FUTURE SCHOLAR
529 COLLEGE SAVINGS PLAN

COLUMBIA THREADNEEDLE INVESTMENTS

Your success. Our priority.

UNDERSTANDING THE FINANCIAL AID SYSTEM

529 College Savings Plans

Situation:
One of the biggest misconceptions about saving for college is the impact that assets may have on needs-based financial aid qualifications. Many families may be surprised to learn that their expected family contribution (EFC) — the amount they are solely responsible for per student for each year of college — is determined predominantly by parental income, not parental assets.

Action:
Understand the basics of the financial aid system while your child is still young. Use a resource such as the Quick EFC Calculator at columbiathreadneedleus.com/calculators to see what your EFC could look like if you sent your child to college today.

The difference income makes

The following three families earn different amounts, but all are sending their first child to college in the fall of 2021. Table 1 illustrates how much parental income, factored at 22%–47% of income available after taxes, affects expected family contribution (EFC). Table 2 shows the minimal impact of parental assets, such as money in a 529 plan.

Table 1: Parental income, no assets

	The Smiths	The Joneses	The Browns
Income	$75,000	$100,000	$150,000
Assets	$0	$0	$0
EFC	**$9,430**	**$18,740**	**$36,890**

Table 2: Parental income with parental assets

	The Smiths	The Joneses	The Browns
Income	$75,000	$100,000	$150,000
529 plan assets	$75,000	$75,000	$75,000
EFC	**$13,250**	**$22,570**	**$40,730**

Estimated parental assets of $75,000 increased each family's EFC by approximately $3,830.

That same $75,000 in a Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) account — either of which would be in the student's name and factored at a higher rate than a parental asset — would lead to an additional $15,000 in each family's EFC.

Source: Quick EFC Calculator, columbiathreadneedleus.com/calculators. Powered by Savingforcollege.com

Determining financial need

Financial need is the difference between the EFC and the cost of attendance. Depending on the circumstances, a significant portion of financial aid can be in the form of loans, which will need to be repaid. It's also important to note that there is no guarantee that financial need will be fully met by a financial aid package offered by any particular school.

Cost of attendance – EFC = Financial need**

	Average public university	Average private university
Cost of attendance	$22,180	$50,770
Joneses family EFC	$22,570	$22,570
Financial need		**$28,200**

**Cost of attendance is the average tuition, room and board for four-year private and public schools for academic year 2020–2021 as published by the College Board in "Trends in College Pricing 2020."

Hypothetical examples for illustrative purposes only, and accuracy is not guaranteed. The estimates provided are an approximation of the EFC. The EFC will vary based on several different inputs, such as parental income, assets, age, place of residence, number of other kids in college, etc. The weighting of those inputs may vary based on differing factors. In this example, the calculation was based on a family of four, with one child in college, and the age of the older parent is 50 years. When using the calculator, you should enter figures that are appropriate based on your individual situation.

Reaching your EFC goal

Your estimated EFC amount may surprise you, but there are ways you can prepare for this cost:

- Start saving now, while there is still time to plan.
- A separate savings vehicle, not in the child's name, may be most advantageous.
  - When children own custodial accounts, they have an EFC of 20% of that asset each year.
  - 529s in the parents name are never factored at more than 5.64% when determining EFC.
  - If a 529 is owned by a grandparent or other relative, it does not count toward the EFC. Keep in mind, however, that distributions are treated as income of the student for financial aid purposes.
- Even students who don't qualify for needs-based aid may qualify for merit-based grants, which are not contingent on financial need.
- Parents with a complete understanding of college costs are better positioned to include grandparents in the college savings process. Using advanced gifting strategies, grandparents may be able to offer a grandchild a choice in college selection, while enjoying certain estate-planning benefits.

To learn more about college savings planning with a 529 plan, contact your financial advisor.

To find out more, call 800.426.3750
or visit columbiathreadneedle.com

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