Investment management by:

FAFSA BULLETIN

The changes you need to know

The *FAFSA Simplification Act* was passed by Congress in 2020, creating significant changes to federal college financial aid. Those applying for aid now will see the new FAFSA, including a redesigned and streamlined FAFSA form and the replacement of the Expected Family Contribution (EFC) with the Student Aid Index (SAI).

These changes are meant to simplify the student aid process and expand eligibility for different types of financial aid, including Pell Grants. How do you navigate the new FAFSA and what do you need to know?

A SIMPLIFIED FAFSA FORM

The FAFSA form is now easier to fill out. Applicants can expect a shorter form with fewer questions and many fields prepopulated by the IRS, for those who file taxes. The new FAFSA form has fewer questions about untaxed income and no longer requires disclosure of cash support.

OLD

108 detailed questions focusing on demographics, educational and identification questions.

NEW

A maximum of 36 questions that streamlines the process and draws information directly from tax forms.

CHANGE FROM EFC TO SAI

Beginning in the 2024-25 award year, families are going to see a new measure, the SAI, replace the EFC to determine their ability to pay for college. A lower SAI value signifies higher financial need.

OLD

EFC assessed a student's available financial assets to determine financial need, although it wasn't actually a calculation of the amount a student's family was expected to pay.

NEW

SAI is the new measure of a student's ability to pay for college. It can move into negative territory, as low as -1,500, to give greater insight into those families with exceptional need.

SAI AND SIBLINGS

The new FAFSA form looks at each student as an individual and doesn't take into account the number of students attending college simultaneously. For dependent students, education savings will only be counted as a parental asset if the account is designated for the student.

OLD

If a parent had more than one child attending college at the same time, the value of those accounts would also be counted. The EFC was divided by the number of family members in college.

NEW

SAI treats each student as an individual and is not divided based upon the number of students attending college within the same family. This could mean that middle and higher income families with multiple dependent students in college at the same time could qualify for less aid than before.

GRANDPARENT-OWNED 529 PLANS

It's now easier for grandparents to play a bigger part in funding a grandchild's education. Under the new FAFSA, contributions of grandparents and non-parent relatives will no longer be considered untaxed income.

OLD

Funds withdrawn from a grandparent-owned 529 were included in the FAFSA "income test".

NEW

Beginning with the 2024-25 award year, distributions from a non-parent-owned 529 savings account, such as a grandparent-owned 529, will not be counted as the student's untaxed income in the FAFSA application.

WORK-SPONSORED RETIREMENT ACCOUNTS

Pre-tax contributions to retirement accounts will no longer be counted in a family's ability to pay for college. If you are debating whether you should contribute to your retirement savings or to your 401(k) in case it affects aid eligibility, this may make prioritizing for retirement easier.

OLD

Families needed to disclose how much they contributed to their work-sponsored retirement accounts. These contributions counted toward income in the FAFSA form.

NEW

Work-sponsored accounts, including 401(k)s, IRAs and Roth IRAs are no longer included in FAFSA financial aid calculations.

CUSTODIAL PARENT DEFINITION CHANGES

If parents are divorced or separated, the parent that needs to fill out the FAFSA is the one who provides the greatest financial support to the student, rather than the parent who the student lives with (if this individual happens to be different).

OLD

The household that files is the parent with whom the student lived with (or lived with most) in the 12 months prior to application. Child support was considered income.

NEW

The household that files is the parent who provided the most financial support for the student in the 12 months prior to application. Child support is considered an asset instead of income.

The 2025-26 FAFSA will use 2023 tax returns, so thinking ahead is critical when planning for future years. You can work with your financial professional to strategize, assess your overall financial plan and how you can help balance your education and other savings goals.

HOW 529 PLANS CAN HELP

With the recent changes to FAFSA, there's more flexibility than ever when planning for your future or that of a loved one using 529 plans.

529 PLANS PROVIDE:

CONTROL
Account owner retains control with the ability to change the beneficiary of the account anytime e.g., to another family member if the original beneficiary no longer needs the funds for higher education.

ESTATE PLANNING FLEXIBILITY
Create a source of education funding that can go from generation to generation.

TAX DEFERRAL
Benefit from tax-deferred growth with earnings deferred from federal or state income taxes.

NO GIFT TAX
Get a powerful gift tax break. You can contribute up to $19,000 per beneficiary annually ($38,000 if filing jointly), free from federal gift tax.

FORWARD-GIFTING PROVISION
Accelerate your gift giving. In a single year, gifts can be treated as being made over 5 years for gift tax recognition purposes.

The importance of planning ahead

A 529 Plan can help you close the gap between the financial aid a child may receive and the total cost of education.

TO LEARN MORE ABOUT SCHOLAR'S EDGE 529 PLAN, VISIT SCHOLARSEDGE529.COM.

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