major investments such as college. One of the best ways to eliminate the guesswork from the college-planning process is to plan financially for college. Saving for college doesn't mean that you need to rush out and hire a financial planner tomorrow. One of the best ways you can plan ahead is to begin saving for college as early as possible.

**C. The Presentation**

We will discuss the following topics today:

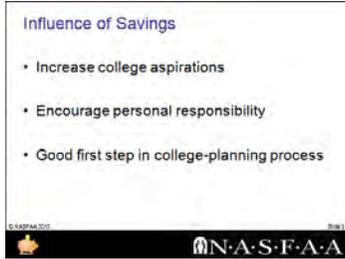
- Influence of savings;
- Savings options;
- Advantages of 529 plans; and
- Impact of savings on eligibility for financial aid.

We have quite a bit to discuss. Let's get started by talking about the influence of savings.

**SLIDE 2**



**SLIDE 3**



## **II. Why Saving for College is Important**

### **A. Influence of Savings**

The existence of savings can have an impact on how a student feels about college and if he or she thinks going to college is an achievable dream. Research has shown that young children understand both the value of money and that going to college takes money. Even though most families are unable to save enough to pay for the entire cost of college, the presence of any amount of savings can increase both parents' and children's aspirations about the likelihood of college attendance.

The presence of savings, as well as being in the habit of saving regularly, also encourages personal responsibility. The application process for most financial aid, which we will discuss in more detail later, assumes the student and his or her family bear the primary responsibility for financing a college education. Having a college savings account helps students to clearly see their role in the college financing process and is a visible reminder of their progress toward the goal of paying for their college education.

Finally, saving is a good first step in the college planning process. Planning for college involves a number of steps, including course selection in middle school and high school, exploring career paths, learning about different colleges, and researching scholarship opportunities. Many of these steps occur when students are in high school. On the other hand, saving for college is a step that should be taken as early as possible. The sooner a family begins saving, the more useful this resource will be.

**Note to Instructor:** Engage the audience in a brief discussion about saving for college. Ask:

- *Have you started saving for college expenses?*
- *What savings mechanism are you using or planning to use to prepare for college expenses?*
- *Are you on track to reach your savings goals?*

I think we all agree saving is an important step in the process of planning for college. But how should a family save for college? There are a number of savings options available; we will explore them next.

## B. Savings Options

**Note to Instructor:** This section describes several options for saving for college. Consider polling the audience about whether or not they are familiar with each savings option, and if they are currently using it.

➔ Refer the audience to the College Savings Options chart to follow along with the presentation.

### 1. Traditional Savings Accounts

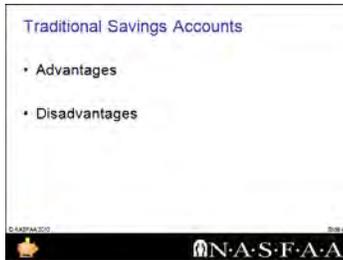
When people think of savings, what often comes to mind is traditional savings accounts. Traditional savings accounts are convenient; many banks and credit unions allow you to transfer funds easily from one account to another, even on a regular, reoccurring schedule. Savings accounts are also protected by Federal Deposit Insurance Corporation, or FDIC, insurance. It is also easy to access these funds when you need them.

Traditional savings accounts also have some disadvantages as a vehicle for college savings. While these accounts are quite safe, they tend to have very low rates of return, usually lower than three percent. On-line banks, such as ING Direct, may offer higher interest rates on deposits than traditional banks. Institutions that offer traditional savings accounts usually don't offer the college planning resources that other savings options may make available to participants. We will discuss these other options shortly.

**Note to Instructor:** If participants are interested in comparing the rates offered by various institutions for savings accounts, one Web site they could use is:

[www.money-rates.com/savings.htm](http://www.money-rates.com/savings.htm).

## SLIDE 4



**SLIDE 5**



## 2. Savings Bonds

Another well-known savings option is U.S. savings bonds. Savings bonds are a reliable, low-risk option backed by the U.S. government. They can be used for a variety of purposes, including paying for educational expenses and supplementing retirement income. Bonds are popular birthday and graduation gifts. Unlike other securities, minors can own U.S. savings bonds. Bonds may be purchased electronically or as paper bond certificates. Series EE Bonds purchased on or after May 1, 2005, earn a fixed rate of return, letting holders know what their bonds are worth at all times. Bonds purchased between May 2009 and October 2009 have a fixed earnings rate of 0.70 percent.

***Note to Instructor:*** Series EE Bonds purchased between May 1997 and April 30, 2005, are based on five-year Treasury security yields and earn a variable market-based rate of return. Series E Bonds are the predecessor of Series EE Bonds and are no longer available for purchase.

There are some other features of savings bonds of which you need to be aware. The maximum amount of savings bonds that can be purchased in a year is \$5,000. The maturation period for bonds—the length of time it takes for a bond to reach its full value—is 20 years. A savings bond has an interest-bearing life of 30 years. Because it takes so long for a bond to mature, you should use them as a college-saving mechanism if you start saving for education very early. If you redeem an E or EE Series Bond within the first five years, you will lose the interest earned in the previous three months. There is no interest penalty if you hold a bond for at least five years. To own a U.S. savings bond, you must have a Social Security Number.

In addition to traditional savings mechanisms, there are other ways you can save for college. Let's look at individual retirement arrangements, or IRAs, next.

**SLIDE 6**

Individual Retirement Arrangements (IRAs)

Two common IRAs

- Traditional
- Roth

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**SLIDE 7**

Traditional IRAs

- Set up and contribute to IRA if you receive taxable compensation and are younger than age 70 and a half
- Annual contribution cap

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**SLIDE 8**

Traditional IRAs

- Annual contribution deductible on federal tax return
- Distributions are taxable
- Early distributions (before age 59 and a half) incur a tax penalty
  - Exception: No tax penalty for distributions used to pay qualified higher education expenses

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**SLIDE 9**

Qualified Higher Education Expenses

- Tuition and fees
- Books, supplies, and equipment
- Room and board if the student is enrolled at least half time

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**3. Individual Retirement Arrangements (IRAs)**

**a. Traditional IRAs**

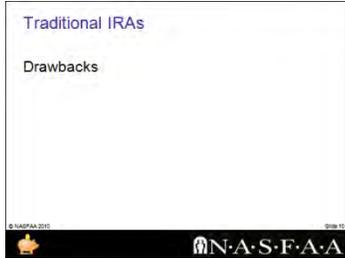
Two common types of IRAs are traditional IRAs and Roth IRAs. We'll start with traditional IRAs. A traditional IRA is any IRA that is not a Roth IRA or a Savings Incentive Match Plan for Employees or SIMPLE IRA. You can set up and contribute to an IRA if you receive taxable compensation and are younger than age 70 and a half by the end of the year. Generally, annual contributions to traditional IRAs are capped at \$5,000 if you are younger than age 50, and \$6,000 if you are age 50 or older. You may deduct the value of your annual contribution from your income when you prepare your tax return. Distributions from a traditional IRA are taxable in the year you receive the distribution. For example, if you receive a \$5,000 distribution in the 2009 calendar year, you must report the funds on the tax return you file for 2009 tax year. You can withdraw and use your traditional IRA assets at any time, but if you withdraw funds before you are age 59 and a half, you will incur an additional U.S. income tax penalty of 10 percent, with some exceptions. The 10 percent penalty is an extra tax on top of the regular U.S. income tax that you must pay.

As I just mentioned, there are some exceptions to the extra tax incurred when an individual withdraws funds from a traditional IRA before age of 59 and a half. One of these exceptions is if the funds will be used to pay for qualified higher education expenses.

Qualified higher education expenses include:

- Tuition and fees;
- Books, supplies, and equipment required for the enrollment or attendance of a student at an eligible educational institution; and
- Room and board, if the student is enrolled at least half time.

**SLIDE 10**

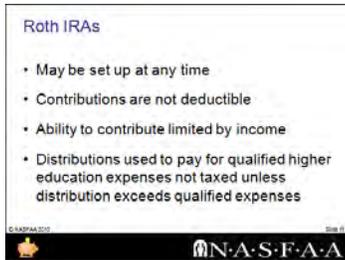


**Note to Instructor:** An eligible educational institution is any postsecondary educational institution that is eligible to participate in the Title IV federal student aid programs.

While traditional IRAs provide flexibility to use the funds to pay for college, they have some drawbacks as a savings mechanism. First, traditional IRAs are more conducive for saving for retirement. Secondly, they have a low annual contribution cap, which makes it more difficult to accumulate funds to pay for college, especially if you don't start contributing to an IRA when a child is very young. Finally, IRAs have a more significant impact on a student's eligibility for financial aid, which we will discuss in more detail later.

**b. Roth IRAs**

**SLIDE 11**



A Roth IRA is an individual retirement plan subject to many of the same rules, such as annual contribution limits, that apply to traditional IRAs. However, Roth IRAs differ from traditional IRAs in some important ways. You can set up a Roth account at any time; however, the time period for making contributions for any given year is limited. Contributions to Roth IRAs cannot be deducted from your income when you prepare your tax return. An individual's ability to contribute to a Roth IRA is limited by income—if the modified adjusted gross income, or AGI, is more than a specified amount, you cannot contribute to a Roth account. The modified AGI limits are:

- \$169,000 for married filing jointly or qualifying widow(er);
- \$116,000 for single, head of household, or married filing separately if the tax filer did not live with his or her spouse at any time during the year; and
- \$10,000 for married filing separately if the filer lived with his or her spouse at any time during the year.

**Note to Instructor:** The modified AGI is calculated by subtracting items such as Roth IRA conversions and rollovers from the AGI and then adding various items, such as the student loan interest deduction, traditional IRA deductions, and the tuition and fees deduction. For more information, refer participants to IRS Publication 590: Individual Retirement Arrangements (IRAs).

Since contributions to Roth IRAs are not deductible for federal taxes, the funds are considered “after-tax” dollars. Distributions from Roth IRAs to pay for qualified higher education expenses are not taxable if the funds withdrawn do not exceed the contributions made to the account. To avoid taxation, you cannot withdraw earnings accumulated in a Roth IRA until after you are age 59 and a half.

**Note to Instructor:** Roth IRAs use the same definition of qualified higher education expenses as traditional IRAs.

The drawbacks to using Roth IRAs as a college-savings vehicle are similar to the disadvantages we discussed earlier regarding traditional IRAs. The drawbacks include:

- Structured for use as retirement income; and
- Low annual contribution limits.

Traditional and Roth IRAs are common savings options but are primarily intended to use to save for retirement. We will now turn our attention to a savings mechanism that may be less familiar—Coverdell Educational Savings Accounts.

**Note to Instructor:** Ask participants if they have considered using IRAs to pay for college. Why or why not?

#### 4. Coverdell Educational Savings Accounts

➔ Refer the audience to the second page of the *College Savings Options* chart.

#### SLIDE 12



**SLIDE 13**

Coverdell Educational Savings Accounts (ESAs)

- Savings accounts designed to encourage saving for education
- Annual contribution limit per beneficiary
- Contributions not deductible



Coverdell Educational Savings Accounts, also known as Coverdell ESAs, are savings accounts designed to encourage parents and students to save for education expenses. The total contributions for a beneficiary of a Coverdell account cannot exceed \$2,000 per year, regardless of the number of accounts that have been set up. A beneficiary is an individual who is under the age of 18 or a special needs beneficiary. You make contributions to a Coverdell ESA with after-tax dollars—the contributions are not deductible. However, funds in an account grow tax free until withdrawn. The beneficiary will not have to pay taxes on distributions if the funds are less than the amount of his or her qualified educational expenses.

**SLIDE 14**

Coverdell ESAs

- Qualified education expenses
  - Higher education expenses
  - Qualified elementary and secondary school expenses
- Annual contribution limit affected by income

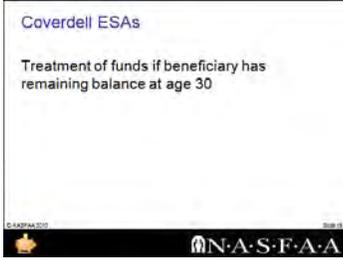


The definition of “qualified educational expenses” is unique for Coverdell ESAs. Eligible expenses include the higher education expenses we discussed earlier for IRAs as well as qualified elementary and secondary education expenses. The categories of qualified educational expenses are the same for elementary, secondary, and college education. That is, expenses such as tuition, fees, books and supplies, and some room and board expenses, are qualified educational expenses.

The amount you can contribute annually to Coverdell ESAs is affected by your modified AGI. You can contribute to an account until the date your federal tax return is due, not including any extensions.

**Note to Instructor:** *The limit on an unmarried individual’s contribution is \$2,000 if the modified AGI is less than \$95,000. For unmarried individuals with modified AGIs between \$95,000 and \$110,000, the contribution cap is gradually reduced to zero. The modified AGI thresholds are doubled for married taxpayers filing a joint return. For more information, see IRS Publication 970: Tax Benefits for Education.*

**SLIDE 15**



If a beneficiary has funds remaining in his or her Coverdell ESA upon reaching age 30, the funds must generally be distributed within 30 days. The portion of this distribution that represents earnings on the account is taxable and subject to an additional 10 percent tax. The beneficiary may avoid taxes by rolling the full balance into the Coverdell ESA of a family member.

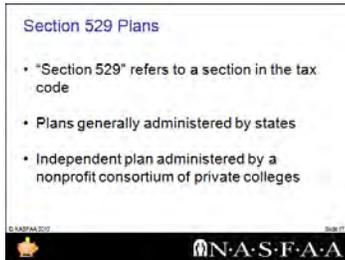
**SLIDE 16**



As you can tell from our discussion, unlike IRAs or even traditional savings accounts or bonds, Coverdell ESAs are a savings option designed specifically for educational expenses. However, these accounts have some restrictions that limit their effectiveness as a college-savings tool. As mentioned earlier, annual contributions cannot exceed \$2,000 per beneficiary. This low cap on contributions can make it difficult to save enough money to defray much of the expenses incurred to obtain a college degree. The calculation of the modified AGI also reduces the annual \$2,000 contribution for certain taxpayers. It is also important to note that the beneficiary is the owner of a Coverdell ESA. As a result, the value of the account could affect a student's eligibility for financial aid. Importantly, unless Congress acts, certain ESA benefits expire after 2010. K-12 expenses will no longer qualify, the annual contribution limit will be reduced to \$500, and withdrawals will not be tax free in any year in which a Hope credit or a Lifetime Learning credit is claimed for the beneficiary.

In addition to Coverdell ESAs, there is another savings option designed specifically to pay for education expenses. In fact, the sole purpose of this option is to cover the costs of postsecondary education. This savings option is known as qualified tuition programs or 529 plans. Given the advantages we will discuss shortly, these plans are a great way to save for college.

**SLIDE 17**



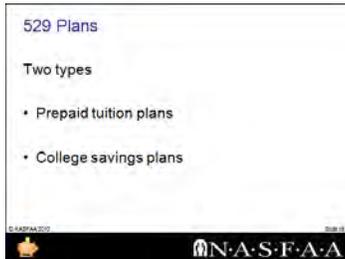
**5. Section 529 Plans**

Section 529 refers to a section of the tax code that provides the rules qualified tuition programs must follow in order to receive certain federal tax benefits. These savings programs are generally administered by the states and the District of Columbia. Every state except Wyoming offers a plan. There is also a plan administered by a nonprofit consortium of private colleges known as the Independent 529 Plan.

**Note to Instructor:** *College Invest and the Wyoming State Treasurer have partnered to offer Wyoming residents access to 529 plans in connection with Colorado's 529 College Savings Program.*

**Note to Instructor:** *Ask participants if they are familiar with the 529 plans offered by your state.*

**SLIDE 18**



There are two types of 529 plans:

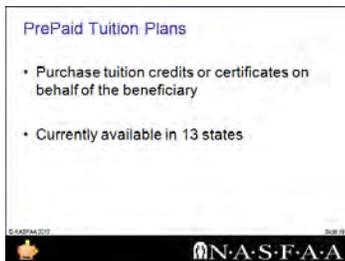
- Prepaid tuition plans; and
- College savings plans.

**a. Prepaid Tuition Plans**

In a prepaid tuition plan, you purchase tuition credits or certificates on behalf of a beneficiary. The credits or certificates entitle the beneficiary to a specified number of credit hours or semesters or years of tuition for future attendance at eligible institutions. The plan sponsor maintains a trust that invests the prepayments and uses the proceeds to finance the purchased tuition.

Prepaid tuition plans (sometimes called guaranteed savings plans) are currently available in 13 states. Performance is often based upon tuition inflation and many of the state providers offer some sort of financial backing or guarantee behind the promised tuition

**SLIDE 19**



**SLIDE 20**

College Savings Plans

- Make contributions to an investment account
  - Earnings based on market performance of underlying investments
- 49 states and Washington, DC offer savings plans

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**SLIDE 21**

College Savings Plans

- Accumulate free of federal and usually state tax
- Two types of plans
  - Direct-sold plans
  - Advisor-sold plans

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**SLIDE 22**

Qualified Higher Education Expenses

- Tuition and fees
- Books, supplies, and equipment
- Room and board if the student is enrolled at least half time

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benefits. Contrary to popular belief, most of these plans can be applied towards tuition costs at eligible private and out-of-state colleges in addition to in-state public colleges. To determine whether your state offers a prepaid tuition plan, visit [www.collegesavings.org](http://www.collegesavings.org) and click on “My State’s 529 Plan”, then select your state.

**b. College Savings Plans**

In the second type of 529 plan, a college savings plan, you make contributions to an investment account that has both a designated owner and a designated beneficiary. College savings plans are different from prepaid tuition plans in that your account earnings are based upon the market performance of the underlying investments, which typically consist of mutual funds. Savings plans may only be administered by states. Forty nine states and Washington, D.C. offer savings plans.

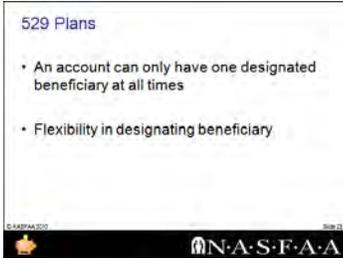
Investments earnings in both types of 529 plans are tax-deferred in that they accumulate free of federal tax and usually state tax. Distributions are also not subject to federal tax and usually state tax if they are used to pay the beneficiary’s qualified higher education expenses. There are two general types of savings plans. The first type is direct-sold plans that allow you to sign up and select investment options on-line. The second type is advisor-sold plans offered through financial advisors. The definition of qualified higher education expenses we discussed earlier for IRAs also applies to 529 plans. As you may recall, qualified higher education expenses include:

- Tuition and fees;
- Books, supplies, and equipment required for the enrollment or attendance at an eligible educational institution;

- Room and board if the beneficiary is enrolled at least half time; and
- For 2009 and 2010 only, the purchase of a computer.

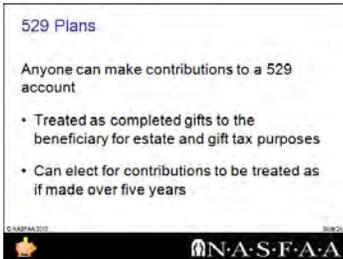
**Note to Instructor:** *The definition of an eligible educational institution discussed earlier also applies to 529 plans.*

**SLIDE 23**



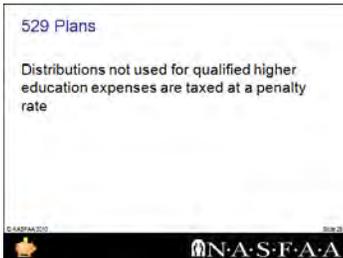
A 529 account can only have one beneficiary designated at all times. However, the account owner can designate another family member as the beneficiary at any time and may transfer balances to another account with a different same-family beneficiary. A recent report from the U.S. Treasury suggests that a family with several children could have one 529 account while the children are young and use the account to “spawn” other accounts when more than one child has qualified education expenses.

**SLIDE 24**



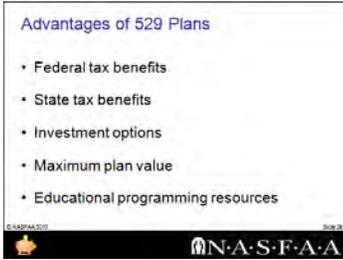
Anyone—including grandparents, other family members, and friends—can contribute to a 529 account. Such contributions are treated as completed gifts to the beneficiary for estate and gift tax purposes. Individuals can elect for contributions to be treated as if they were made over a five-year period and avoid the gift tax if contributions over five years do not exceed \$65,000 for single taxpayers and \$130,000 for married taxpayers. Individuals and couples may make lump sum contributions up to these amounts.

**SLIDE 25**



Distributions to cover expenses that are not qualified higher education expenses can be made to either the account owner or the beneficiary. However, the portion of such distributions that represent investment earnings are taxed at a penalty rate equal to the recipient’s ordinary tax rate plus 10 percent.

**SLIDE 26**



**C. Advantages of 529 Plans**

As you can see from our discussion of 529 plans so far, they have a number of advantages that make them a good option for saving for college. We'll discuss some of these advantages next.

**1. Federal Tax Benefits**

As we just discussed a moment ago, 529 plans have significant federal tax benefits. Although contributions are made with after-tax dollars, investment earnings accrue tax free. In addition, distributions from accounts are not subject to a federal tax if the beneficiary uses the funds to pay for qualified education expenses.

**2. State Tax Benefits**

Most 529 plans have state tax benefits. The District of Columbia and all states except Alabama do not tax 529 plan earnings or distributions if the funds are used to pay for qualified education expenses. Additionally, the majority of states that have both an income tax and a 529 plan offer either a deduction or credit for contributions to the State's plan. A small number of states, five, offer deductions for contributions made to any 529 plan.

In addition to tax benefits, another advantage of 529 plans is investment options. We will discuss investment options next.

**3. Investment Options**

529 savings plans offer a variety of investment options to help grow your college savings. Investment options for 529 plans are usually retail mutual funds available to the public, or a combination of such funds. The fees for this investment option are often higher

than the fees of the underlying mutual funds because they can include a program manager fee and/or a state fee.

The most popular investment option is an age-based fund. An age-based fund is a fund with an asset mix heavily weighted towards equities when the beneficiary is young that automatically becomes more weighted toward fixed-income and other conservative assets as your student nears college age. The idea is to have a more conservative portfolio as the time to use the funds approaches. This approach is similar to the strategy used for target-retirement date funds.

Some 529 plans offer a risk-based investment option. In these investment options, the underlying investments remain in the same fund or combination of funds regardless of the beneficiary's age. You may incur more or less risk with the value of a 529 plan since these investment strategies do not change over time.

There are also 529 plans with investment options that are more conservative than age-based funds. A stable value or guaranteed option protects your principle while providing for some growth. Some plans offer certificates of deposit, or CDs, as an investment option.

As you can tell from our discussion of 529 plan investment options, your ability to choose how to invest these funds is an advantage for this college-savings option. Let's turn our attention to another advantage of 529 plans, maximum allowable plan value.

#### **4. Maximum Plan Value**

Contributions to a 529 savings plan cannot exceed the amount necessary to provide for the qualified education expenses of the

beneficiary. The plans are required to provide safeguards to prevent contributions for a beneficiary from exceeding the amount needed to fund qualified education expenses. Most states that sponsor savings plans meet this requirement by refusing contributions to accounts once the balance exceeds a specified dollar value. This limit currently varies between \$224,000 and \$368,000. Most states base their limits on the estimated cost of four years of undergraduate study and three years of graduate study.

Some of the other savings options we discussed earlier, such as IRAs and Coverdell ESAs, have low annual contribution limits. While contributing enough money to a 529 savings plan to pay for a college education in its entirety is a daunting thought, you can save enough to offset a significant part of your beneficiary's expenses or to give your student more flexibility in his or her college choice.

529 plans offer advantages, such as federal and state tax benefits and a variety of investment options, which make them an excellent option for saving for college. In addition to these benefits, 529 plans may also offer educational programming resources to residents of the sponsoring state. Let's take a closer look at these resources.

### **5. Educational Programming Resources**

While sufficient financial resources are an important part of the college planning process, it takes more than money to prepare a student for college. Another advantage of 529 plans is the educational programming resources sponsoring states may make available to residents.

Take some time and explore your state's 529 plan Web site. You may be surprised at the wealth of information you will find. You can locate your state's plan Web site by first visiting [www.collegesavings.org](http://www.collegesavings.org), selecting "My State's 529 Plan", then selecting your state. Resources you may find include financial literacy events, savings calculators, college-planning tips, newsletters, glossaries, and links to helpful articles and Web sites. States have a vested interest in promoting the educational aspirations of their citizens. Take advantage of the resources that your state's college savings plans make available.

#### **D. Impact of Savings on Eligibility for Financial Aid**

At various points during the presentation, I have mentioned the impact that savings can have on a student's eligibility for financial aid. We will discuss this impact next.

In order to understand the impact that savings can have on eligibility for financial aid, it helps to know a little about how eligibility for federal financial aid is calculated. Students apply for federal financial aid by submitting the Free Application for Federal Student Aid, which is also known as the FAFSA. Many states and colleges also use information from the FAFSA to determine eligibility for state and institutional aid. The form collects demographic and financial information about the student and his or her family. The financial data collected includes current income as well as assets. The U.S. Department of Education uses the data to get an idea of the family's financial strength. This analysis of a family's financial strength is a significant factor in determining a student's eligibility for aid. Because the student is the primary beneficiary of a college education, he or she is expected to use more of his or her own income and assets to cover college expense than his or her parents.

#### **SLIDE 27**

Impact of Savings on Financial Aid

Apply for most aid using Free Application for Federal Student Aid (FAFSA)

- Collects information about student and his or her family
- Data used to get an idea of the family's financial strength

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**SLIDE 28**

Impact of Savings on Financial Aid

FAFSA asset questions

- Current balance of cash, savings and checking accounts
- Net worth of investments, including real estate
- Net worth of current businesses and/or investment farms

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For the purpose of calculating eligibility for financial aid, savings would be reported as an asset. Applicants may be required to answer three asset questions on the FAFSA:

- Current balance of cash, savings and checking accounts;
- Net worth of investments, including real estate; and
- Net worth of current businesses and/or investment farms.

**Note to Instructor:** *Poll participants to learn how many of them have previously completed a FAFSA. Point out that some applicants do not have to provide information about their assets on the FAFSA.*

**SLIDE 29**

Impact of Savings on Financial Aid

Common assets not reported on FAFSA

- Family home
- Certain small businesses
- Family farms
- Value of retirement plans and pension funds
- Value of noneducation IRAs

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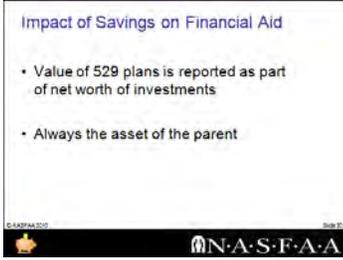


Keep in mind that some common assets are not reported on the FAFSA; thus, they do not impact a student's eligibility for financial aid. Examples include:

- The home in which the family lives;
- Small businesses with 100 or fewer full-time or full-time equivalent employees;
- A farm on which the family lives and operates;
- The value of retirement plans and pension funds; and
- The value of noneducation IRAs.

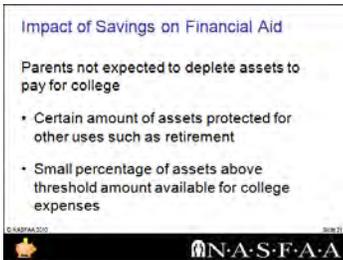
However, the value of some of the savings options we have discussed should be reported on the FAFSA. Funds saved in a traditional savings account need to be included in the amount of your current balance of cash, savings and checking accounts. The value of any savings bonds you own is part of the net worth of your investments. The value of Coverdell ESAs is also considered part of your net worth. Although you do not report the value of non-education IRAs on the FAFSA, any traditional IRA contributions deducted on your tax return must be included as untaxed income.

**SLIDE 30**



The value of 529 plans—both prepaid tuition plans and college savings plans—is also reported as part of net investments. The value of a 529 plan is never the asset of students who must include their parents’ information on the FAFSA. It is always treated as an asset of the parent. This treatment works to the student’s benefit. Recall from our discussion earlier that students are the primary beneficiary of a college education; therefore, they are expected to contribute more of their income and assets to covering their college costs. Because the value of a 529 plan is always the asset of the parent, it has a smaller impact on the student’s eligibility for financial aid. Let’s discuss why.

**SLIDE 31**



Although you have to report the value of a number of assets on the FAFSA, no one expects the parent to deplete his or her assets to pay for college. Based on the age of the older parent, a certain amount of assets is protected for other uses such as the parent’s retirement. Only a small percentage of assets above this threshold amount—12 percent—are available to pay for the student’s college education. Many families do not have reportable assets above the threshold amount, so their assets do not affect a student’s eligibility for aid.

**Note to Instructor:** *If audience members are interested in reviewing the EFC formula, they may request a copy of the formula by calling the Federal Student Aid Information Center at 1.800.433.3243.*

**III. Conclusion**

**SLIDE 32**



We have covered a lot of material. Refer to your handout to refresh your memory about the features of the various savings options we discussed. Start financially planning for college as soon as possible. Planning early will make you well informed, reduce surprises, and help make your students dreams come true.

Regardless of which option you choose, saving for college is one of the best things you do to financially plan for your student's college education. The presence and availability of savings will improve your child's college aspirations, increase his or her college choice options, and reduce your family's stress and anxiety about covering college expenses.

Does anyone have questions?