For many families, a 529 savings account is just one tool in their college savings toolbox. Scholarships, grants and other financial aid sources may all help contribute to a child’s educational expenses. When establishing – and using – a 529 account, it’s important to have a clear view of how this powerful tool works in conjunction with other sources of money for college.

529s and financial aid

The Free Application for Federal Student Aid (FAFSA) is the starting point for most needs-based aid programs. When calculating eligibility, FAFSA treats assets and income differently, and it also treats student- and parent-owned accounts differently than accounts owned by other relatives.

Federal financial aid is a needs-based award and determined by one equation:

\[
\text{Cost of Attendance} - \text{Expected Family Contribution} = \text{Financial Need}
\]

Cost of attendance (COA) is the total amount school will cost for a given year. This includes tuition and fees, room and board, and allowances for books, supplies, transportation, loan fees, and, if applicable, dependent care. Miscellaneous and personal expenses are also included.

The Expected Family Contribution (EFC) is the key component of most financial aid formulas and is determined by evaluating the total assets and income of the parents and the students. Here’s how:

### How assets and income affect the Expected Family Contribution

<table>
<thead>
<tr>
<th>Amount of income that counts toward EFC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Student</strong></td>
</tr>
<tr>
<td>50% of adjusted gross income over $3,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage of assets that count toward EFC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Student</strong></td>
</tr>
<tr>
<td>20% of assets:</td>
</tr>
<tr>
<td>- UGMA/UTMA accounts not held in a 529 account</td>
</tr>
<tr>
<td>- Minor trusts not held in a 529 account</td>
</tr>
<tr>
<td>- Savings bonds (in the students name)</td>
</tr>
<tr>
<td>- 529 accounts (parent- or student-owned)</td>
</tr>
</tbody>
</table>

Source: fafsa.ed.gov

One of the biggest questions parents have about 529 plans is how they affect needs-based financial aid.
**Assets.** The federal aid formula assesses parental assets at a maximum rate of 5.64%. That means that in general, for every $1,000 in a 529, the EFC toward college costs could increase by only $56 at most. Importantly, 529 accounts owned by dependent students are counted as parental assets and assessed at the 5.64% rate — this is significant because other types of student assets can be assessed at the much higher rate of 20%.

**Income.** Qualified distributions\(^2\) from student and parent accounts are not counted toward a student’s income. On the other hand, distributions from accounts owned by grandparents and other relatives are counted as student income, and would factor into calculations for next-year’s financial aid.

**What doesn’t count toward the EFC?**

529 and Coverdell accounts not owned by parents or students are not required to be disclosed when applying for federal aid. Money disbursed, however, will be reported as income for the student on their FAFSA for the following year.

Retirement accounts and life insurance policies, owned by the parent or the student, are not required to be disclosed when applying for federal aid. Distributions from those accounts or policies, however, count as income on the following year’s FASFA.

**Talk to your financial advisor**

If you’re planning to pair a 529 account with other financial aid sources, talk to your financial advisor about the best way to coordinate your accounts and time your distributions in order to maximize your benefits.

To learn more about starting a CollegeBound 529 for your child, visit collegebound529.com.

---

1 The amount of parental adjusted gross income after allowances for federal, state, local and FICA taxes, as well as an income protection allowance based on the number of people in the household. Source: Joseph F. Hurley, CPA, Savingforcollege.com’s Family Guide to College Savings (2014-2015).

2 Earnings are not subject to federal tax and generally not subject to state tax when used for the qualified education expenses of the designated beneficiary, such as tuition, fees, books, as well as room and board.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

**Before you invest, consider whether your or the beneficiary’s home state offers any state tax or other benefits that are only available for investments in that state’s qualified tuition program.**

For more information about CollegeBound 529, contact your financial advisor, call 877 615 4116, or visit collegebound529.com to obtain a Program Description, which includes investment objectives, risks, charges, expenses, and other important information; read and consider it carefully before investing. Invesco Distributors, Inc. is the distributor of CollegeBound 529.

An investment in the Portfolios is subject to risks including: investment risks of the Portfolios which are described in the Program Description; the risk (a) of losing money over short or even long periods; (b) of changes to CollegeBound 529, including changes in fees; (c) of federal or state tax law changes; and (d) that contributions to CollegeBound 529 may adversely affect the eligibility of the Beneficiary or the Account Owner for financial aid or other benefits. For a detailed description of the risks associated with CollegeBound 529, and the risks associated with the Portfolios and the Underlying Funds, please refer to the Program Description.

CollegeBound 529 is administered by the Rhode Island Office of the General Treasurer and the Rhode Island State Investment Commission. Ascensus College Savings Recordkeeping Services, LLC, the Program Manager, and its affiliates, have overall responsibility for the day-to-day operations of CollegeBound 529 including recordkeeping and administrative services. Invesco Advisors, Inc. serves as the Investment Manager. Invesco Distributors, Inc. markets and distributes CollegeBound 529.

CollegeBound 529 portfolios invest in: exchange-traded funds, mutual funds and separate accounts. Units of the portfolios are municipal securities, and the value of the units will vary with market conditions. Investments are not guaranteed or insured by the State of Rhode Island, the Rhode Island Office of the General Treasurer, the Rhode Island State Investment Commission.

None of the State of Rhode Island, its agencies, Invesco Distributors, Inc., Ascensus College Savings Recordkeeping Services, LLC, nor any of their applicable affiliates provide legal or tax advice. This information is provided for general educational purposes only and is not to be considered legal or tax advice. Investors should consult with their legal or tax advisors for personalized assistance, including information regarding any specific state law requirements.

Note: Not all products, materials or services are available at all firms. Financial advisors, please contact your home office.