

Common college savings vehicles and their impact on financial aid

529 College Savings Plans



Investors saving for college often wonder what effect saving may have on a student's chances of qualifying for financial aid. There are several types of financial aid (federal, state and institutional), but federal aid is the most widely dispersed and is based solely on financial need. A family seeking any financial aid must complete the Free Application for Federal Student Aid (FAFSA).

The chart below shows income is more heavily factored than assets, and student assets are factored more heavily than parental assets in determining Expected Family Contribution (EFC).

EFC is an annual figure expressed in dollars. The financial aid office of a particular school uses EFC to determine if there is a financial need.

Financial need is determined by:

$$\begin{aligned} & \text{Cost of attendance} \\ & - \text{Expected Family Contribution} \\ & \hline & = \text{Financial need} \end{aligned}$$

	Parents	Students
Income	<p>22% to 47% of available income¹</p>	<p>50% of adjusted gross income over \$3,000</p>
Assets	<p>0% to 5.64% of assets²</p> <ul style="list-style-type: none"> ■ Mutual funds ■ Securities ■ Bank accounts, CDs ■ 529 savings plans where parent is account owner 	<p>20% of assets held in student's name³</p> <ul style="list-style-type: none"> ■ UGMA/UTMA accounts not held in 529 Plan ■ Minor trusts not held in 529 Plan ■ Savings bonds (in student's name)

Note: According to the U.S. Department of Education letter, Gen 06-05, any account in a 529 plan will not be treated as a student asset, even when held in the student name either directly or through a fiduciary account (Trust or UGMA/UTMA account).

² Assets held in qualified retirement plans, such as IRAs, are not considered in determining eligibility for federal student aid. The percentage of other assets considered in determining EFC will vary based on the amount of assets, the age of the eldest parent, and whether there are one or two parents.

³ Beginning academic school year 2007/2008.

Sources: U.S. Department of Education, "The EFC Formula 2007/2008," and www.finaid.org.

¹ Available income is the amount of parental adjusted gross income after allowances for federal, state, local and FICA taxes, as well as an income protection allowance based on the number of people in the household.

NOT FDIC INSURED	May Lose Value
NOT BANK ISSUED	No Bank, State or Federal Guarantee

529 plan withdrawals and federal student aid

The earnings portion of a withdrawal, if any, is not included as income to the extent that the withdrawal is used to pay for qualified higher education expenses. Earnings on any portion of the withdrawal not used for qualified higher education expenses, to the extent distributed to either a parent or student, would be included as income for financial aid purposes (and may be subject to ordinary income tax and a 10% penalty).¹

529 plans and institutional aid

Institutional aid is aid that comes from the college or university. Generally, institutions follow the federal methodology, but the methodology for individual schools can and does vary. Institutional aid is awarded based on merit as well as financial need.

When you invest for college through a 529 plan, you are investing in securities that could lose money.

Additional resources

The information contained in this piece is intended to convey a basic understanding of the federal calculations used in determining eligibility for federal student aid and should not be used to estimate the financial aid package that may be awarded to a specific individual. The sources

listed below are designed to provide users with detailed information regarding the financial aid process, the different types of available financial aid, and how an individual's or family's specific circumstances may affect their chances of qualifying for federal student aid.

www.finaid.org	Award-winning public service site; one of the most comprehensive annotated collections of information about student financial aid on the Web. Site calculators enable calculation of EFC (Quick EFC Approximator).
www.ed.gov	Main Web site for the U.S. Department of Education
www.fafsa.ed.gov	Free Application for Federal Student Aid (FAFSA) on the Web, a Department of Education Web site. Provides comprehensive information on federal student aid and allows users to apply for federal student aid online.
www.studentaid.ed.gov	Web site for the Department of Education's Federal Student Aid (FSA) programs
www.collegeboard.com	Web site sponsored by the College Board, a national nonprofit membership association composed of more than 4,500 schools, colleges, universities and other educational organizations

¹ Source: IRS Publication 970, "Tax Benefits for Education," 2006.

Please consider the investment objectives, risks, charges and expenses associated with 529 plan investments before investing. Contact your financial advisor for an official statement, which contains this and other important information. Read it carefully before investing. You should consider, before investing, whether the investor's or designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's qualified tuition program. Columbia Management Distributors, Inc., member FINRA and SIPC, is the distributor and underwriter for 529 plans available through Columbia Management.

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