

FAFSA Simplification Act

Learn about how legislative changes can help you finance your loved one's education.

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As a parent or grandparent, you know firsthand the challenges of funding a child's education. The Free Application for Federal Student Aid (FAFSA) Act was passed at the end of 2020 and has changed some of the qualifications for students to receive financial aid.

These changes will affect those applying for financial aid for the 2023-2024 school year.

You'll notice these changes on October 1, 2022, which is when the FAFSA opens for the 2023-2024 school year.

529 plans from grandparents are no longer counted as cash against financial aid.

One of the most confusing parts of the FAFSA process was how to account for cash funding. While the FAFSA doesn't require 529 accounts owned by grandparents to be disclosed, families are required to disclose cash support that the student receives. This cash support may then include money from a 529 account. If students received money from these accounts, the student was still expected to disclose these disbursements as cash, and very often, financial aid needs and options were reduced.¹

Parent-owned 529 plans are automatically factored into the FAFSA when a dependent files, and are only evaluated for up to 5.64% available for college use (no more than any other non-qualified asset).

A 529 plan is a college savings plan that allows individuals to save for college on a tax-advantaged basis. State tax treatment of 529 plans is only one factor to consider prior to committing to a savings plan. Also, consider the fees and expenses associated with the particular plan. Whether a state tax deduction is available will depend on your state of residence. State tax laws and treatment may vary. State tax laws may be different from federal tax laws. Earnings on non-qualified distributions will be subject to income tax and a 10% federal penalty tax.

A simplified questionnaire.

The FAFSA has been greatly reduced in size, from 108 demographic, educational, and identification questions to a maximum of 36 questions. Part of the restructuring was aimed at clearing up confusion as to who is and is not a dependent student, and what type of assets need to be included.^{2,3}

Student Aid Indicator (SAI) calculation changes.

Part of the questionnaire changes were due to changes made to the calculations for financial aid. The Student Aid Indicator (SAI) is the math behind the scenes that determines what types of funding and how much a student is eligible for. Keep in mind that these calculations are still complicated, but that overall, eligibility for financial aid has been broadened.⁴of the questionnaire changes were due to changes made to the calculations for financial aid. The Student Aid Indicator (SAI) is the math behind the scenes that determines what types of funding and how much a student is eligible for. Keep in mind that these calculations are still complicated, but that overall, eligibility for financial aid has been broadened.⁴

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CITATIONS

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 4. AACRAO.org, April 16, 2021
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