



AMERICAN FUNDS®

From Capital Group

CollegeAmerica®
529s and Financial Aid

Understanding the effects of income and savings on financial aid.

Financial aid will play an important role in many people’s college-funding strategies. That’s why it’s important to understand the impact that higher education savings can have on financial aid calculations.

Two factors help determine the amount one will receive:

1. Parent and student income and assets

Parent and student earnings and assets get factored into financial aid calculations. Generally, parental income and assets are treated more favorably than child-owned assets and income. The example below indicates the percentage of assets and income one could be expected to contribute annually toward college-related expenses.

How income and assets factor into the EFC

Owner	Assets*	Income†
Student	20%	50%
Parents	5.64%	22%-47%
Others (including grandparents)	0%	0%

Source: FAFSA

2. The investing vehicle housing the assets

The type of investing vehicle housing the assets – 529 college savings plan, Coverdell Education Savings Account, UGMA/UTMA account, Roth IRA or taxable account – helps determine the impact of the assets on aid eligibility.

Expected Family Contribution or “EFC”

The Free Application for Federal Student Aid or “FAFSA” form helps determine how much a student and his or her family are expected to contribute toward college. That amount is known as the expected family contribution or “EFC”. The difference between the EFC and the cost of attendance (college tuition, room and board, etc.) is the amount of federal financial aid for which one is eligible.

For example, using the FAFSA formula, if the cost of attendance is \$45,000 and the expected family contribution is \$35,000, the student would be eligible for Federal Financial Aid totaling \$10,000.

Cost of attendance	\$45,000
– EFC	\$35,000
Federal Financial Aid	\$10,000

*Total current balance of cash, savings and checking accounts; net worth of investments, including real estate, excluding the home in which parents and student live; net worth of parent and student current businesses and/or investment farms, excluding family farms or businesses with 100 or fewer full-time or full-time equivalent employees. Net worth means current value minus debt. Income includes the adjusted gross income from the parents’ and students’ Forms 1040 along with certain other items representing untaxed income and benefits, e.g., untaxed portions of IRA distributions and veterans non-education benefits, such as disability.

† 30% income tax rate used for illustration purposes. Actual rate may differ.

A new FAFSA form is filled out each year in which a student seeks financial aid.

Financial aid and tax issues can be complicated. Be sure to work with your advisor and tax professional to determine the investments and decisions that make sense given your specific circumstances.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

