

Will 529 College Plan Jeopardize Financial Aid?

Q. My daughter is still in college and is likely to go to grad school. I've been putting money into her 529 plan for many years and making withdrawals for her time in school. My stepson just had his first child, and I'd like to open a 529 for her but I wonder if it would impact our Expected Family Contribution (EFC) or financial aid because I would own both accounts. Should I wait?
-- College saver

A. Before we get deep into your specific question, let's cover 529 plans in general.

These are qualified plans that allow you to save tax-deferred, and when you take out the money, it's tax-free as long as it's used for tuition, room, board and other approved expenses.

Prior to this year, the funds could only be used for higher education -- college and graduate school -- but the recent tax law changes extended the benefit to elementary, middle and high school with a \$10,000 annual cap on these latter institutions, said **Claudia Mott**, a certified financial planner with **Epona Financial Solutions** in Basking Ridge.

So when you complete the FAFSA, short for the [Free Application for Federal Student Aid](#), you have to report the value of parent-owned and student-owned 529 plans, Mott said.

"The combined 529 account value would be included in the calculation of the family's [Expected Family Contribution \(EFC\)](#)," Mott said. "Parents are expected to contribute up to 5.64 percent of their assets compared to 20 percent for children's assets such as an UGMA savings account."

Regardless of whether the 529 is owned by parent or student, it is considered an asset of the parent, Mott said.

In your situation, the second account you are planning to open would be for your grandchild so it [would not need to be reported](#) on the FAFSA for your daughter because your daughter is not the beneficiary.

The catch is when you decide to use your granddaughter's account.

Mott said the value of 529 accounts that are owed by a grandparent are not included in the FAFSA application, however, the distributions can factor into a college financial aid package in a different way.

Distributions that are made by a grandparent are considered [untaxed income](#) paid to the child and would need to be recorded on the FAFSA, she said.

"A recent rule change which allows families to file the FAFSA as early as October 1 requires the income from two years prior be reported, for example, for the 2018-19 school year, 2016 income is required," she said.

"This would allow a grandparent-owned 529 to be used in both the junior and senior year of college and have no effect on the student's reported income."

Email your questions to ask@njmoneyhelp.com