JOHN HANCOCK FREEDOM 529 OFFERED BY EDUCATION TRUST OF ALASKA

Understanding financial aid

Is college right around the corner? Before you and your child make your decisions, take the time to learn how financial aid is calculated. Don't assume that because your income and/or savings are high that your child won't qualify for aid. Many factors are used to determine who has a financial need, including your marital status, size of your household, your age, and the type of assets you own. Eligibility can be the key to determining which schools to apply to.

How to calculate your financial aid eligibility

Annual college costs

− **Expected family contribution** (Parents + Child)

= **Financial aid eligibility** (can include loans, grants, scholarships, and self-help)

	Income	Assets
Parents	**22% to 47%** of available after-tax income	**0% to 5.64%** of assets, including 529 accounts, bank accounts, CDs, mutual funds, and other securities
Child	**50%** of adjusted gross income over $6,420[1]	**20%** of assets held in child's name, including bank accounts, CDs, savings bonds, and UGMA/UTMA accounts and minor trusts not held in a 529 plan

FAFSA and CSS: What's the difference?

Eligibility for financial aid is determined by filling out the Free Application for Federal Student Aid (FAFSA). While most schools only require the FAFSA, approximately 250 institutions also require completion of the CSS/Financial Aid Profile. The two calculations are very similar, but have a few key differences.

- FAFSA looks at income from a high level and incorporates the age of the oldest parent in determining how much income can be sheltered.
- CSS delves deeper into income and assets and considers additional assets such as home equity.

Currently, CSS can be accessed on October 1 and the FAFSA is available on January 1. Beginning with the 2017–18 school year, both applications can be filed beginning October 1.

Many elements influence financial aid, so you should complete a FAFSA regardless of your income and savings. While the assets in a 529 plan do count toward the expected family contribution, the impact is fairly small compared with other savings vehicles. The benefits of tax-free[2] growth, control, and flexibility that it offers make it a powerful college savings vehicle.

Source: FAFSA, 2017.

1 Amount is for 2016–17 school year. It is indexed annually.

2 State laws and treatment may vary. Earnings on nonqualified distributions will be subjected to a 10% federal penalty tax. Please speak with your tax advisor for more information.

529 plans: did you know?

Benefits of converting an UGMA/UTMA to a 529

If your child has a Uniform Gifts to Minors Act (UGMA) or a Uniform Transfers to Minors Act (UTMA) account, you may want to consider converting it to a 529 account.[3]

- A child-owned UGMA/UTMA is assessed as the child's assets for financial aid calculations, at a 20% rate (versus 5.64% for the parents). A 529 account is reported as the parents' asset even if the account is owned by the child.
- Interest, dividends, capital gains, and distributions from an UGMA/UTMA are reported as income on the child's tax return and assessed at the 50% rate. Distributions from a 529 are tax free if used for qualified higher education expenses.[2]
- Unlike UGMA/UTMAs, 529 accounts can accumulate and compound tax free.[2]

Changes to the grandparent rule

Until recently, there was a dilemma as to when to begin taking distributions from 529 accounts that grandparents opened for their grandchildren.

- If done during the base year, those funds would be considered untaxed income in the child's adjusted gross income, and assessed for financial aid at the 50% rate. Most grandparents were advised to wait until the child was in his or her final year of school.
- A new rule—effective for the 2017–18 school year—pushes the base year back two years prior to the start of the school year. Now grandparents can contribute, without impacting aid eligibility, starting the year that the student will enter as a junior. Depending on the FAFSA filing date, this could include the last semester of the child's sophomore year, and grandparents could provide support for the final 2½ years of college.

Stretching your 529

If your child is finishing up his or her education and you've still got assets left over in the 529 account, did you know that you can stretch it for other beneficiaries?

- Special gifting flexibility allows you make five years' worth of contributions in a single year—up to \$75,000 (\$150,000 for couples filing jointly) per beneficiary—without triggering federal gift taxes.[2]
- You can help create a perpetual education legacy by taking advantage of the benefits of 529 plans; one account can continue to grow to support multiple generations and create an educational legacy. Siblings, cousins, even grandchildren are all eligible to benefit from the tax-free growth of a 529 account.

Ask your advisor

Talk to your financial advisor today about the benefits of saving for college with the John Hancock Freedom 529 plan.

Source: FAFSA, 2017.

3 Converting your account to a 529 may be subject to taxation. Please speak with your tax advisor for more information.

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