

Does Saving for College Affect Financial Aid?

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Parents often ask: “Does saving for college hurt my child’s chances of receiving need-based financial aid?” For most families, probably not, but it depends upon your family’s economic circumstances. Read on. As a parent you will be better prepared to answer the question for yourself if you understand the basic three-step process of student financial aid.

1. **Application** – Free Application for Federal Student Aid (FAFSA)
2. **Assessment** – Education Savings and Asset Protection Allowance in need analysis
3. **Award** – student financial aid award from a college

Application: You will typically begin the annual student financial aid application process by completing the U.S. Department of Education’s Free Application for Federal Student Aid.¹ You and your child separately report income and net worth (assets minus liabilities) on the application and submit it to the U.S. Department of Education.

Assessment: The U.S. Department of Education assesses your family income and net worth, adjusted for household size, by applying a methodology called the federal need analysis. A dollar amount your family is expected to pay for college, known as the Expected Family Contribution (or EFC), is the result of the federal need analysis. The Expected Family Contribution amount is transmitted by the Department of Education to your child and to the colleges your child identified on the application.

The federal government does not consider all your parental assets as available to help pay for college. For example, the federal need analysis excludes your retirement plan funds, such as an Individual Retirement Account or a 401(k) plan, home equity and equity in a small business with fewer than 100 employees. Other assets you as the parent own, including college savings are protected, in part or in full, by an Education Savings and Asset Protection Allowance within the federal need analysis. For married parents of a dependent student in which the older spouse is 45 in 2012, the allowance is \$41,300.² The allowance increases as the age of the parents’ increase, as shown in the table on the next page.

As a parent of a dependent student, about 5.6 percent of your parental net worth exceeding the Education Savings and Asset Protection Allowance is included in your Expected Family Contribution. The 5.6 percent of your net worth over the allowance compares with a 20 percent rate for certain assets owned by your child, who has no asset protection allowance in the federal need analysis.³ As such, there are important benefits for you as a parent to own college savings accounts, not your child. According to Mark Kantrowitz, an expert in student financial aid, “Many families mistakenly believe that they are penalized for saving.” In fact, according to

¹ Students and parents should check with college financial aid office to determine if additional information is required by the college to determine the student’s financial aid award.

² United States Department of Education, The EFC FORMULA, 2012-2013.

³ Effective with the 2009-2010 academic year, assets in a 529 College Savings Plan account and/or a Coverdell Education Savings Account owned by a dependent student will be counted as a parental asset as provided in the College Cost Reduction and Access Act (H.R. 2669).

Kantrowitz, “The federal government *does not* count all of the assets, just a fraction, so a family with money saved will have money left over.”⁴

Education Savings and Asset Protection Allowance					
Academic Year 2012-2013					
Age of older parent*	Allowance if there are two parents	Allowance if there is only one parent	Age of older parent*	Allowance if there are two parents	Allowance if there is only one parent
25 or less	\$0	\$0	45	\$41,300	\$14,200
26	\$2,400	\$800	46	\$42,300	\$14,500
27	\$4,900	\$1,700	47	\$43,400	\$14,900
28	\$7,300	\$2,500	48	\$44,400	\$15,200
29	\$9,700	\$3,400	49	\$45,500	\$15,600
30	\$12,200	\$4,200	50	\$46,600	\$16,000
31	\$14,600	\$5,100	51	\$48,000	\$16,300
32	\$17,000	\$5,900	52	\$49,200	\$16,700
33	\$19,500	\$6,800	53	\$50,700	\$17,100
34	\$21,900	\$7,600	54	\$51,900	\$17,500
35	\$24,300	\$8,500	55	\$53,400	\$17,900
36	\$26,800	\$9,300	56	\$54,700	\$18,500
37	\$29,200	\$10,200	57	\$56,300	\$18,900
38	\$31,600	\$11,000	58	\$58,000	\$19,400
39	\$34,100	\$11,900	59	\$59,700	\$19,900
40	\$36,500	\$12,700	60	\$61,400	\$20,400
41	\$37,500	\$13,000	61	\$63,100	\$20,900
42	\$38,400	\$13,300	62	\$65,000	\$21,500
43	\$39,300	\$13,600	63	\$66,800	\$22,100
44	\$40,300	\$13,900	64	\$68,700	\$22,700
			65 or over	\$71,000	\$23,300

*As of December 31, 2012

Source: U.S. Department of Education, Federal Student Aid Application Processing System for Software Developers, Academic Year 2012-2013, January 18, 2012.

Award: Once admitted to a college, your child will receive a financial aid award letter from the college(s) he or she listed on the FAFSA. For students enrolling in the fall, the award letter typically arrives in April, prior to fall term enrollment.

The letter states your Expected Family Contribution and lists any need-based federal and state grants your child will receive. College financial aid administrators will also include in the letter any college scholarships or other gift aid your child will receive. Your child will be expected to use loans and student work study to help pay for any remaining cost of attendance.

⁴ www.finaid.org

If you have not saved for college, your child is more likely to accumulate college debt. Student borrowing in Minnesota has increased faster than tuition or personal income. Borrowing increases have been most pronounced in students from families who are unlikely to qualify for need-based financial aid. Minnesota undergraduates borrowed \$1.7 billion in education loans in academic year 2010-2011.⁵ Seventy percent of Minnesota undergraduates who attended public four-year institutions and graduated in 2010 borrowed an average of \$27,600. Seventy-four percent of Minnesota undergraduates who attended private not-for-profit four-year institutions and graduated in 2010 borrowed an average of \$31,400.⁶

Question: Does saving for college hurt my child's chances for need-based financial aid?

Answer: Your Expected Family Contribution increases if your college savings exceed the Education Savings and Asset Protection Allowance. However, the impact of college savings on your Expected Family Contribution is small. The federal need analysis counts only about 5.6 percent of your assets above the Education Savings and Asset Protection Allowance as available to pay for college. Furthermore, some of the most common assets you as a parent own are excluded from consideration in student financial aid, such as retirement funds and home equity. Families are typically unaware of the Education Savings and Asset Protection Allowance and the low rate at which parents are expected to use their savings for college. According to Mark Kantrowitz,

Parents should expect to pay at least half to two-thirds of their children's college costs through a combination of savings, current income, and loans. Gift aid from the government, the colleges and universities, and private scholarships accounts for only about a third of total college costs.⁷

In the end, if you save for your child's college expenses you reap the benefits of more attendance options for your child and your child may borrow less while attending college. Undergraduate students who graduate with less debt have greater employment options and more opportunities for future education. Financially planning and saving for college is a winning combination for you and your child.

Additional Resources

- Free Application for Federal Student Aid, www.fafsa.gov
- Financial aid information, www.finaid.org
- Planning for education after high school and financial aid information, www.getreadyforcollege.org
- Information on federal aid, www.studentaid.ed.gov

⁵ Minnesota Office of Higher Education, *Highlights of Financial Aid Awarded in 2010*, July 2012.

⁶ *Student Debt and the Class of 2010*, Project on Student Debt, Nov. 2011, http://projectonstudentdebt.org/state_by_state-data.php.

⁷ www.finaid.org