

College Planning Guide: 529s, Financial Aid, & Tax-Smart Funding

Introduction & Objectives

Navigating the rising costs of higher education requires more than just disciplined saving; it requires a strategic orchestration of tax-advantaged vehicles and a deep understanding of the financial aid landscape. This guide is designed for parents of K-12 students who seek to build a robust funding plan that balances investment growth with financial aid eligibility.

Primary Objectives:

- **Tax Efficiency:** Identify and utilize accounts that provide tax-deferred growth and tax-free withdrawals for qualified expenses.
- **Aid Optimization:** Structure family assets to minimize the impact on the Student Aid Index (SAI) while maximizing eligibility for need-based and merit-based aid.
- **Strategic Flexibility:** Develop a "gap funding" strategy that integrates student loans and tax credits without incurring unnecessary penalties.

Phase 1: Vehicles for Education Savings

Choosing the right savings vehicle is the foundation of your plan. Each account type carries different tax implications and affects financial aid eligibility differently.

529 Savings Plans

The 529 plan remains the "gold standard" for education savings. Contributions are made with after-tax dollars, growth is tax-deferred, and withdrawals are tax-free when used for qualified education expenses.

- **State Benefits:** Many states offer tax deductions or credits for contributions.
- **SECURE 2.0 Rollovers:** Certain 529 plan beneficiaries may have the option to roll over unused funds into a Roth IRA. This process is subject to specific lifetime limits and account duration requirements; consult with a CPA to verify current IRS eligibility rules.
- **Investment Options:** Usually consist of age-based portfolios that automatically shift from aggressive to conservative as the student nears college age.

Alternative Accounts

- **UTMA/UGMA Custodial Accounts:** These are considered assets of the student. While they offer flexibility in how funds are used, they are heavily penalized in financial aid formulas (assessed at 20%).
- **Coverdell ESAs:** Offer tax-free growth but have low annual contribution limits (\$2,000) and income restrictions.
- **Taxable Brokerage Accounts:** Provide the most flexibility (no 10% penalty for non-education use), but offer no tax advantages and are assessed as parent assets (up to 5.64%).

Phase 2: Financial Aid Mechanics (FAFSA & CSS Profile)

Understanding how your assets are "taxed" by the financial aid system is critical to reducing out-of-pocket costs.

The Student Aid Index (SAI)

The FAFSA (Free Application for Federal Student Aid) uses the SAI to determine your family's ability to pay.

- **Parent Assets:** Assessed at a maximum rate of 5.64%.
- **Student Assets:** Assessed at a flat rate of 20%. This is why holding assets in a student's name (like an UTMA) can significantly reduce aid eligibility.

- **Grandparent-Owned 529s:** Under the new FAFSA rules, distributions from grandparent-owned 529 plans are no longer reported as untaxed student income, effectively removing a major historical hurdle for "third-party" savings.

The CSS Profile Nuances

Many private institutions require the CSS Profile in addition to the FAFSA. This form is far more intrusive:

- **Home Equity:** Unlike the FAFSA, the CSS Profile often considers the equity in your primary residence.
- **Non-Custodial Parents:** Many private schools require financial information from both biological parents, regardless of divorce or separation status.
- **Professional Judgment:** Financial aid officers at CSS Profile schools have more discretion to adjust aid packages based on specific family circumstances.

Phase 3: Potential Funding Gaps & Strategic Review

Institutional Aid Strategies

- **Merit-Based Aid:** Often awarded regardless of financial need. To maximize merit aid, target schools where the student's academic profile (GPA/Test Scores) puts them in the top 25th percentile of the applicant pool.
- **Need-Based Aid:** Requires a low SAI and is typically found at schools with large endowments.

Educational Loan Overview

When personal savings and institutional aid do not cover the full cost of attendance, families may evaluate various loan options to bridge the gap.

- **Federal Direct Subsidized:** Available to students with demonstrated financial need; the government typically pays the interest while the student is in school.
- **Federal Direct Unsubsidized:** Available regardless of financial need; interest begins accruing from the date of disbursement.
- **Parent PLUS Loans:** Federal loans available to parents of dependent undergraduate students; these often carry different repayment terms and credit requirements than student-directed loans.

Tax Credit Education & Coordination

The American Opportunity Tax Credit (AOTC) may provide a credit for qualified education expenses. However, IRS "anti-double-dipping" rules prevent families from using 529 funds and the AOTC for the same set of expenses. Because tax credits are subject to income phase-outs and specific documentation, families should review their filing strategy with a qualified tax professional or CPA.

Actionable Asset: 529 Roadmap & SAI Cheatsheet

Decision Table: Age-Based Contribution & Strategy

Child Age	Primary Focus	Strategy Adjustment
0 - 5 Years	Aggressive Growth	100% Equity 529 Allocation; prioritize state tax-deduction limits.
6 - 10 Years	Balanced Growth	Diversify into fixed income; review total projected cost of attendance.
11 - 14 Years	Capital Preservation	Shift 529 to moderate/conservative;

Child Age	Primary Focus	Strategy Adjustment
15 - 18 Years	Liquidity & Aid Prep	identify potential merit-aid schools.
		Move funds to cash/short-term bonds; minimize student-owned assets.

FAFSA SAI Assessment Reference

Asset Type	Ownership	Assessment Rate	Financial Aid Impact
529 Plan	Parent ▾	Up to 5.64%	Minimal - Favorable
Savings/Brokerage	Parent ▾	Up to 5.64%	Moderate
UTMA/UGMA	Student ▾	20.00%	High - Unfavorable
Retirement Accounts	Parent ▾	0.00%	Exempt (Asset-wise)

Call to Action & Next Steps

Strategic college planning is a moving target. Legislative changes like the SECURE 2.0 Act and FAFSA Simplification have altered the rules of the game. To ensure your family is positioned for the greatest possible advantage, take the following steps:

1. To ensure your family is positioned for the greatest possible advantage, we encourage you to schedule a **Personalized College Funding & Financial Aid Strategy Session**.
2. Visit our website at [ivorycapitalwealth.com](https://www.ivorycapitalwealth.com) to book your consultation and begin building your comprehensive roadmap.

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