



FAFSA fallout

Navigating the chaos, challenges and changing rules

In brief

The new, simpler Free Application for Federal Student Aid (FAFSA) meant to increase applications and federal student aid may actually be having the exact opposite effect. Applications are down sharply amid delays and technical glitches. Aid offers from colleges are coming much later than normal and could be lower than expected. It all serves as a reminder for families to invest more for college and rely less on financial assistance outside their control.

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Tighter timeframes for college decisions

This year's FAFSA release was pushed back from October 1 to December 31 to incorporate major changes to the form itself as well as the formula for determining eligibility. The initial rollout was plagued by website problems that discouraged many families from applying. Those able to submit forms couldn't log back in and correct any errors until system issues were resolved.

In late January, the U.S. Department of Education announced another delay to update inflation data used in calculations. As a result, colleges and state agencies are receiving FAFSA results and sending out aid offers much later than usual. That left students with little time to compare options and make informed decisions before the traditional May 1 college commitment deadline.

In the meantime, many families remain in limbo as they contemplate a major financial obligation without knowing how much aid to expect or what their costs will be. Those affected include:

- **Incoming first-year students** weighing acceptances from colleges
- **Returning students** preparing and budgeting for the 2024-25 school year
- **Scholarship applicants** required to complete a FAFSA for merit-based aid

Smaller aid packages for some families

FAFSA’s glitches will eventually pass, but its new rules are here to stay. Starting in 2024–25, many higher-earning families may qualify for less need-based aid, especially those with multiple children attending college at the same time. Others who could be negatively affected include small business owners, farmers, residents of high-tax states, and divorced or separated couples, depending on which parent is required to apply for aid.

As in the past, income still has a much bigger influence on federal aid eligibility than college savings or other investment assets. One difference is that FAFSA will now be used to calculate Student Aid Index (SAI), a new measure of a family’s ability to pay for college. SAI is subtracted from total annual college costs to determine financial need.

In other words, if your SAI exceeds college costs, you likely won’t receive any need-based aid. In those cases, it’s even more critical to invest in tax-advantaged 529 plans with the potential to increase college funds and reduce the need for expensive student loans.

Do you earn too much for need-based aid?¹

Annual income	Qualify for need-based aid at:	
	Public college	Private college
Less than \$145,000	Yes	Yes
\$145,000 to \$245,000	No	Yes
More than \$245,000	No	No

Source: J.P. Morgan Asset Management. For illustrative purposes only.

Action items for navigating the new FAFSA

If college is *here now*

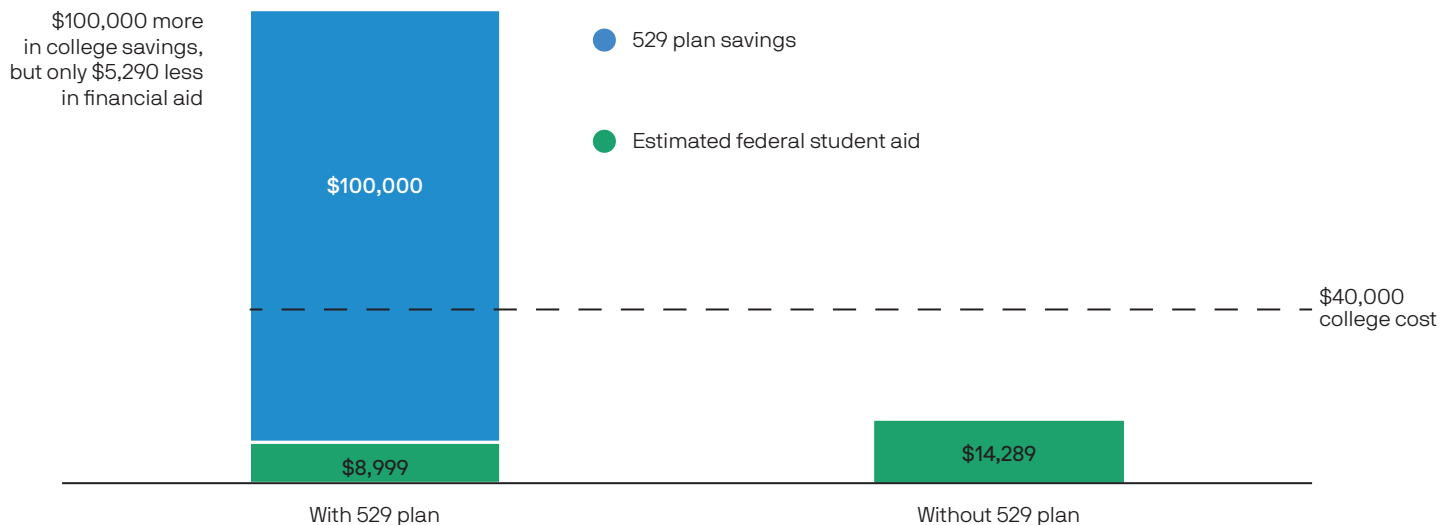
- **File the FAFSA if you haven’t already.** Even if you won’t qualify for need-based aid, FAFSA is required for federal loans and other forms of assistance. Be sure to know the filing deadlines for your home state and colleges of interest.
- **Ask colleges about commitment deadlines.** Some schools have already extended deadlines beyond May 1, and others are considering extensions on a case-by-case basis.
- **Don’t rule out colleges if financial aid offers are late.** Waiting to compare all options can help you find the best situation for your family.
- **Use FAFSA delays to your advantage.** Determine your exact college spending and borrowing limits now, so you can quickly evaluate schools as aid offers start arriving. You can also use this extra time to search for more merit-based scholarships.

If college is *still in the future*

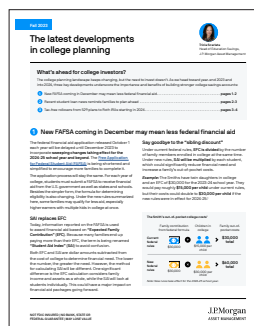
- **Consult your financial professional.** Together, you can create a personalized college plan or update an existing plan based on changing federal aid rules.
- **Make current college savings work harder.** Nearly 70% of college savers aren’t using 529 plans. And a total of \$1.3 trillion is currently sitting in cash, taxable investments, retirement accounts and other non-529 vehicles offering fewer benefits.²
- **Factor more college savings into your plan.** If you receive more need-based aid than expected, you have several options for any extra money left over in 529 plans, including tax-free rollovers to Roth IRAs.³
- **Contribute both regularly and opportunistically.** Arrange for fixed amounts to automatically transfer to your 529 plan each month, and supplement those contributions with tax refunds, pay raises, bonuses and other extra money.
- **Invest in your name, not the student’s.** Only a maximum of 5.64% of parent-owned assets are factored into the federal aid formula, compared to 20% for student-owned accounts.
- **Get grandparents, aunts, uncles, friends and other non-parents involved.** Take advantage of new rules excluding their 529 account balances and withdrawals from federal aid considerations.

529 plan assets have little impact on federal aid

Example: Family of four, with \$150,000 annual income and \$40,000 annual college cost⁴

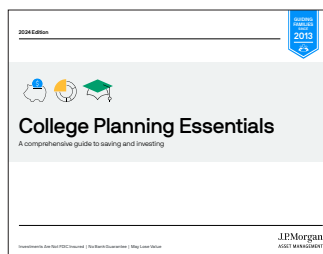


Learn more about college planning and investing



The latest developments in college planning

Explore new rules for federal financial aid and rollovers from 529 plans to Roth IRAs.



2024 College Planning Essentials

Review our annual guide to tuition costs, financial aid, investing strategies, 529 plans and more.

Have questions? Want more information?

Consult your financial professional or visit jpmorgan.com/529

Endnotes

- ¹ J.P. Morgan Asset Management and studentaid.gov. In this hypothetical example, SAI is based on parental income only and excludes assets. It assumes two-parent household with two children, all are residents of New York. It also assumes no need-based aid when SAI exceeds average tuition, fees, and room and board costs at in-state public and private colleges, as reported by College Board, *Trends in College Pricing and Student Aid 2023*. These are estimates provided for illustrative purposes only, and they may not be representative of your personal situation and circumstances.
- ² ISS Market Intelligence, *529 Industry Analysis 2023*.
- ³ A maximum of \$35,000 can be transferred to a Roth IRA in the same name as the 529 plan beneficiary, after the 529 account has been open at least 15 years. Other restrictions and limitations also apply. Please consult your financial or tax professional for more information.
- ⁴ J.P. Morgan Asset Management and studentaid.gov. Based on two-parent household with two children, all are residents of New York. Assumes no income or assets for each dependent. Protected amounts for parental assets vary based on age and marital status. These are estimates provided for illustrative purposes only, and they may not be representative of your personal situation and circumstances.

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