



529 savings plans and financial aid

One of the smart things about having a 529 savings plan is that it provides you with a tax-advantaged way of saving. But some wonder whether using a 529 savings plan will put a student at a disadvantage for receiving financial aid. Under the current federal formula for assessing eligibility, a 529 savings plan is considered a parental asset and assessed at a lower rate than a student asset and thus may have less impact on financial aid eligibility than other investment vehicles.

FINANCIAL AID AND THE EXPECTED FAMILY CONTRIBUTION (EFC)

There are two types of financial aid: merit-based and needs-based. Merit-based financial aid is often given in the form of a scholarship which doesn't have to be repaid. Needs-based financial aid can be offered as a grant that doesn't need to be repaid or, most commonly, in the form of a student loan, which does need to be repaid. Work-study jobs are also considered a form of needs-based financial aid.

Needs-based financial aid is typically calculated by determining the cost of attendance of a particular school (tuition, books, housing, etc.) and subtracting the Expected Family Contribution (EFC), the amount that the student and parents are expected to contribute toward college expenses.

$$\text{Cost of attendance} - \text{EFC} = \text{Need-based financial aid}$$

Students can apply for and receive financial aid directly from their college or university, or from the federal government. Colleges and universities use a specific formula to calculate the EFC called the institutional methodology, which may differ from the federal formula. Because this can vary by institution, the student or parent should contact the particular college or university's financial aid office for specific details.

FEDERAL METHODOLOGY AND THE EFC

After the student and/or parent complete the Free Application for Student Aid (FAFSA), the federal methodology determines which federal financial aid programs the student may be eligible to receive. Here's how the financial resources are usually assessed in the EFC:

Expected Student Contribution

- 50% of student's income
- 20% of student's assets

Expected Parent Contribution

- 22% to 47% of parents' income
- 2.6% to 5.6% of parents' assets

Not included as assets are retirement funds (IRAs, 401ks), primary home equity, family-owned businesses, annuities and insurance policies.

COLLEGE SAVINGS VEHICLES AND IMPACT ON FINANCIAL AID

Under the federal methodology, 529 savings plans are considered an asset of the Account Holder, so the named owner of the college savings plan may have some impact on the EFC calculation. Distributions taken from parent- or student-owned 529 savings plans and used for qualified college education expenses are federal tax-free¹ and are not considered income for the subsequent years' financial aid applications under the federal methodology².

Savings Vehicle

Federal EFC Financial Aid Treatment

Parent-owned 529 savings plan	Included as parental asset, assessed at up to 5.6%
Dependent student-owned 529 savings plan	Beginning 2009–2010 school year, considered parental asset, assessed at up to 5.6%
Grandparent-owned 529 savings plan	Not considered either a parental or student asset for EFC ²
Dependent student-owned UGMA/UTMA 529 savings plan	Beginning 2009–2010 school year, considered a parental asset, assessed at up to 5.6%
Dependent student-owned UGMA/UTMA account	Included as student asset, assessed at 20%

COLLEGE FINANCING RESOURCES

Keeping up with a constantly changing and complicated financial aid and college financing system can be challenging. Resources such as the ones below can provide information to help you meet your financial aid goals.

Financial Aid and Scholarship Resources on the Web

Free Application for Student Aid (FAFSA) — required for all financial aid	www.fafsa.ed.gov
Information on different forms of aid, tips on applications and calculators to estimate aid	www.finaid.org
Comprehensive overview of college funding, including a financial aid page	www.savingforcollege.com

Visit our web page for a list of financial aid resources at www.johnhancockfreedom529.com/financialaid or contact your financial consultant for additional information.

- 1 State tax laws and treatment may vary. Earnings on non-qualified distributions will be subject to income tax and a 10% federal penalty tax. Please consult your tax adviser for more information.
- 2 Some financial aid offices may require that distributions taken from grandparent-owned 529 savings plans be reported as student income when applying for financial aid. Check with the financial aid administrator for specific school requirements.

If your state or your designated Beneficiary's state offers a 529 plan you may want to consider what, if any, potential state income tax or other benefits it offers, before investing. State tax or other benefits should be one of many factors to be considered prior to making an investment decision. Please consult with your financial, tax or other adviser about how these state benefits, if any, may apply to your specific circumstances. You may also contact your state 529 plan or any other 529 college savings plan to learn more about their features. Please contact your financial consultant or call 1-866-222-7498 to obtain a Plan Disclosure Document or prospectus for any of the underlying funds. The Plan Disclosure Document contains complete details on investment objectives, risks, fees, charges and expenses, as well as more information about municipal fund securities and the underlying investment companies that should be considered before investing. Please read the Plan Disclosure Document carefully prior to investing.

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