



Saving for education with 529s and the effect on financial aid

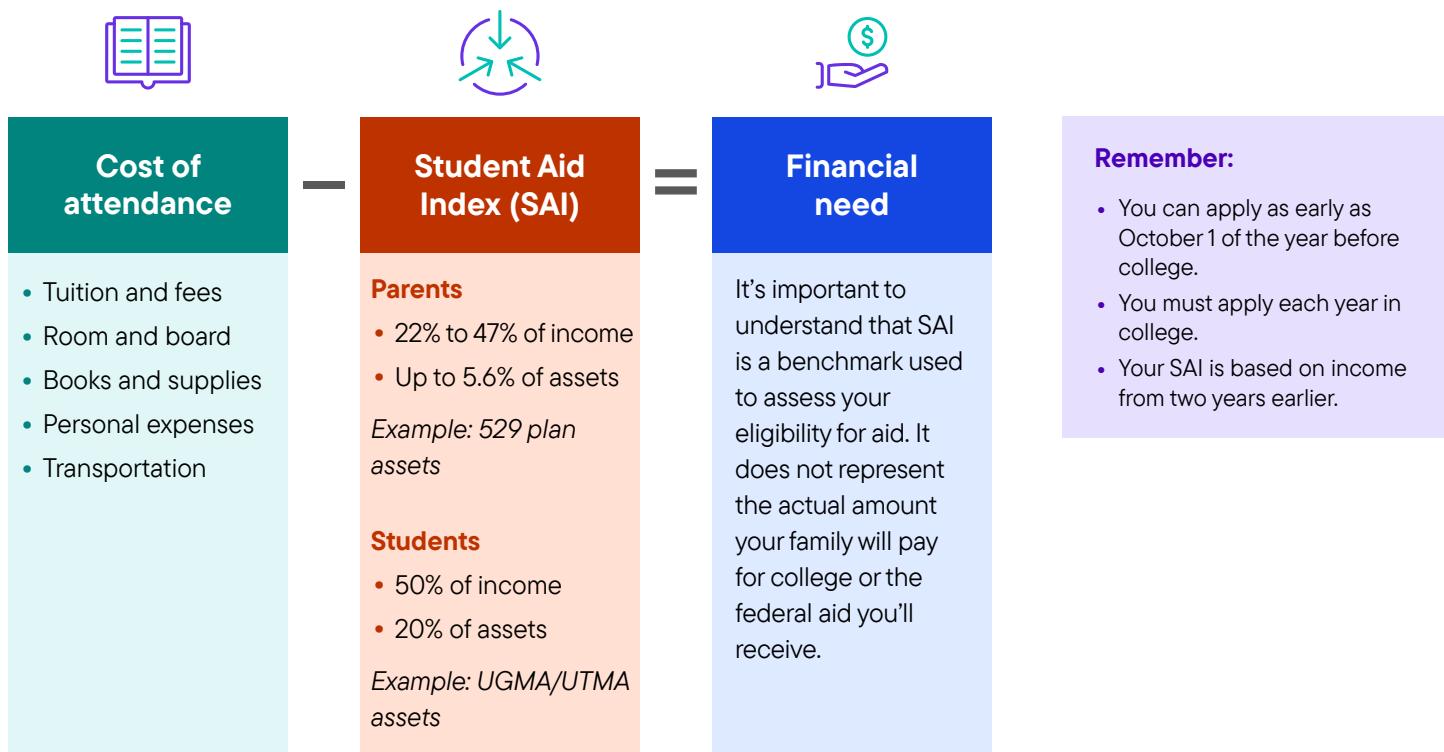


You may wonder if saving in a 529 plan will diminish the amount of financial aid you might receive.

Navigating the financial aid process can be tricky, leading many to make decisions that hurt their savings and financial aid awards. The following helps explain the financial aid formula, including how income and different savings vehicles can affect financial aid awards. As you will see below, savings in a 529 plan are treated the same as other assets such as cash, CD's, mutual funds and stocks, and have minimal impact on the amount of financial aid a student receives.

All accredited post-secondary institutions require the submission of the **Free Application for Federal Student Aid (FAFSA)** by the student to be eligible for federal, state and institutional financial aid. The U.S. Department of Education, through its Federal Student Aid Program manages all federal student financial assistance programs, including Pell Grants, loans and work study funds.

Federal financial aid need is determined by a basic formula of:



Source: SAI Formula, 2025-2026, Federal Student Aid, an Office of the U.S. Department of Education.

The federal financial aid need is determined by comparing the **Cost of Attendance (COA)** at a college or university with the **Student Aid Index (SAI)**, which is a measure of the family's financial strength. The difference between these two figures represents the student's financial need, and this need is used to allocate various forms of financial aid, such as grants, work-study and loans, to help cover the cost of education. Because the SAI calculation considers savings, many people may be concerned that saving and contributing to a 529 plan will significantly lessen the amount of financial aid they will receive. This is simply not the case.

Remember:

- You can apply as early as October 1 of the year before college.
- You must apply each year in college.
- Your SAI is based on income from two years earlier.

Breaking down the SAI formula

The following further explains the SAI calculation. The Student Aid Index (SAI) is calculated using four main components from the FAFSA form: parent income, parent assets, student income and student assets. It is important to know that the formula is largely income driven and savings have a modest impact. The formula assumes 22%–47% of parents' income and up to 5.6% of their assets should be available to pay for college costs each year. It assumes 50% of the student's income and 20% of the student's assets are available to pay for college costs. Because of this formula, assets in a 529 plan are treated favorably because the assets belong to the parent (not the student at 20%), and therefore, only 5.6% of the amount saved is included when determining financial aid need.

	Assets*	Income
 Parents	Up to 5.6%	22%–47%
 Student	20%	Up to 50%

*Income includes the adjusted gross income from the parents' and students' Forms 1040 along with certain other items representing untaxed income and benefits, e.g., untaxed portions of IRA distributions and veterans' non-education benefits, such as disability. Source: FAFSA, U.S. Department of Education.

How withdrawals are treated from 529s owned by someone other than parent

When completing the Free Application for Federal Student Aid (FAFSA) 529 plans owned by a grandparent (or other non-parent) are not considered as an asset for purposes of calculating financial aid.

Due to recent changes in the federal financial aid application, distributions from 529 accounts owned by someone other than the parent are not considered as income to the student as part of the FAFSA income test for determining aid.

Additionally, it is important to understand that if assets are in an UGMA/UTMA, the FAFSA formula treats them as student's assets and 20% will be included in the formula to determine financial aid need, as opposed to 5.6% in a 529 plan. Furthermore, when the student reaches the age of majority (18 years old in many states), they assume legal control of the account and can do whatever they want with the money, rather than use it to pay for college costs.



Because of this formula, assets in a 529 plan are treated favorably because the assets belong to the parent.

Some final words...

In summary, the federal financial aid formula is key. Remember that funds saved in a 529 plan are treated the same as other assets such as cash, CD's, mutual funds and stocks, and have minimal impact on the amount of financial aid a student receives.

Therefore, given the financial aid treatment and the multiple tax advantages and flexibility, 529 plans may be one of the most effective ways to help save early and often and help finance your childrens' college education!

Even if you have met or are close to your savings goal, it makes sense to complete the FAFSA when your child applies to college. Many state scholarship programs and colleges, both private and public, require the FASFA form for the student to be considered for additional free scholarship money and grants outside of the traditional financial aid formula. The student will automatically become eligible for consideration when they submit the FASFA Form.

Steps to take now

1. Go to Studentaid.gov and create an FSA ID for the student and filing parent. Both will need an FSA ID to complete the FAFSA.
2. Identify the parent(s) who will provide financial information and tax returns. Make sure tax forms for the prior year have been filed with the IRS for both the student and parent.
3. Know college and state FAFSA filing deadlines, as some are early. If you miss the college's deadline, you may not qualify for financial aid.

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