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COLLEGE SAVINGS PLANS NETWORK

RESEARCH REPORT

FINANCIAL AID PROCESS FAVORS SAVING FOR COLLEGE

CSPN

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529 college savings plans have little impact on student scholarships and grants, decrease dependence on loans

Paying for college is challenging for many students and families. According to The College Board, the average cost for a four-year education at a public institution during the 2009-2010 school year surpassed $60,000, including tuition, fees, and room and board. This figure jumped to over $141,000 for a private college or university.[1]

Parents often question whether they should save for college or rely on financial aid packages to pay for higher education. Adults considering starting or continuing their own higher education ask many of the same questions.

Qualified tuition accounts are typically considered a parental asset

Any savings that a student can use to pay for college is helpful because it can reduce the individual's reliance on loans, which must be re-paid with interest.

When a student is considered for financial aid, the student must complete the Free Application for Federal Student Aid (FAFSA), which is available at the U.S. Department of Education's web site (www.fafsa.gov). This application typically considers assets and income of both the students and parents to determine the Expected Family Contribution (EFC), which is the amount the family is expected to be able to pay towards the cost of college in the upcoming academic year.

If the costs of a particular college are more than the EFC, then a "need gap" exists. The college then works with the student and his or her family to fill this "need gap" with a combination of scholarships, grants, loans and work study. However, federal financial aid remains the largest single source of financial aid and more than 60% of that aid is in the form of loans, which need to be re-paid, as opposed to scholarships or grants, which do not require repayment.[2]

When determining the EFC, federal financial aid formulas typically consider dedicating a fairly small portion of the parents' assets towards the following year's college costs – a maximum of 5.64%. A student's assets, in contrast, are typically assessed at a rate of 20% towards the EFC.

Some of the parents' assets are sheltered, too, including money in retirement plans, the net market value of the family's primary residence, and any small businesses the family owns and controls. In addition, parent assets are also partially sheltered by an asset protection allowance based on the older parent's age. This protection allowance averages about $45,000 for most parents of college-age children.[3]

1 "Trends in Higher Education Pricing," The College Board, 2010
2 "Managing Expenses during the College Years," Retirement Planning Services, Inc.
3 "Account Ownership: In Whose Name to Save?" FinAid.org

The following summarizes the impact of section 529 plans on financial aid eligibility:

> Section 529 college *savings plans* are treated as an asset of the account owner and have a low impact on financial aid eligibility. College savings plans are reported on the Free Application for Federal Student Aid (FAFSA) as an asset of the account owner, which is typically the parent. Distributions from a college savings plan have no impact on financial aid eligibility (i.e., they are not counted as untaxed income or a resource).
>
> Section 529 *prepaid tuition plans* are also treated as an asset and are reported on the FAFSA, just like section 529 college savings plans. The asset value is the refund value of the plan. Distributions have no impact on financial aid eligibility.
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> *Custodial* versions of qualified tuition accounts (section 529 college savings plans and prepaid tuition plans) are accounts where the student is both the account holder and beneficiary and a custodian is appointed if the student has not yet reached the age of majority. Starting in 2009-10, these accounts are treated as parent assets if the child is a dependent student and as a student asset if the child is an independent student. This more favorable treatment of custodial qualified tuition accounts was enacted by the College Cost Reduction and Access Act of 2007. [4]

College savings plans have little impact on financial aid

Because 529 college savings plans and prepaid tuition plans are now treated as an asset of the account owner (typically the parent), they have little impact on a student's eligibility for financial aid. Likewise, distributions from a college savings plan have no impact on financial aid eligibility and are not counted as untaxed income or a resource.

If a family started saving for a child's education when the child was five and has $25,000 in a college savings plan, under the College Cost Reduction and Access Act of 2007 only 5.64 percent of that savings ($1,410) will be considered as the EFC when the child is considered for financial aid.[5]

Some states exclude the funds saved in the state's 529 plan when they evaluate a student's eligibility for state aid. Georgia, Kentucky, Indiana, Illinois (State College Savings Bond Program), New York, Pennsylvania and Virginia do not include this money as an asset when analyzing a student's need for state-based aid.[6]

Savings plans reduce need for loans

While students may qualify for certain scholarships and grants (depending on grades, the family's

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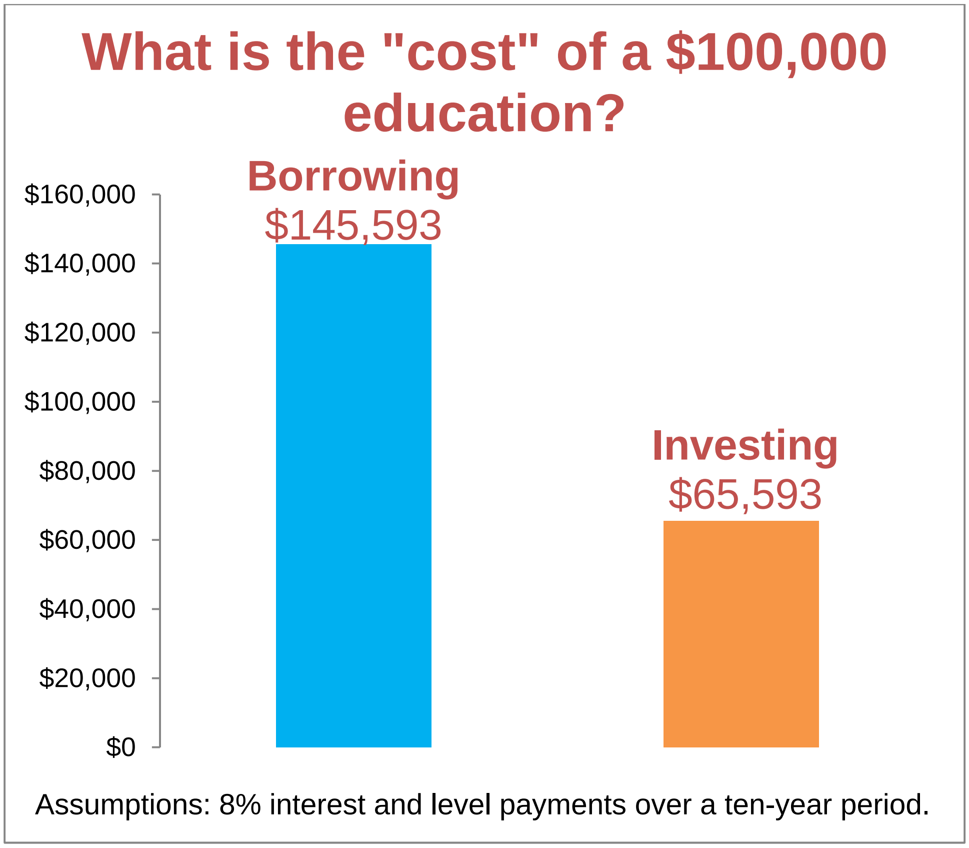
[4] College Cost Reduction and Access Act of 2007
[5] College Cost Reduction and Access Act of 2007
[6] "Section 529 Plans,"FinAid.org

income and assets), student loans often comprise 60 percent of college financial aid packages.[7] Even though student loans are typically offered at relatively low interest rates—5 to 10 percent—paying even a small amount of interest can add up significantly over time.

The following chart shows how saving and investing for college instead of exclusively relying on student loans reduces the total cost of a college education by more than one half. If college costs total $100,000, the chart below assumes an 8% interest rate and shows that:

- By borrowing the entire $100,000 and paying it back in level payments over a 10-year period, a $100,000 education would end up costing more than $145,000;
- By saving in advance for a $100,000 education at an 8% interest rate and level payments over the 10 years prior to starting college, only $65,593 would need to be saved to pay for the same $100,000 education.[8]



7 "[Financial Aid]" Retirement Planning Services, Inc.
8 "[Why Save for College?]" College Savings Plans Network

Advantages of saving for college now

Section 529 college savings plans offer various advantages in addition to the fact that savings are considered a parent asset during analysis of the student's financial aid needs:

- All money grows federal and state tax free.
- Plans may be used at virtually any accredited college or university in the U.S. and at some foreign schools.
- Earnings from 529 plans are not taxed when used to pay for eligible college expenses, such as tuition, books, fees, room and board.
- The account owner of a 529 plan (such as the parent or grandparent) has control over the use of the account and can change the beneficiary at any time.
- Some states offer an income tax deduction or credit based on contributions made into a 529 savings plan.
- Most plans have low minimum monthly contribution limits, which makes them attractive to families of various income levels. Some states' minimum contribution levels are as low as $15.
- There are no income limitations on a person's ability to open or contribute to a 529 savings account.
- It is easy to contribute to a 529 plan through payroll deductions or automatic transfers from a bank account.
- Assets within a 529 plan are protected from bankruptcy. A full exemption applies only to funds contributed to 529 plans and educational savings accounts more than two years prior to when the bankruptcy is filed. This protection is limited to $5,000 for funds held for only one to two years. The new provision does not protect college savings accounts less than one year old.

All 529 plans offer a lower-cost plan option to state residents and can be opened by contacting the plan administrator directly. Plans are also offered through professional financial advisors who can help families choose a plan and develop an investment strategy that meets their specific needs.

Each state determines how its 529 plan is structured and the investment options offered. While most plans allow investors from out of state, students and their families can often reap significant state tax advantages and other benefits by investing in 529 plans offered by the state where they reside.

Conclusion

Qualified tuition plans (529 plans) are one of the most compelling ways to save for a college education. With more than 100 plans available, it is important for parents, grandparents and others to do their homework to select a plan that best suits their situation. A 529 plan comparison tool is offered at www.collegesavings.org to help families analyze the various plans and make informed decisions about saving for college.

Financial Aid Resources

Parents and others can learn more about obtaining financial aid for college through the following Web sites:

www2.ed.gov/finaid.html	Options from U.S. Department of Education
www.collegeconfidential.com/	Resources to help pay for college
www.collegesavings.org	Information about 529 plans
www.fafsa.ed.gov/	FAFSA application and other details
www.finaid.org	Guide to financial aid, grants, etc.
www.iefa.org	International source for financial aid
www.savingforcollege.com/	Internet guide to college funding

Before investing, account owners should consider whether their or the beneficiary's home state offers a qualified tuition program that provides its taxpayers with favorable state tax and other benefits that may only be available through an investment in the home state's qualified tuition program. Keep in mind that state-based benefits should be one of many appropriately weighted factors to consider when making an investment decision. In addition, account owners should periodically assess, and if appropriate, adjust 529 Plan investment choices with time horizon, risk tolerance, and investment objectives in mind. Since different states have different tax provisions, investors should consult financial, tax, or other advisors to learn more about how state-based benefits (or any limitations) would apply to specific circumstances.

The College Savings Plans Network makes no representation or guarantee, express or implied, that (a) a Beneficiary will be accepted as a student by any institution of higher education or other institution of post-secondary education; (b) if accepted, will be permitted to continue as a student, will be treated as a state resident of any state, will graduate from any institution of higher education or other institution of post-secondary education, or will achieve any particular treatment under any applicable state or federal financial aid programs; or (c) a specific rate of return or benefit will be achieved for contributions made to a 529 Plan account.

The College Savings Plans Network does not have a duty to determine or advise 529 Plan account owners or beneficiaries of the legal, investment, tax, or other consequences of investing in 529 Plans and is not liable for any loss incurred by an account owner or beneficiary as a result of participating in a 529 Plan.

About the College Savings Plans Network (CSPN)

Founded in 1991, CSPN is an affiliate of the National Association of State Treasurers (NAST) and is a not-for-profit association bringing together the states that administer Section 529 college savings and prepaid plans as well as their private sector partners. Key to CSPN's mission is educating families about the importance of saving for college and the benefits of 529 plans, including how easy and affordable it is to start a plan. Additionally, CSPN monitors federal activities and promotes legislative and regulatory changes that will positively affect 529 plans. The network's web site, www.CollegeSavings.org provides a wealth of consumer information about 529 plans, and a robust feature that allows site users to compare all plans by features or by state.

The College Savings Plans Network is governed by an Executive Board of state Treasurers and state Program Directors. The 2011 Executive Board is as follows:

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