Yes, a 529 plan can affect college financial aid, but the impact is limited and will vary depending on who the account owner is:

**529 plans owned by the parent or student**

* Are assets counted on the Free Application for Federal Student Aid (FAFSA)? Yes, but assets in accounts owned by a dependent student or one of their parents are considered parental assets on the [FAFSA](https://www.savingforcollege.com/article/how-to-prepare-for-filing-the-fafsa). Around the first $10,000 of parental assets fall under the asset protection allowance and won’t be counted in the [Expected Family Contribution (EFC) calculation](https://www.savingforcollege.com/financial-aid-calculator/). For parents who save more than the allowance, only a maximum of 5.64% of parental assets are counted. This is quite favorable compared to other student assets, which are counted at 20%. Higher EFC means less financial aid.
* How are distributions treated? 529 plan distributions receive favorable treatment on the FAFSA. Qualified distributions from a student-owned or parent-owned 529 account to pay for this year’s college expenses are not included in the “base-year income” that would reduce college financial aid eligibility.

**529 plans owned by grandparents or anyone else**

* Are assets counted on the Free Application for Federal Student Aid (FAFSA)? No, assets held in a [529 account owned by a grandparent](https://www.savingforcollege.com/article/workarounds-for-grandparent-owned-529-plans), other relative or anyone else besides a dependent student or one of their parents will have no effect on the student’s FAFSA.
* How are distributions treated? When a grandparent withdraws the funds to pay for their grandchild’s college expenses, it will be counted as student income on the FAFSA. Student income is assessed at 50%, which means if a grandparent pays $5,000 of college costs it would reduce the student’s eligibility for aid by $2,500. Remember, higher EFC means less financial aid. One strategy to avoid this problem: if the student will graduate in four years, they can wait to contribute until after the student’s third semester of college, since the FAFSA looks at income from two years prior.

**Example**

Here is a simplified example of the impact of a parent-owned 529 account.

You file the FAFSA aid application when your child is a senior in high school. Let’s say you’ve exceeded the asset protection allowance and have a 529 savings account with $20,000 in it, of which $10,000 represents your original contribution and $10,000 is earnings.

|  |  |
| --- | --- |
| **YEAR 1** | **YEAR 2** |
| Your child’s eligibility for federal financial aid this year will decrease by no more than 5.64% of the account value, or $1,128 ($20,000 x 5.64%). Assume there is no further appreciation in the account and you withdraw $5,000 in the fall to pay for the first semester college bills. | You have $15,000 left in the account when your child applies for aid for sophomore year, and it will again be assessed up to 5.64% of the account value, increasing your EFC by up to $846 ($15,000 x 5.64%). |

And although the $5,000 withdrawal brought $2,500 of excluded earnings with it, none of it will be counted as income on the FAFSA.

The federal aid formula is more complicated than what is described here, but this gives you a general idea of how to calculate impact.

**Be Prepared!**

Sound complicated? It is. And we are only talking about the federal financial aid rules here — each college and university can (and most will) set its own rules when handing out its own need-based scholarships, and many schools are starting to adjust awards when they discover 529 accounts in the family. Also consider that the federal financial aid rules are subject to frequent change.