

Loophole Could Increase Some Students' Eligibility for Financial Aid

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By Karin Fischer

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Under a little-noticed loophole in a new federal law, money set aside in college-savings plans will not be counted in determining a dependent student's eligibility for need-based financial aid if the account is in the student's name, according to guidance released last week by the U.S. Department of Education.

The loophole -- created by Congress in February when it passed deficit-reduction legislation -- is reflected in a proposed revision of the Free Application for Federal Student Aid, or Fafsa, which the U.S. Department of Education published last Tuesday in the [Federal Register](#).

The Fafsa is the standard application form that the federal government, state governments, and most colleges use to determine a student's eligibility for financial aid.

In the [draft revision](#) of the Fafsa, instructions direct applicants to report the value of assets in college-savings plans and other education accounts owned by their parents. But, the instructions state, "Do not report the value of these accounts if the student is the owner."

It is unclear how many families the change could affect, said Joseph F. Hurley, an accountant who tracks the plans for his Web site, [Savingforcollege.com](#). While New York State does allow parents to act as custodian of a dependent student's plan, many states do not permit accounts to be opened in a minor's name.

There is also some confusion about whether Congress meant to create the potential loophole or whether it arose from a legislative drafting error. "I'm not sure how many people who are rushing out to open plans because there is some skepticism that's what was intended," Mr. Hurley said. Still, he added, "on an individual basis, this certainly could be a substantial benefit."

Under previous law, money placed in college-savings plans, even under a student's name, could shrink a student's financial-aid award, although the size of the reduction depended on factors such as family income and the cost of attending a particular institution.

The Education Department is seeking comment on the revised Fafsa through August 7.

Investors have opened about 8.6-million college-savings accounts, with a total value of more than \$89.46-billion, according to the College Savings Plan Network, the association that represents state-run college-savings plans. All 50 states and Washington, D.C., now offer the plans.