RAYMOND JAMES

The Financial Aid Formula

How saving for college could impact aid eligibility.

As you save for a child's or grandchild's future education, you might wonder what impact that saving will have on their chances of qualifying for financial aid. Agencies use a simple, but dynamic, formula to calculate financial need:

A SCHOOL'S COST OF ATTENDANCE − EXPECTED FAMILY CONTRIBUTION = FINANCIAL AID ELIGIBILITY

There are several types of financial aid (federal, state and institutional), but federal aid is the most widely dispersed and is based solely on financial need. The chart to the right illustrates how financial aid offices often weight parental and student income more heavily than assets when determining expected family contribution (EFC). In addition, student assets are weighted more heavily than parental assets.

EFC is an annual figure expressed in dollars, and it determines whether a family has a financial need. You can estimate your EFC here.

PARENTS

INCOME
22% TO 47% OF AVAILABLE INCOME

ASSETS
0% TO 5.64% OF ASSETS

- ✔ MUTUAL FUNDS
- ✔ SECURITIES
- ✔ BANK ACCOUNTS AND CDS
- ✔ PARENT-OWNED 529 SAVINGS PLAN

STUDENTS

INCOME
50% OF ADJUSTED GROSS INCOME OVER $6,840

ASSETS
20% OF ASSETS HELD IN STUDENT'S NAME

- ✔ UGMA/UTMA ACCOUNTS NOT HELD IN A 529 PLAN
- ✔ MINOR TRUSTS NOT HELD IN A 529 PLAN
- ✔ SAVINGS BONDS (IN STUDENT'S NAME)
- ✔ ANY OTHER SAVINGS

AID AND SAVINGS: FACTORS TO KEEP IN MIND

- A family seeking federal financial aid must complete the Free Application for Federal Student Aid (FAFSA) form.
- Assets held in qualified retirement plans such as IRAs are not considered in determining eligibility for federal student aid. The percentage of other assets considered in determining EFC will vary based on the amount of assets, the age of the eldest parent and whether there are one or two parents.
- Any student-owned 529 or 529 funded with UGMA/UTMA assets is reported as a parental asset if the student files the FAFSA as a dependent student.
- None of the income and assets of a grandparent or other contributor are considered in the federal financial aid formulas. However, any withdrawals a grandparent or other makes toward education expenses may be considered student income and must be reported on the following year's financial aid forms. Such income can reduce the amount of aid by 50%.

UPCOMING CHANGES TO FINANCIAL AID

The Consolidated Appropriations Act of 2021 will bring forth some changes for families completing the FAFSA application for the 2023-2024 school year and beyond. Several of the changes will begin to take effect now, because the new FAFSA application will have a "base year" of 2021. Below are some of the most notable pending changes to the FAFSA application.

NAME CHANGE: THE EXPECTED FAMILY CONTRIBUTION (EFC) WILL BECOME THE STUDENT AID INDEX (SAI)

The FAFSA is designed to help parents and students calculate a value called the Expected Family Contribution, or EFC. This amount directly determines needs-based financial aid eligibility along with the cost of the school the student is going to attend. The EFC is derived from the income and assets of the student and their parents. The name of this value will be changing to Student Aid Index, or SAI, to better reflect how this value is used to determine the amount of needs based aid a beneficiary is eligible for.

SHORTENED FAFSA QUESTIONNAIRE

Currently, the FAFSA questionnaire is over a hundred questions long, which can cause families to skip the process entirely. The questions are very specific, thorough and in-depth. Thankfully, the legislation is vastly reducing the number of questions for the new questionnaire to around 30 to 40. The idea is that an easier to complete form will encourage families to complete the FAFSA and therefore financial aid can be administered to more students more readily.

SINGLE PARENT CHANGES

Under the existing FAFSA process divorced parents can choose which one of them will complete the FAFSA. There are some potential advantages to this, particularly if one parent makes significantly more than the other. The new FAFSA questionnaire will require the FAFSA to be completed by the parent who provides the most for the student financially.

MULTIPLE CHILD DISCOUNT ELIMINATION

Families with multiple students receive an advantage on the EFC calculation because the current application factors in multiple college enrolled students when determining the Expected Family Contribution. This benefit will be eliminated once the new FAFSA application goes live for the 2023-2024 school year. Families with multiple children in college at the same may see a decrease in their overall aid package.

GRANDPARENT-OWNED 529 CHANGES

The FAFSA has been difficult to navigate when families have grandparent-owned 529 plans. Under the existing rules, grandparent-owned 529 plans do not report their assets on the FAFSA form, but distributions taken from this type of 529 plan will count as student income for that tax year for financial aid purposes and could impact financial aid awards in later years. Under the new rules, grandparent-owned 529 plans, and 529 plans owned by individuals who are not the parents, will not report the assets on the FAFSA form and distributions will no longer be reported as student income, meaning these plans will have little to no impact on the new Student Aid Index number.

As with all financial aid questions, the financial aid office at the school your student is attending will be the best resource for your specific situation. Legislative updates are subject to change over time.

SOURCES

forbes.com/advisor/student-loans/fafsa-changes

kiplinger.com/personal-finance/credit-debt/loans/student-loans/602186/fafsa-application-changes-are-coming

savingforcollege.com/article/how-fafsa-simplification-will-change-financial-aid-eligibility

LEGISLATIVE TEXT

Division FF - Title VII - FAFSA Simplification: congress.gov/bill/116th-congress/house-bill/133/text

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