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How to Avoid the Most Common College Financial Aid Mistakes

It's that time of the year again for parents and students to start preparing their *Free Application for Federal Student Aid (FAFSA).*

Maximizing Federal Student Financial Aid is very important to many families. Unfortunately, the same UTMA, UGMA and 529 plans that parents have used to save for college expenses all count against you when filling out your FAFSA application.

What you were NOT told when you opened your UGMA, UTMA or 529 account was the value of all your accounts will reduce your Student Financial Aid results.

The devilish news is that the money you worked so hard to save for college just gets taken away. UGMA, UTMA or 529 accounts will reduce Student Financial Aid benefits by 25% per year at most colleges. That means you are getting penalized the equivalent of a whole year's tuition over a typical 4 year college education.

Avoiding This Reduction in Financial Aid.

In short, transfer the UGMA, UTMA and 529 accounts you have into a trust. However, not all trusts are equal and most types will not work for this purpose.

The good news is, there is a quick, easy and inexpensive online solution with Kiss Trust that is specifically designed to meet the complex FAFSA rules and improve your financial aid results.

Details on Transferring UGMA, UTMA or 529 Accounts into a Trust.

First, it is important to note that not every school operates the same in evaluating Student Financial Aid applications. For example, the FAFSA application says *"Investments do not include the home you live in,"* but some schools still count the parents' equity in their home against financial aid. Total Student Financial Aid results can vary from one school to the next – be sure to compare between schools. Also, keep in mind that Federal Student Financial Aid rules change often and are subject to interpretation.

Exemption from FAFSA Reporting Strategies.

- As defined in the FAFSA instructions, *retirement plans and accounts* are exempt from being reported on FAFSA. Kiss Trust has been formally acknowledged as a retirement trust by US government agencies. While the Department of Education (DOE) has no comprehensive definition of "retirement plans," UGMA, UTMA and 529 accounts have been transferred into Kiss Trusts and successfully excluded as retirement assets for FAFSA purposes.

- Also, if a Kiss Trust's assets are held in a life insurance, those assets are exempt from being reported on a FAFSA application. If you have a few years before the child begins college, a good possible strategy is to place a Kiss Trust's assets into a no-load, low-cost life insurance product about five years before the child starts school. This will lock in the money, protect the principal, and insure exemption from FAFSA.

- FAFSA also excludes certain court ordered trusts. While the final strategy may seem complicated, it is in fact very simple and can cost as little as $500 to execute. (Which is much less than thousands of dollars in lost financial aid.)

  In order to accomplish this, the parents must file a petition with the court to instruct the trustee to comply with the terms of the trust and that the student has no incident of ownership. The trustee will agree to the petition (usually no court hearings needed). The executed petition settlement is entered with the court as an order. The result is that the trust will be excluded from being reported on FAFSA. Kiss Trust will coordinate all filings for you, which make this strategy simple.

One More Trip Wire To Watch For - Student Income Can Also Reduce Student Financial Aid.

Many schools require that if a UGMA, UTMA, 529 or a typically designed trust makes a distribution to the student, the student must report the distribution as income on next year's FAFSA form. This "deemed income" will further reduce the next year's available financial aid. Thus, you may get penalized twice; once for having the account and then penalized again when you use the money.

However, by using the FAFSA compliant loan feature of Kiss Trust, you can avoid the trap of "deemed income" and maximize financial aid results.

When a Kiss Trust makes the loan to the student beneficiary, there is no FAFSA reportable income as loans proceeds are not income. Also, the loan from a Kiss Trust can be reported as a liability of the student thereby further reducing the beneficiary's FAFSA reportable assets and net worth. With no FAFSA reportable income, higher liabilities and lower net worth, the student's financial aid result will typically improve.

Since the loan is made from student's own Kiss Trust to themselves, there are no payments required and at the end of the student's college career, the loans from the Kiss Trust are forgiven with no negative tax or FAFSA impact.

Take Control

With a bit of planning, 20 minutes online and an one time fee of as little as $99, you can convert your UGMA, UTMA and 529 accounts into a Kiss Trust and improve your student financial aid results.