



Power Move #19 FAFSA Fast-Track, College Funding



Free Virtual Coaching
30-minutes w/ Mr. Norman

Navigating college financial aid doesn't have to be overwhelming. Breaking it into bite-sized steps makes it manageable. By understanding FAFSA's mechanics and making small 1% better adjustments now, you can potentially unlock more funding for your child's future. Let's simplify the rules so you can position your family's finances effectively.

The FAFSA Process & The Student Aid Index (SAI)

The FAFSA isn't a bill; it is a calculation tool that generates your **Student Aid Index (SAI)**. Ranging from -1500 to 999999, your SAI is the number colleges use to determine your family's financial need. The formula is simple: the school's Cost of Attendance minus your SAI equals your student's Financial Need.

To get this number, **you and your student** must each create a [StudentAid.gov](https://studentaid.gov) account (your FSA ID). [Watch this first!](#) Because the FSA ID can take up to three days to verify, setting this up early is a great first step to check off your list before even looking at the [application](#). Once inside, you can simply provide consent for the IRS Direct Data Exchange (DDX) to securely transfer your federal tax information straight into the form, and the rest is pretty straight forward.

The 2-Year Look-Back Provision

Here is one of the most critical elements for your financial planning: The FAFSA uses tax data from the "prior-prior year." For example, the **2026–2027 FAFSA** form relies on your **2024 tax returns**.

How this impacts your planning: Your student's **sophomore year of high school** is typically your "base year" for income. Any strategic moves to reduce your Adjusted Gross Income (AGI)—such as increasing contributions to your educator 403(b), 401(k), or IRA—must be made during this base year to positively impact your financial aid calculation. However, it is vital to note that while *income* is evaluated from two years prior, your family's *assets* are reported based on their exact value on the day you submit the FAFSA. This means if you plan to make a large, necessary purchase (like a car or home repair), doing so just *before* you hit submit will legally reduce your reportable cash.

The Key Variables: How the FAFSA Formula Weighs Your Money

The FAFSA formula treats parent and student finances very differently. Understanding these weights allows you to optimize where you keep your college savings:

- **Parent Income & Assets:** The FAFSA is incredibly forgiving of parent assets. Parent savings, including parent-owned 529 college savings plans, are assessed at a maximum of about 5.64%. Parent income is assessed on a sliding scale, usually between 22% and 47%.
- **Student Income & Assets:** The formula is much harsher on the student's own money. Student assets (like UGMA/UTMA custodial accounts) are assessed at a flat 20%. Furthermore, while students have an income protection allowance (about \$9,410 for 2025-2026), any student income earned *above* that amount is heavily penalized and assessed at 50%.
- **The Invisible Assets:** The best news? Your educator retirement accounts—403(b)s, 401(k)s, IRAs, and pensions—are **never** reported as assets on the FAFSA. The equity in your primary home, small

family businesses (under 100 employees), and life insurance cash values are also completely excluded.

- **The Grandparent Loophole:** Thanks to recent FAFSA simplifications, 529 plans owned by grandparents are entirely excluded from the FAFSA, and distributions from these accounts to pay for college no longer count as untaxed student income.

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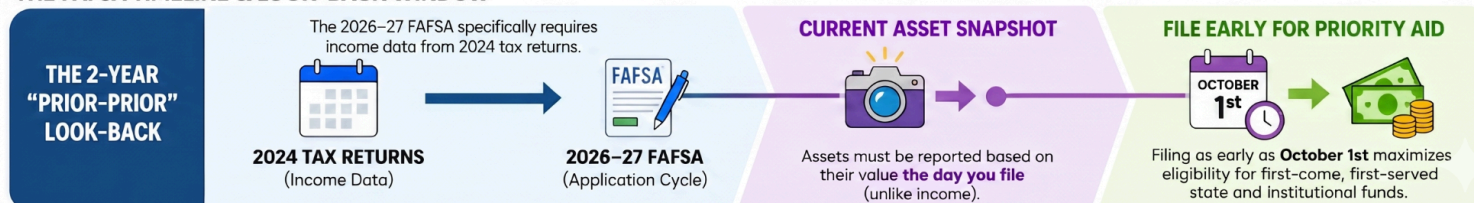
The Free Application for Federal Student Aid (FAFSA) calculates a Student Aid Index (SAI) formula to determine financial need, weighting student and parent resources differently over a multi-year timeline.



THE WEIGHTING FORMULA: WHO OWES WHAT?



THE FAFSA TIMELINE & LOOK-BACK WINDOW



Note for divorced or separated parents: The FAFSA only requires financial information from the parent who provided the greater portion of the student's financial support over the most recent 12 months, not necessarily the parent the student lives with most. If that parent is remarried, the stepparent's income and assets must be included.

Your **Take10™** for Financial Fitness stress-free, 1% Better moves for Maximum Aid:

1. **Fund your future first:** Maximize your contributions to your 403(b) or IRA, particularly leading into your student's sophomore year of high school. This lowers your reportable income and builds your retirement security, all while sheltering money from the FAFSA asset test.
2. **Rethink where you save:** Avoid keeping large savings in the student's name, as those are penalized at 20%. Instead, use parent-owned 529 plans (assessed at only 5.64%) or encourage grandparents to open 529s, which are completely sheltered from the FAFSA.
3. **Manage student income:** Encourage your child to work, but try to keep their annual income below the \$9,410 protection allowance to avoid the steep 50% penalty on their aid index. Federal work-study income is a great alternative, as it is excluded from the FAFSA calculations.
4. **File early:** The FAFSA opens October 1st each year. Even though federal deadlines are later, many states and colleges award their grant money on a first-come, first-served basis. Be the early bird!

Still have questions? **Take10™** is here to help!

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