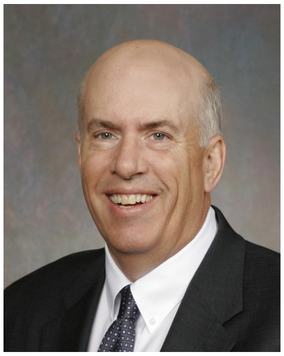

**Barnum Financial Group**
John F. Pearson, CPA, CASL
Financial Advisor
225 High Ridge Road
Stamford, CT 06905
203-658-1951
college@barnumfg.com
www.barnumforcollege.com

# Positioning Your Income/Assets to Enhance Financial Aid Eligibility

# Positioning Your Income/Assets to Enhance Financial Aid Eligibility

## What does it mean to enhance your financial aid eligibility?

If you qualify for federal financial aid, there are a number of strategies you can try to implement to enhance the amount of aid your child will receive when you apply for financial aid. The idea is to lower your expected family contribution (EFC), which in turn raises your child's aid eligibility. Although some of these strategies can be employed as late as the base year--the tax year that your Free Application for Federal Student Aid form (FAFSA) will rely on--others can be implemented years before your child will be starting college.

***Note:*** *Beginning with the 2017/2018 school year, families will be able to file the FAFSA as early as October 1, 2016 using their 2015 tax information, rather than having to wait until after January 1, 2017 to file. So staring with the 2017/2018 year, the base year will be two years behind.*

It is important to note that these strategies are perfectly legal and are not in any way meant to undermine the federal financial aid process. These strategies simply examine the federal methodology and take advantage of its rules regarding which family assets and income are included in determining a student's financial aid eligibility.

## Strengths

### *You increase your child's eligibility for federal financial aid*

By implementing strategies that lower your assessable income and assets under the federal formula for financial aid, you decrease the amount of money your family is expected to contribute to college costs. A decrease in your EFC, in turn, means your child will be eligible for more financial aid. This translates into less current out-of-pocket costs for you.

### *You may reap incidental financial benefits that are important to you*

By implementing certain strategies tailored to the federal methodology for financial aid, you not only increase your child's aid eligibility but also may place yourself in a better financial position. For instance, by paying down your mortgage, you not only increase your child's federal aid eligibility because home equity is not counted as an asset under the federal formula, but you also benefit by saving on mortgage interest and owning your home sooner.

## Tradeoffs

### *Colleges don't use the same formula as the federal government in determining aid eligibility*

The primary drawback of implementing specific strategies to take full advantage of federal financial aid is that you increase your chances for aid under the federal system only. Colleges have their own formula for determining which students are most deserving of campus-based aid, and this formula may not recognize a strategy that is successful under the federal methodology. For instance, under the federal methodology, the federal government does not consider your home equity in calculating your total assets. However, some colleges do consider home equity in determining a family's ability to contribute to college costs, and some may even expect parents to borrow against it.

### *The increased financial aid may consist entirely of loans*

If you are successful at reducing your total income and assets under the federal methodology and thus increasing your child's financial aid package, there is no guarantee that a portion of the increased aid package will consist of grants or scholarships (which do not have to be paid back). Instead, your child's additional aid package could consist entirely of loans that will need to be paid back by you or your child.

### *You may not want to disrupt an otherwise sound investment program*

It is generally not a good idea to drastically change your overall financial planning scheme for financial aid reasons only. Ideally, any changes you make should be in line with your overall financial planning picture.

# Strategies to reduce available income

There are a number of steps you can take to reduce your adjusted gross income (AGI) under the federal methodology for determining financial aid. The lower your AGI, the less money you will be expected to contribute toward college costs and the higher your child's aid eligibility.

***Tip:*** *Remember, you apply for financial aid each year. Thus you should consider the following strategies for each of the years you will be applying for aid, not just for the initial application.*

## *Time the receipt of discretionary income to avoid the base year*

Your income in the base year will directly affect your child's financial aid eligibility in the corresponding academic year. Although it is highly unlikely that you will be able to defer your weekly (or monthly) paycheck, it may be possible to defer other types of discretionary income beyond the base year. For example, if possible, you should try to:

- Defer receiving employment bonuses until after December 31 of the base year.
- Avoid selling investments that will have taxable capital gains or interest, such as mutual funds, stocks, or savings bonds, until after December 31 of the base year. To avoid taking an untimely distribution from an investment that is earning a favorable rate of return, use the investment as collateral for a low-interest loan instead.
- Sell investments that can be taken at a loss during the base year, as long as the investments are not expected to recover.
- Avoid pension and IRA distributions in the base year.
- If you are on an expense account, ask your employer to reimburse you directly so that any reimbursement amounts do not artificially inflate your income.

## *Pay all federal and state income taxes due during the base year*

Paying all federal and state income taxes due during the base year is advantageous for two reasons: it reduces the amount of available cash on hand, and you can deduct the total amount of federal and state taxes you pay during the base year on the FAFSA.

## *Leverage student income protection allowance*

For the academic year 2016/2017, the first $6,400 of income a student earns is not considered in determining a child's total income. This is known as the student's income protection allowance. However, everything a student earns beyond the allowance is assessed at 50 percent for financial aid purposes. In other words, the federal government expects your child to contribute 50 percent of all income earned over the allowance (after taxes).

To avoid this result, parents may want to consider having their children perform volunteer work once their kids reach the allowance limit.

# Strategies to reduce available assets

There are a number of steps you can take to reduce the amount of assets that will be included under the federal methodology. Under this formula, the federal government includes some assets and excludes others in arriving at your family's total assets. The lower your assessable assets, the less money you will be expected to contribute toward college costs and the higher your child's aid eligibility.

It is important to remember that the relevant date for determining whether you own a particular asset is the date that you submit the FAFSA. Consequently, the following strategies can be implemented up to the time you complete the FAFSA.

## *Use cash to pay down consumer debt*

The federal methodology does not care about the amount of consumer debt you may have. So if you have $10,000 in assets and $10,000 worth of consumer debts, the federal government still lists your total assets as $10,000. When you use available cash to pay down consumer debt, you reduce the amount of your cash on hand.

## Use cash to make large purchases

Another strategy to reduce cash on hand (an assessable asset) is to make large planned purchases in the base year. Such items may include a car, furniture, or the like for parents and a car (second-hand, of course), computer, or the like for students. Remember, the idea is not to go out and spend the money on anything; the purchase should have been previously planned.

## Increase home equity

The federal methodology does not count home equity as an asset in determining your child's financial aid eligibility. So using assessable assets to pay down the mortgage on your home is one way to reduce these assets and benefit yourself at the same time.

***Caution:*** *Although the federal government does not include home equity in determining a family's total assets, some private colleges do include home equity in deciding which students are most deserving of campus-based aid. In addition, some colleges may expect parents to borrow against the equity in their homes to help finance their child's college education.*

## Leverage parents' asset protection allowance

Once the parents' assessable assets are totaled, the federal methodology grants parents an asset protection allowance, which enables them to exclude a certain portion of their assets from consideration. The amount of the asset protection allowance varies depending on the age of the older parent at the time the child applies for aid (the idea being the closer the parents are to retirement age, the larger the asset protection allowance). For example, if parents are married and the older parent is 48 when the child applies for financial aid, the asset protection allowance is $18,700 for the 2016/2017 academic year.

Once parents determine what their asset protection allowance will be, one strategy is to consider saving an equal amount of money in assets that are counted under the federal methodology. Then, any savings above this amount can be shifted to assets that are excluded by the federal methodology, such as home equity, retirement plans, cash value life insurance, and annuities.

## Use student's assets for the first year

Under the federal methodology for financial aid, the federal government expects a child to contribute 20 percent of his or her assets each year to college costs, whereas parents are expected to contribute a maximum of 5.6 percent of their assets. If assets have been accumulated in a child's name, parents may want to consider using these assets to pay for the first year of college. By reducing the child's assets in the first year, the family will likely increase its chances to qualify for more financial aid in subsequent years.

Barnum Financial Group
John F. Pearson, CPA, CASL
Financial Advisor
225 High Ridge Road
Stamford, CT 06905
203-658-1951
college@barnumfg.com
www.barnumforcollege.com