New Form for 2023-2024 School Year Goes Live Oct. 1, 2022

Financial Aid Is Now Revamped

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Each year September ushers in a new crop of freshmen on college campuses across the country. For many families, financial aid helps bridge the gap between the cost of attending college and the amount that students and their parents can afford to pay. Unfortunately, many students forgo applying for financial aid because they assume they won't qualify or it's too time-consuming.

While the initial effort can be daunting, there is a significant amount of aid available to ease the burden of the cost of higher education, if you are willing to put in the time. Starting next fall, applying will be easier than ever, thanks to changes enaccted by Congress aimed at expanding eligibility and encouraging more students to apply for financial aid.

In addition, for those grandparents in a position to help, a significant change to the financial aid formula will open up new planning possibilities.

Free Application for Federal Student Aid (FAFSA)

The first step, for all prospective college students and parents, regardless of their economic position, is to fill out the Free Application for Federal Student Aid (known as FAFSA). The FAFSA form for the following school year becomes available on Oct. 1 each year. Thus, the FAFSA form for the 2023-2024 school year is live on Oct. 1, 2022.

The questions cover personal information, tax and income data, household size and which schools you are applying to, among others. This will be the final year of the "long form," as next year the number of questions on the form will be reduced from 108 down to just 36. Many schools require an additional aid application in addition to FAFSA, so be sure to check with each individual college or university for their requirements.

Timing Is Tricky

The timing around what data to use and when to apply can be tricky, so it is crucial to be clear about the timeline. As mentioned above, the next school year's FAFSA form is released on Oct. 1 each year. When completing the FAFSA form, the form looks back two years for tax and income data.

Thus, for a high school senior, parents would download the FAFSA form for 2023-2024 on Oct. 1, 2022, and they would fill it out using data from their 2021 tax return. A key consequence of this is that tax and income data during the last two years of the college will not be used on any FAFSA forms.

Split Households

When parents live apart and are divorced or separated, the custodial parent is the one who needs to provide information for the FAFSA. But because a custodial parent is not defined as the parent who has legal custody, other factors must be evaluated to determine which parent's information must be provided. Typically, these include which parent the student lived with the most during the last 12 months and which parent provided the most financial support.

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For situations where the custodial parent has remarried, the stepparent's information must also be included on the FAFSA. If the student's parents are divorced, are separated, or were never married but if they live together, both are required to provide information on the FAFSA.

The New Student Aid Index (SAI)

One of the key metrics in determining financial aid is the expected family contribution (EFC). A key piece of the coming changes is the replacement of the EFC with the new Student Aid Index, or SAI.

The name of the formula is changing in part to reflect that the number is not the amount of money the family is expected to contribute to education costs. It is simply a number used by educational institutions to determine whether federal aid is available.

The formula still considers parental assets and income along with student assets and income, though there are two notable changes coming to the way the new formula is used.

First, this will be the final year the number of family members attending college at the same time is a factor. This will mean a reduction in aid eligibility for families with multiple children in college in future years. However, the bill will increase the "income protection allowance."

This allowance shelters a portion of parent and student income from being counted when determining need. This will protect a larger amount of income, increasing the potential for aid for most families. This reflects a change in focus in the aid process, with a greater emphasis on family wealth and assets, and a reduced emphasis on annual income.

From there, the basic formula for determining the SAI is essentially same as the EFC formula.

- **Parental assets.** The questions that the FAFSA asks about parental assets pertain to ownership interest at the time the application is completed. Reportable parental assets include cash and funds held in bank accounts, trust funds, 529 accounts, and more. Parental assets are considered low-impact assets for financial aid purposes — only up to 5.64% of the value of parental assets affect the SAI.
- **Student assets.** Student assets include property in which the student has an ownership interest at the time that the FAFSA is completed. For example, UTMA/UGMA accounts fall into this category. Student assets are considered high-impact assets for financial aid purposes — up to 20% of the value of his or her assets will affect the EFC. (529 college savings plan assets aren't considered assets of the student and should be listed as parental assets. More on 529 plans below.)
- **Protected assets.** A number of assets are protected and aren't included on the FAFSA, including 401(k)s, pension plans, 403(b)s, individual retirement accounts (IRAs) and other retirement plans. Equity in a family's primary residence, certain family-owned businesses and farms, life insurance, annuities and personal possessions are also non-reportable.

If your children are approaching college age you can get an estimate of your family's EFC/SAI with the U.S. Department of Education's Federal Student Aid Estimator:
(https://studentaid.gov/aid-estimator/)

Major Change to the Way Grandparents' Support Is Treated

Often the grandparents will open a 529 plan on behalf of their grandchildren to help pay for college. Because assets owned outside of the immediate family aren't included on the FAFSA, funds in a grandparent-owned 529 plan aren't considered countable assets on the FAFSA.

Under the current rules, money taken out of the 529 plan and used to pay for education expenses was considered nontaxable income to the student. As a result, distributions from a grandparent-owned 529 plan reduced the eligibility of a student for need-based aid by as much as 50% of the amount of the distribution.

Under the new rules in effect for the 2024-25 school year, students no longer have to report grandparents' support. This means that distributions from grandparent-owned 529 plans (along with cash gifts) now have no effect on financial aid eligibility.

Note again that the FAFSA forms asks for data from the year prior. Thus, the new streamlined form you fill out in October 2023 for the 2024-25 school year will ask for 2022 data. As a result, any distributions from 529 plans taken in 2022 (and beyond) aren't expected to affect your financial aid calculation.

The upshot of this change is that one planning strategy going forward may be to open any 529 plans in the name of a grandparent (if appropriate) and have parents contribute to that account, in order to completely shelter any college savings plan investments from inclusion in the financial aid calculation.

Don't Leave Free Money on the Table

By some estimates, as many as one million students last year failed to claim a Pell Grant of up to $6,495 by simply failing to file the FAFSA to verify their eligibility in the first place. Nearly 50% of those who were eligible but didn't file incorrectly assumed they would not be eligible when they actually were. Since this is a grant and not a loan, it doesn't even need to be paid back!

Beyond the Pell Grant, a number of other non-Federal grants (from states, private entities and colleges themselves) may also be determined through the FAFSA, even including for some high-income students. Some merit-based scholarships offered by colleges and universities also require applicants to file the FAFSA even if the award itself is ultimately merit-based and not financially based.

Don't Procrastinate

The earliest date to submit the Free Application for Federal Student Aid (FAFSA) is Oct. 1, although the deadline is June 30 of the next calendar year. However, many colleges establish preferential filing deadlines for maximum consideration.

A later application may still result in the award of some financial aid, but an earlier application will likely reap greater benefits.

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Our partners maintain a high level of interest due to involvement in various activities. Some of UIM's more financially savvy partners study and follow more than one stock.

We are privileged to have an accomplished training instructor who is one of UIM's founding members. He sponsors training on various investing topics at least once a month and sometimes conducts 30-minute training sessions weekly. UIM partners are also encouraged to enroll in outside investment seminars and webinars.

> **"We rely on existing partner referrals in choosing new partners for our club. Potential partners share our belief in the NAIC philosophy and are willing to have lots of fun while learning."**

Committees and Social Events

UIM working committees include the planning, finance, bylaws, policy and procedures, and training committees. We have two social events per year bringing together our club partners and their families. During our annual Christmas Party, we honor a club partner (or partners), with a gift certificate for outstanding work during the year.

The other event is a cookout, which is a day of fun, lots of food and activities enjoyed by all. In the past, we gave quarterly UIM newsletter handouts to members and had a website containing information about our stocks and ongoing activities. We would also meet up at the library to retrieve information on stocks from book publications like Standard & Poor's.

Today, we use the internet to retrieve information on stocks and have a UIM Facebook page containing information about our stocks and other related topics.

The COVID-19 pandemic did not disrupt UIM partners from continuing to hold monthly meetings or diminish our buying power. We voted in two new partners in the last year and we look forward to their success as investors.

We have reached our goal of having 16 partners; UIM bylaws allow up to 20 partners. We rely on existing partner referrals in choosing new partners for our club. Potential partners share our belief in the NAIC philosophy, are willing to attend monthly meetings, become an active partner within the club and are willing to have lots of fun while learning.

As stated earlier, we used to meet up at various libraries in the metropolitan area to conduct a majority of our monthly meetings and now we meet up via Zoom to conduct a majority of our monthly meetings.

Last year, we looked at our portfolio and discovered that UIM was overly invested in the technology sector, we have since diversified our investments into the consumer cyclical, health care, financial and communication services sectors, resulting in a more balanced portfolio.

FINANCIAL PLANNER

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Completing the FAFSA Form Has Gotten Easier

Many helpful resources for filling out the FAFSA are available; college financial aid offices or the student's high school counselor should be able to point you in the right direction. You can also complete the FAFSA online (**https://studentaid.ed.gov/sa/fafsa**), with real-time chat access to helpful representatives.

When it comes time to fill out the form, most users have pulled in their family's tax information directly from the IRS using the IRS Data Retrieval Tool:

www.irs.gov/individuals/get-transcript

While in the past this was optional, starting in 2023 tax data will be automatically transferred from the IRS to your application.

Time Well-Spent

In the time it takes you to stream one episode of your favorite TV show, you can put yourself in the best position to receive aid to pay for college. Even if the student wasn't eligible in year one, you should apply every year to see if the outcome might improve. As part of this process, it is critical that you meet with your financial adviser to determine how the cost of college will impact your overall financial situation.

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