ADDITIONAL FINANCIAL AID PLANNING STRATEGIES

An effective way to lower your Expected Family Contribution (EFC) is to reduce your family's eligible income and assets. There are many strategies available, and we have listed some of the most common ones below. We invite you to call us if you have any questions or comments, and urge you to always consult your financial/tax advisor to avoid any conflicts.

<u>INCOME PLANNING</u>. For planning purposes, use the "base tax year" (one year prior to student's graduation year). But, if you apply between 1/1 - 2/15, put ***estimated*** figures on the FAFSA form (update later). You can estimate by using tax returns two years prior to the student's graduation year, and adding a 3%-5% "fudge factor".

1. Only the student's and custodial parent(s)' income and assets are considered in the formula. Other family members' income and assets are not considered. Step-parent's income and assets are counted similar to the parents'. The custodial parent is who the student has lived with for 6+ months during the "base tax year".
2. The formula will assess 35% of parents' adjusted gross income (after allowances), and 50% of the student's adjusted gross income (after allowances).
3. The formula allows the student a ~$2500 Income Protection Allowance.
4. Consider deferring income and bonuses, and minimizing retirement distributions if possible.
5. Consider minimizing or discontinuing your retirement contributions until the student graduates.
6. If your Adjusted Gross Income is less than $50,000 and you do not itemize deductions (Schedule A), you may qualify for the Simplified Needs Test, which means the formula will not count any of your family's assets.
7. Does the student qualify as "independent"? – 24 years old, graduate student, married, has a dependent child, orphan, or is a member of the active military. Any one factor establishes independence.
8. If your family needs to sell investments to pay for college, consider selling as many "losers" as possible.
9. Capital gains/losses during the "base tax year" are counted in the formula. Consider accelerating or postponing capital gains to any year other than the "base tax year" .
10. If your family owns its own business or commercial farm, there are a number of possible income shelters.
11. State and local tax refunds are counted in the formula. Minimize these refunds.

<u>ASSET PLANNING</u>. You can wait until the date you submit the FAFSA, to determine your eligible assets.

1. Instruct the student to search for scholarships (college funded, privately funded and government funded). Scholarships can either be merit/talent based or need-based. There are excellent Internet and paper resources.
2. FAFSA will not count equity on your primary home, cars, personal effects and retirement accounts.
3. Only the student's, custodial parent(s) and step-parent(s) income and assets are counted in the formula.
4. Does the student qualify as "independent"? See above for criteria.
5. Consider taking assets out of the student's name, as the formula counts ~20% of them without any allowances.
6. Consider placing student's assets in a joint account with someone else's name & social security number first, or transfer student's assets to another person's account.
7. The Uniform Gift to Minors Act (UGMA), is counted as an asset in the student's name. To terminate or modify an UGMA, speak with a tax/legal expert to avoid unnecessary complications.
8. Consider delaying gifts to the student until after he/she graduates from college. Such gifts are counted in the formula and can reduce the student's eligibility for financial aid.
9. Consider spending down assets to purchase items needed for college or for your family's personal use.
10. Consider borrowing against investment securities.
11. Consider putting some liquid assets into life insurance products or retirement accounts. These are not counted.
12. Consider using assets or home equity to start a small business.
13. Make sure you have accurately determined the market value of your home.
14. Consider incorporating a family business, as corporations are not counted in the formula.

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