CollegeBound 529
Financial aid: A little advanced planning can go a long way

One of the biggest questions parents have about 529 plans is how they affect need-based financial aid.

For many families, a 529 savings account is just one tool in their education savings toolbox. Scholarships, grants and other financial aid sources may all help contribute to a child's educational expenses. When establishing – and using – a 529 account, it's important to have a clear view of how this powerful tool works in conjunction with other sources of money for college.

529s and financial aid

The Free Application for Federal Student Aid (FAFSA) is the starting point for most need-based aid programs. When calculating eligibility, FAFSA treats assets and income differently, and it also treats student- and parent-owned accounts differently than accounts owned by other relatives.

Federal financial aid is a need-based award and determined by one equation:
Cost of Attendance - Expected Family Contribution = Financial Need

Cost of attendance (COA) is the total amount that school will cost for a given year. This includes tuition and fees, room and board, and allowances for books, supplies, transportation, loan fees, and, if applicable, dependent care. Miscellaneous and personal expenses are also included.

The Expected Family Contribution (EFC) is the key component of most financial aid formulas and is determined by evaluating the total assets and income of the parents and the students. Here's how:

How assets and income affect the Expected Family Contribution

Amount of income that counts toward EFC

Students	Parents	Grandparents/others
50% of adjusted gross income over $3,000	22%-47% of available income[1]	If a grandparent provides any type of financial support to the student during their first two years of college (assuming the student is on a four-year track), that support is reportable on the FAFSA as student income.

Percentage of assets that count toward EFC

Students
20% of assets:
+ UGMA/UTMA accounts not held in a 529 account
+ Minor trusts not held in a 529 account
+ Savings bonds (in the student's name)

Parents
Up to 5.64% of assets:
+ Mutual funds
+ Securities
+ Bank accounts, CDs
+ 529 accounts (parent- or student-owned)
+ Coverdell Education Savings Accounts

Grandparents/others
Grandparent-owned accounts are not included in FAFSA asset calculations.

Source: fafsa.ed.gov

Assets. The federal aid formula assesses parental assets at a maximum rate of 5.64%. That means that in general, for every $1,000 in a 529, the EFC toward college costs could increase by only $56. Importantly, 529 accounts owned by dependent students are counted as parental assets and assessed at the 5.64% rate — this is significant because other types of student assets can be assessed at the much higher rate of 20%.

Income. Qualified distributions[2] from student and parent accounts are not counted toward a student's income. On the other hand, distributions from accounts owned by grandparents and other relatives are counted as student income and would factor into calculations for financial aid in the first two years of college. Grandparents and other relatives may want to wait until the student's junior year to begin taking distributions.

Changes to the FAFSA now allow students to apply for financial aid earlier

If you plan to attend college from	You will submit this FAFSA	You can submit the FAFSA from	Using income and tax information from
July 2, 2019 – June 30, 2020	2019 – 2020	October 1, 2018 – June 30, 2020	2017
July 1, 2020 – June 30, 2021	2020 – 2021	October 1, 2019 – June 30, 2021	2018

What doesn't count toward the EFC?

529 and Coverdell accounts not owned by parents or students are not required to be disclosed when applying for federal aid. Money disbursed, however, will be reported as income for the student on their FAFSA. See the chart above for filing information.

Retirement accounts and life insurance policies, owned by the parent or the student, are not required to be disclosed when applying for federal aid. Distributions from those accounts or policies, however, count as income on the FAFSA.

Talk to your financial professional

If you're planning to pair a 529 account with other financial aid sources, talk to your financial professional about the best way to coordinate your accounts and time your distributions in order to maximize your benefits.

To learn more about starting a CollegeBound 529 for your child, visit collegebound529.com.
To learn more about the tax advantages of CollegeBound 529 and access more resources, visit invesco.com/CollegeBound529 or call 1 877 615 4116 for more information.

1 The amount of parental adjusted gross income after allowances for federal, state, local and FICA taxes, as well as an income protection allowance based on the number of people in the household. Source: Joseph F. Hurley. CPA. Savingforcollege.com, 2020 .

2 Earnings are not subject to federal tax and generally not subject to state tax when used for the qualified education expenses of the designated beneficiary, such as tuition, fees, books, as well as room and board.

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