Account Ownership: In Whose Name to Save? (https://finaid.org/savings/accountownership/)

The financial aid formulas used by the federal government and the schools assess a portion of the family's assets when computing eligibility for financial aid. Under current financial aid formulas, there are significant benefits to saving the money in the parents name, despite the (meager) tax savings of the child's lower tax bracket. Some of the more important reasons include the following:

- Child assets are assessed at a rate of 20%. (Before July 1, 2007, child assets were assessed at a rate of 35%.) Parent assets are assessed on a bracketed system, with a top rate of 5.64%. This represents a difference in financial aid eligibility equal to 14.46% of the asset. These rates are assessed on the total value of the asset, including both principal and accumulated interest. In contrast, the tax savings due to the child's lower tax bracket is typically 13%, and then only on the earnings, not on the principal.
- Many parent assets are sheltered from the need analysis process. The need analysis formulas include an asset protection allowance based on the age of the older parent which shelters a portion of the family's investments. For the typical parents of college age children (age 45), this asset protection allowance amounts to approximately $45,000. In addition, money in qualified retirement plans, such as an IRA or 401(k), is disregarded by the need analysis formulas. Also, the Federal formula (but not the formulas used by many schools) ignores the value of the

family's primary residence as well as the value of small businesses owned and controlled by the family (see small business exclusion). There are no asset protection allowances for money in the child's name.

- Money in the child's name is legally the property of the child, so the child could spend it on whatever they want when the reach the age of majority. If the parents set up a trust to restrict the use of the money to educational expenses, it can negatively impact need assessments, since the full remaining value of the trust gets counted as a child asset each year.

Thus using the Uniform Gift to Minors Act to transfer money into the child's name is generally a mistake for most families. It is almost always better to save for college in the parents name.

Financial Aid Impact of Savings Vehicles

The following table lists the current financial aid treatment of the most common savings vehicles. For the purpose of assessing the impact on financial aid eligibility, we assume that the beneficiary is the child and the account owner is the parent (except where specified otherwise). Generally speaking, if the account owner has the ability to change the beneficiary at any time, the savings are treated as an asset of the account owner, not the beneficiary.

Financial Aid Impact

Savings Vehicle	Financial Aid Treatment	Comments
Coverdell Education Savings Account (formerly Education IRA)	asset of account owner (high impact if student owner; low impact if parent owner; high impact if owned by a third party)	If the child is the account owner, it counts as a child asset. If a parent is the account owner, it counts as a parent asset. In most cases the child is the account owner. Distributions do not affect eligibility (i.e., distributions do not count as income or a resource). (See GEN-04-02.) Custodial Coverdell ESAs owned by a student, where the student is both the account owner and beneficiary, are reported as a parent asset if the child is a dependent student and a student asset if the student is an independent student. This treatment is effective with the 2009-10 award year due to a legislative change enacted in the College Cost Reduction and Access Act of 2007. If the Coverdell ESA is owned by a grandparent or other third party, it is not reported as an asset on the FAFSA, but any distributions are reported as untaxed income to the beneficiary on the subsequent year's FAFSA.
Section 529 College Savings Plan	asset of account owner (low impact if owned by student or parents; high impact if owned by a third party)	Qualified distributions do not affect eligibility (i.e., qualified distributions do not count as income or a resource). Note that non-qualified distributions (i.e., distributions that are subject to federal income tax) do count as income to the distributee. Custodial 529 college savings plans owned by a student, where the student is both the account owner and beneficiary, are reported as a parent asset if the child is a dependent student and a student asset if the student is an independent student. This treatment is effective with the 2009-10 award year due to a legislative change enacted in the College Cost Reduction and Access Act of 2007. 529

		college savings plans owned by a third party, such as a grandparent, are not included as assets on the FAFSA, but distributions from such a plan are reported as untaxed income to the beneficiary on the FAFSA.
Section 529 Prepaid Tuition Plan	asset of account owner (low impact if owned by student or parents; high impact if owned by a third party)	Since the Higher Education Reconciliation Act of 2005, prepaid tuition plans have been treated as an asset on the FAFSA, with an asset value equal to the refund value. Qualified distributions do not affect eligibility (i.e., qualified distributions do not count as income or a resource). Note that non-qualified distributions (i.e., distributions that are subject to federal income tax) do count as income to the distributee. Custodial prepaid tuition plans owned by a student, where the student is both the account owner and beneficiary, are reported as a parent asset if the child is a dependent student and a student asset if the student is an independent student. This treatment is effective with the 2009-10 award year due to a legislative change enacted in the College Cost Reduction and Access Act of 2007. 529 prepaid tuition plans owned by a third party, such as a grandparent, are not included as assets on the FAFSA, but distributions from such a plan are reported as untaxed income to the beneficiary on the FAFSA.
UGMA/UTMA Custodial Account	asset of beneficiary (high impact)	
Series I and EE Savings Bonds	asset of registered owner (low impact)	A savings bond registered in the parent's name counts as a parent asset (low impact). A bond registered in the child's

		name as a single or co-owner counts as a child asset (high impact). If the bond was registered in the child's name, but parent's (owner's) funds were used to purchase the bond, the parent may change the beneficiary.
Regular Taxable Investments	asset of account owner (low impact if owned by parent, high impact if owned by student)	
Variable Life Insurance	not reported on FAFSA (low impact)	Generally, the cash value of life insurance and assets in qualified retirement plans are not reported on the FAFSA.
Traditional IRA	asset value not reported on FAFSA (low impact)	Withdrawal will count as taxable income, affecting next year's financial aid. Current year taxpayer contributions to IRAs, SEP, SIMPLE, Keogh, 401(k), 403(b) and other retirement plans are reported as untaxed income on the FAFSA.
Roth IRA	asset value not reported on FAFSA (low impact)	If Roth IRA owner hasn't been invested for five years, withdrawal will count as taxable income, affecting next year's financial aid.
401(k)	asset value not reported on FAFSA (low impact)	Withdrawal counts as taxable income, affecting next year's financial aid. If you borrow from the 401(k) instead of

		withdrawing funds, amount received does not count as income.
2503(c) Minor's Trust	asset of beneficiary (high impact)	If trust restrictions prevent liquidation, trust will continue as an asset in subsequent years, continuing to hurt need-based financial aid eligibility.
Other Trust Funds	asset of beneficiary (high impact)	Generally speaking, voluntary restrictions on uses of the trust will backfire, hurting financial aid eligibility. Only court-ordered involuntary trusts, such as those established to pay future medical expenses, are omitted from the FAFSA. All other trusts will generally count as an asset of the beneficiary. If the trust assigns ownership of the income to one party and the principal to another, you may need to do a net present value calculation to determine the value of the asset. If ownership of the trust is contested and the trust is frozen, it is not reported on the FAFSA. Please see the trust fund page for more information on the financial aid treatment of trusts.

Treatment of Assets May Change

Note that Congress may decide in the future to change the treatment of assets in the Federal Need Analysis Methodology. Possible changes could include:

- No longer distinguishing between student and parent assets, replacing it with a uniform treatment of family assets.
- Replacing the six asset questions on the FAFSA with a requirement that net assets be less than a particular threshold, such as $150,000 or $250,000. (Such a change was included in the original version of the Student Aid and Fiscal Responsibility Act of 2009 but was ultimately dropped from the final legislation, the Health Care and Education Reconciliation Act of 2010.)

Grandparent Ownership of Assets

If a 529 college savings plan, prepaid tuition plan or Coverdell Education Savings Account is owned by a grandparent, it is not reported as an asset on the FAFSA. Similarly, if the student's parents are divorced and one of these qualified tuition program accounts is owned by the noncustodial parent, it is not reported as an asset on the FAFSA.

This is in contrast with the treatment by the CSS/Financial Aid PROFILE form, which requires any 529 plan that lists the student as the beneficiary to be reported.However, excluding these accounts as assets does not yield an improvement in eligibility for need-based financial aid. Guidance published by the US Department of Education requires distributions from these accounts to be treated as untaxed income to the student. Since a student's total income is assessed at a rate of 50% above a small income protection allowance, this can have a severe negative impact on the student's eligibility for need-based financial aid the next year. In fact, this is much worse than if the account were reported as a parent asset on

the FAFSA. (Assuming a distribution is taken for one quarter of the account value each year, that will effectively reduce aid eligibility by as much as 12.5% of the asset value each year for three years. That compares unfavorably with a top rate of 5.64% for parent assets.)What if there are multiple children, each with a 529 plan owned by a grandparent? Wouldn't that yield a better outcome? After all, if the 529 plans were owned by the parents, they would all be reported on the FAFSA for each child, reducing aid eligibility, while grandparent-owned 529 plans only affect aid eligibility when a distribution is taken. But the impact of the grandparent-owned 529 plans is so much greater that the parents would have to have at least 8 children for the grandparent ownership option to have less of an overall financial impact.One possible solution is to change the account owner to the student or the student's parents. Another possible solution is to wait until the student's senior year in college to take a distribution since it does not affect aid eligibility for the current award year, only for the subsequent award year. (It is important to take the distribution after the FAFSA has been filed for the year.) Or one could wait until after the student has graduated to take a nonqualified distribution; the income tax and tax penalty on a nonqualified distribution are not as severe as the loss of need-based aid eligibility from treating the distribution as untaxed income to the student.

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