Financial Aid Strategies with 529 Plans

Investing without reducing federal financial aid qualifications

Are you actively saving to meet higher education costs for your children?

Are you counting on financial aid to help pay for college expenses?

Is a Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) account part of your current saving strategy?

Are you aware that parental assets and student assets are treated differently under the federal financial aid formula?

The cost of higher education has been rising faster than standard inflation, a trend that is expected to continue indefinitely. If you are making an effort to save for a child's college education, but you believe that some form of financial aid will also be necessary to pay the bills, it is important that you save and invest the right way. For many families, the right approach will be built around a 529 education savings plan.

The potential benefits of a 529 plan strategy

Your family may qualify for more federal financial aid if you save with a 529 plan than if you use another approach, such as an UTMA or UGMA account. That's because, under guidelines for calculating federal financial aid, you as the parent — rather than the student — are considered the owner of 529 assets, which works to your benefit. Student assets affect the financial aid calculation more than parental assets do. UTMA or UGMA accounts are considered student assets. So, the more money in these accounts versus in 529 plans, the lower the amount of financial aid for which you are likely to qualify.

In addition, 529 plans offer other benefits, including:

- Tax-free distributions for higher-education purposes
- Tax-free accumulation of income and capital gains
- No "kiddie taxes," which can complicate UTMA and UGMA approaches

Your financial advisor: Helping you make an informed decision

As you consider your education funding strategy, your financial advisor can help you consider several questions and possible issues, including:

- **How much federal financial aid could I potentially receive?**

  The federal financial aid formula is based on need, and is defined as:

  Cost of Attendance – Expected Family Contribution (EFC) = Financial Need

  The lower your EFC, the greater your financial need — and the higher the potential amount of your federal financial aid award.

- **How is my EFC determined?**

  Your EFC is based on whether your income and assets are attributed to you or your child. As you can see from the table on the next page, assets owned by your child will be weighted much more heavily in the calculation than your own assets.

  Your EFC is based on the Free Application for Federal Student Aid (FAFSA), which you must complete for each school to which your child applies, and for each year your child attends an educational institution.

(continued)

- **What are the benefits of a 529 plan strategy vs. an UTMA/UGMA or other approach?**

  Assuming that you would save the same amount in a 529 plan as in an UTMA or UGMA, your financial advisor can show you the dollars-and-cents advantage of the 529 plan, using the EFC formula below. You may also save on taxes.

Determining EFC

	Parent	Student
Income	22%–47% of available income[1]	50% of adjusted gross income over $4,500 for 2010–2011
Assets	0%–5.64% of assets[2]	20% of assets held in student's name

A checklist

Your financial advisor can help you review the potential benefits of a 529 plan strategy. Before you meet with your financial advisor, you should review some important information and documents. You will need this information when you complete the FAFSA application.

- ☐ Your Social Security number(s) and those of your children
- ☐ Your driver's license number and those of your children
- ☐ Federal tax information and tax returns (including IRS W-2 information) for you, your spouse and your children
- ☐ Statements from any UGMA or UTMA accounts you may have established
- ☐ List of potential colleges and universities

Next steps

If you decide saving in a 529 plan makes sense, your financial advisor can help you establish a 529 plan, facilitate an UGMA/UTMA transfer, if appropriate, and provide investment guidance.

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Contact your financial advisor to discuss your education funding needs and how the Columbia Management Learning Center can assist you.

[1] Available income is the amount of parental adjusted gross income after allowances for federal, state, local and FICA taxes, as well as income protection allowance based on the number of people in the household. The percentage of parental assets considered in determining EFC will vary based on the amount of assets, the age of the eldest parent and whether there are one or two parents.

[2] Assets held in qualified retirement plans, IRAs, insurance contracts, or the equity in a home that is the primary residence of the student are not considered in determining eligibility for federal student aid. Prior to the 2009–2010 academic year, assets held in a 529 plan were not counted as student assets for federal financial aid purposes. Effective for the 2009–2010 academic year, 529 plans owned by a student or parent are treated as parental assets in the federal financial aid calculation. Sources: U.S. Department of Education, "The EFC Formula 2010–2011," and www.finaid.org.

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One Financial Center, Boston, MA 02111-2621
800.426.3750 www.columbiamanagement.com

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