Student Aid Secrets: Minimize the Impact of Assets

Summary: Assets can impact your eligibility for financial aid. This article helps you understand how assets are assessed and what you can do to minimize the impact of your assets.

When you file your FAFSA (and some other financial aid forms, like the CSS/Financial Aid PROFILE), you'll have to answer a series of questions about both your income and your financial assets. (If you're a dependent student, you'll also be asked about your parents' income and assets.)

In most cases, income and assets both play a role in determining your eligibility for financial aid — especially need-based aid. In some cases, you may be able to increase your eligibility for need-based aid by considering different financial strategies, such as repositioning assets, paying off debt, or accelerating necessary expenses.

Reportable vs. Non-Reportable Assets and Debts

The first thing to understand is that when it comes to the FAFSA, some types of assets have to be reported — and others don't.

(Note: Some students and parents aren't even required to answer the questions about assets. You'll get a pass if you are below the income threshold for the year and file certain types of tax returns. Certain states, like California, do require you to answer questions about assets to determine eligibility for state aid, even if you aren't required to answer those questions for federal aid purposes.)

Reportable assets (you are required to list these on your FAFSA):

- Your cash on hand — and whatever you have in your checking and savings account(s) as of the date you file the FAFSA.
- Other financial assets/investments, such as brokerage accounts, certificates of deposit (CDs), stocks, bonds, mutual funds, money market accounts, commodities, precious metals, the vested portions of stock options and restricted stock units, exchange-traded funds (ETF), hedge funds, trust funds, private equity, and other investments.
- Real estate (other than the family's principal place of residence), real estate investment trusts (REIT), loans held, installment contracts, trust funds, private equity, and other investments.
- Uniform Gift to Minors Act (UGMA) and Uniform Transfer to Minors Act (UTMA) accounts, are reported as assets of the account owner (you, the student), not the custodian.
- College savings plans (529 college savings plans, prepaid tuition plans, and Coverdell education savings accounts) are reported as an asset of the account owner, not the beneficiary.

Non-reportable assets (you are not required to list these on your FAFSA):

- The net worth of your family's principal place of residence (the family home)
- The net worth of a family farm (if it is the family's principal place of residence and you and/or your parents materially participate in the farming operation)
- Any small businesses owned and controlled by your family (if it has less than 100 full-time or full-time equivalent employees)
- Qualified retirement plans such as 401(k) plans, 403(b) plans, pension plans, annuities, traditional IRAs, Roth IRAs, Keogh, SEP and SIMPLE plans

- Life insurance policies, including cash value and whole life insurance policies
- Personal possessions, such as clothing, furniture, books, cars, boats, computer equipment and software, television and stereo equipment, music collections, jewelry, coin, stamp, art, and wine collections

(Note: Some of these assets do have to be reported on the CSS/Financial Aid PROFILE, including the net worth of the family home, the family farm, and small businesses owned by the student or parents.)

Tips on Reporting Assets

Net Worth

These questions ask about the "net worth" of assets. This is the value of the asset minus anything you owe on the asset (technically, the debts secured by the asset).

Asset Ownership

Only assets in your name, your parent's name (if you're a dependent student), or your spouse's name (if you're married) are reported on the FAFSA. Assets held by others, such as a grandparent, aunt, uncle, cousin or sibling, are not reported on the FAFSA, but may be reported on the CSS/Financial Aid PROFILE.

Assets in the name of a sibling will be assessed eventually, when the sibling enrolls in college. However, money in 529 college savings plans, prepaid tuition plans, and Coverdell education savings accounts owned by a parent must be reported as a parent asset on the FAFSA, even if the beneficiary is a sibling.

Income vs. Asset

Contributions to and distributions from a non-reportable asset (such as a grandparent owned 529 plan), however, are reported as income (taxable or untaxed) on the FAFSA, if you, your parents or your spouse are the source of the contributions or the recipient of the distributions.

Before You Change Financial Strategies

Before even thinking about whether you should spend the time to strategize, you may want to do a quick check of your family finances.

The FAFSA gives a parental asset protection allowance between about $30k and $50k. So, if your parents don't have more than that in assets, these resources won't be counted anyway. And above that threshold, it's only about 5-6% of the net value of the parental assets that count toward your EFC.

Don't forget to look at your own finances. While you may not have as much in your savings account, student assets are weighted more heavily (20% for the FAFSA), so these must be reported, too.

Good Strategy: Shift Assets

Shifting assets from reportable assets to non-reportable assets can impact your eligibility for financial aid.

Retirement Plans

- Maximize retirement plan contributions and minimize retirement plan distributions.
- Note that contributions to a qualified retirement plan will still be counted as untaxed income on the FAFSA, but the money will not be counted as an asset.

https://www.edvisors.com/fafsa/secrets/minimize-impact-of-assets/

Consumer Debt

- Pay down consumer debt.
- The FAFSA does not offset income or assets by unsecured consumer debt, such as credit card debt, or by debt secured by a non-reportable asset, such as a mortgage on the family home. So, using extra money to pay down debt may effectively make the money disappear on the FAFSA.
- Plus, paying down debt can also save money if the interest rate charged on the debt is higher than the interest rate earned on the savings. For example, if a student owes $1,000 on a credit card charging 14% interest and is earning 1% interest on $1,000 in a savings account, using the savings to pay off the credit card balance will save $130 in interest annually.

Other Changes

- Move assets into the name of a sibling, grandparent, or other relative.
- Use a home equity line of credit instead of a home equity loan. The unspent proceeds of a home equity loan must be reported as an asset on the FAFSA. The loan proceeds are not reduced by the amount of the debt, because the debt is secured by the family home, a non-reportable asset, and not by the cash proceeds.
- If your family owns and controls a small business (in the form of a C corporation), retain part of the salaries normally paid to you and/or your parents. This can reduce income without increasing reportable assets. Your family could also shift ownership of assets to the business to shelter the assets on the FAFSA.

Not Recommended

Shifting assets to life insurance policies is not recommended, as the sales charges are high and the returns on investment are low.

Annuities may be a reasonable option for families needing to shelter significant assets. However, most families with enough assets to eliminate eligibility for need-based aid also have enough income to lose aid eligibility even if all assets were ignored.

Drawbacks of Shifting Assets

While these seem like good ideas on paper, there are a few issues associated with shifting assets.

CSS/Financial Aid PROFILE

Certain assets that are non-reportable on the FAFSA are reportable on the CSS/Financial Aid PROFILE. Using such non-reportable assets to shelter assets on the FAFSA will not be effective at sheltering the assets on the PROFILE. Examples include small businesses owned and controlled by the family, the family home, and a family farm. All college savings plans which name you as a beneficiary are reported as assets on the PROFILE, even if the accounts are owned by someone other than you or your parents.

Capital Gains

Investments in some non-reportable assets must be made in cash, requiring the sale of the investments before shifting the funds into a non-reportable asset. This may result in capital gains, which might be reportable as income on the FAFSA and PROFILE, depending on the timing.

https://www.edvisors.com/fafsa/secrets/minimize-impact-of-assets/

Increased Income

Income and distributions from a non-reportable asset are reported as taxable or untaxed income on the FAFSA and CSS/Financial Aid PROFILE.

For example, grandparent-owned 529 plans are not reported as an asset on the FAFSA, but any distributions from a grandparent-owned 529 plan will be reported as untaxed income to the beneficiary (you, the student) on next year's FAFSA. This can have an impact on eligibility for need-based aid, as student taxable and untaxable income can reduce aid by up to half of the amount of the distribution.

Workarounds include waiting until your senior year in college to take a distribution (assuming that you will not be enrolling in graduate or professional school) and changing the account owner to your or your parents. (Distributions from a college savings plan you or your parents own are ignored on the FAFSA. Such college savings plans are reported as parent assets on the FAFSA, but the reduction in aid eligibility is minimal.)

Emergency Fund

Before paying down debt, you (and/or your parents) should save 6-9 months of salary in an emergency fund. The emergency fund might be used to cover living expenses if you or your parents lose your jobs or to cover other unforeseen expenses, such as home and car repairs and/or medical expenses.

Good Strategy: Accelerate Necessary Expenses

Another way to shift the asset load is to accelerate necessary expenses. For example, if your family needs a new car or the house needs a new roof or other major repairs, it may be better to spend the money on these necessary expenses before filing the FAFSA or CSS/Financial Aid PROFILE.

Similarly, if you need a SAT or ACT test prep class, a dorm refrigerator and microwave oven, a computer for school, or a car to commute to college, pay for it (with your money) before filing. (Note, however, that you may be able to qualify for a discount on computer equipment once you enroll in college.)

Cars, computers, furniture, books, boats, appliances, clothing, and other personal property are not reported as assets on the FAFSA. Home maintenance expenses are also not reported as assets on the FAFSA, since the net worth of the family's principal place of residence is not reported as an asset.

If your parents are planning on buying these items anyway, accelerating their purchase may reduce reportable assets, which would decrease the expected family contribution (EFC) and increase eligibility for need-based aid.

Your family can also reduce reportable assets by making a charitable contribution.

Recommendations

1. File the FAFSA every year to maintain eligibility for student aid.
2. Understand how your assets and your parents' assets can affect your eligibility.
3. Transfer any qualified education accounts to your parents' name.
4. Before you shift assets from reportable assets to non-reportable assets, carefully consider the pros and cons.