

**Implementing Provisions of the HERA for the 2006-2007 Award Year. (changes made to the Higher Education Act by the Higher Education Reconciliation Act of 2005)**

TAKEN FROM DCL ID: GEN-06-10 Publication Date: June 2006

**Subject - Treatment of Qualified Education Benefits**

**HERA Change** - The term "qualified education benefit" now includes Coverdell education savings accounts, prepaid tuition plans offered by a State, and qualified tuition programs (known as 529 prepaid tuition plans and 529 savings plans) and makes consistent the treatment of these benefits in need analysis. None of these plans are used as an adjustment to the student's COA (Cost of Attendance), nor are they treated as estimated financial assistance (EFA) or as a resource in packaging Federal student aid. Instead, they are treated as assets of the owner of the plan (regardless of the beneficiary of the plan) in the calculation of the student's EFC (Expected Family Contribution), unless the plan is owned by a dependent student. If the dependent student owns the plan, it is still not included on the FAFSA nor is it included as an adjustment to the COA or considered as a resource or estimated financial assistance. [See page 4 of [GEN-06-05](#)]

**Additional Information** - In addition to not including the value of a plan that is owned by a dependent student, if someone whose information is not included on the FAFSA, such as a grandparent or a non-custodial parent, owns a plan, its value is also not reported. An institution may use professional judgment to include in the calculation of the student's EFC, the value of plans held by others, but not the value of a plan held by the dependent student. As usual, the use of professional judgment must be done on a case-by-case basis where the institution has determined that there is something special about the case. It cannot be used anytime the institution discovers that there is a plan owned by someone other than the parent or the student.

The value of the asset that must be reported on the FAFSA is, for savings plans or saving accounts, the balance of the account at the time the FAFSA is completed. For prepaid tuition plans, the value to be reported is the "refund" value of any tuition credits or certificates purchased under the qualified education benefit. The refund value of a prepaid tuition plan account is the amount the owner of the plan would receive if the account were liquidated as of the date the asset is reported. This information should be available from the plan's administrator.

Note that the value of all plans owned by the parent of a dependent applicant must be reported as an asset of the parent. The value of all plans owned by the independent student applicant (or spouse) must be reported as an asset of the student. These include accounts with a designated beneficiary other than the student for whom the FAFSA is being completed, such as a sibling of the dependent applicant or a child of the independent applicant.

**Department of Education Action for 2006-2007** - None. We have no way of knowing which applicants have these plans. Therefore, we cannot identify applications that may need to be corrected. Of course, we will reprocess applications with asset change transactions submitted by either the applicant or by an institution.

**Institutional Responsibility (University Responsibility)** - If an institution is aware that an independent student (or spouse) or the parents of a dependent student own a qualified education benefit, it must ensure that the value of the plan is correctly included as an asset in the calculation of the student's EFC. In addition, institutions that have treated prepaid tuition plans as adjustments to COA or as a resource or EFA in packaging student financial aid for the 2006-2007 award year must reverse those amounts and modify the student's financial aid package, as appropriate.