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Summary: Treatment of Coverdell Accounts and 529 Tuition Plans

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**Subject: Treatment of Coverdell Accounts and 529 Tuition Plans**

**Summary: This letter provides clarification on the treatment of certain educational savings plans in the determination of a student's eligibility for Federal student aid.**

Dear Colleague:

We are providing clarification to the financial aid community on the federal methodology used to calculate eligibility for federal student. Specifically, the clarification addresses Series EE United States Savings Bonds and assets and income from two types of educational savings instruments - Coverdell Education Savings Accounts (formerly "Education IRAs") and 529 Plans which may be savings plans or prepaid tuition plans.

- Coverdell Education Savings Accounts and 529 College Savings Plans receive equal treatment in the calculation of federal financial aid eligibility. Specifically, both can be regarded as assets of the parent if the parent is the owner of the account, rather than the student, and thereby displace a smaller amount of financial aid.
- Distributions from Coverdell Education Savings Accounts and 529 College Savings Plans that are not subject to federal income tax are not counted as parent or student income in the determination of federal financial aid eligibility. Distributions for qualified educational expenses therefore do not reduce financial aid eligibility.
- The value of a 529 Prepaid Tuition Plan is not counted as an asset of either the owner or the beneficiary. Distributions are applied to the beneficiary's higher

education expenses and reduce the cost of attendance.

- Distributions from 529 Prepaid Tuition Plans are not counted as parent or student income in the determination of financial aid.
- The value of Series EE United States Savings Bonds is regarded as an asset of the owner of the bond(s).

Please refer to the U.S. Department of Education Financial Aid Handbook at [www.ifap.ed.gov](http://www.ifap.ed.gov) for more information.

Sincerely,

Sally Stroup  
Assistant Secretary for  
Postsecondary Education

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