

FAFSA Benefits Student Savers

By Anne O'Dell

Dependent students with college-savings plans in their own names may now find themselves at an advantage.

According to deficit-reduction legislation passed this year, money set aside for college-savings plans will not be taken into account when determining eligibility for federal financial aid.

The loophole in the legislation was reflected in the proposed revision of the FAFSA as published in the Federal Register by the U.S. Department of Education. In the FAFSA draft, students are asked to report the balance in college-savings plans with the stipulation that the amounts need not be reported “if the student is the owner” of the account.

Currently, there are about 8.6 million college-savings accounts totaling around \$89.46 billion. Though all states now offer the plans, some states do not allow opening of accounts in a minor’s name—as such the number of families affected by the new federal law remains uncertain.

The new FAFSA would take effect for the 2007-2008 academic year.

The related Federal Register report issues June 6 states, “New instructions have been added to clarify that Coverdell savings accounts, 529 college savings plans, and the refund value of 529 or State prepaid tuition plans should be reported as an asset of the account owner (unless the owner is a dependent student).”

Increasingly, financial aid administrators and recipients are asking the Department of Education to make the FAFSA, easily the DOE’s most-used form, a more precise barometer of a student’s financial reality.

The DOE has stated a desire to ensure that the FAFSA can be processed and used in a timely manner and that it can accurately estimate individual and family financial burdens.

Moreover, the DOE solicits comments on way to “enhance the quality, utility, and clarity of the information to be collected.”

According to the report, DOE Secretary Margaret Spellings “requests comments on these proposed changes to wording, as well as suggestions for ways to further simplify the application for students, parents, and schools.”

The Federal Register document continues, “In particular, the Secretary is interested in comments regarding the best manner in which to construct a simplified form for applicants who qualify for an automatic zero or simplified needs test EFC calculation, including applicants who now qualify based on receipt of benefits from a Federal means-tested benefit program.”