

# Parents of High Schoolers: How Your "Base Year" Affects College Financial Aid

Plus, 5 money mistakes to avoid making even years before your child applies to college

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Money  
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If you have a high school sophomore, it's time to pay attention to financial decisions you make between now and your child's senior year. Why so early? Believe it or not, some decisions you make now could hurt your chances of financial aid down the road when you fill out the [Free Application for Federal Student Aid \(FAFSA\)](#) or the [CSS Profile](#) (used by selective private colleges).

Colleges base their need aid largely on income earned between January of your child's junior year to January of the senior year, as well as non-retirement assets, including stocks, 529 plans and Coverdell education accounts. In college speak, this tax year is your "base year," providing colleges a financial snapshot of your family.

Most families' income doesn't fluctuate much, so unless someone gets laid off or gets a big promotion, the base year's snapshot provides an accurate financial picture. However, certain decisions can artificially inflate income, affecting financial aid. Here are five mistakes to avoid during the base year from college finance expert Lynn O'Shaughnessy, author of "[The College Solution](#)" book and blog.

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**Mistake 1: Withdrawing retirement funds.** If [your retirement money](#) sits quietly, most colleges won't ask how much you've saved prior to your base year. However, any money withdrawn during the base year — in fact, any year you're filing financial aid forms — counts as income. Also, the financial aid forms ask for IRA or [401K contributions](#) made during the base year because they're considered ready cash for college bills. In short, you can't shield retirement contributions made during the base year or any year you're submitting financial aid forms.

**Mistake 2: Selling a house without buying another one.** Avoid a pile of money sitting in your bank account when you file the FAFSA or CSS Profile, especially if you're planning to redirect it toward another house purchase. It can be a tricky juggling act, but it's critical that you handle the timing correctly.

**Mistake 3: Selling stock.** You'll also want to avoid selling stock because it will be counted as income and could jeopardize financial aid. The financial aid formula counts income more than assets, so it's better to avoid increasing income. Leave stocks be, or offset a sale by selling another stock demonstrating a loss.

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**Mistake 4: Getting married.** If your partner is prepared to contribute income and assets to college costs, yippee for you, but if not, then skip a wedding during the base year (and any year you're filing aid forms). A prenuptial agreement doesn't protect a new spouse's money from being viewed as a fair game.

**Mistake 5: Stuffing children's accounts.** If your kids have education accounts in their names, try to transfer the funds into a custodial 529 plan so it will be viewed as your asset, not theirs. It's always better to save money in the parent's name. The federal financial aid formula assesses parents' assets at no more than 5.64 percent, whereas a child's savings are assessed at 20 percent. (So if parents have \$100,000 in savings and assets, it will be assessed at 5.64 percent, meaning \$5,640 is expected to be contributed to college. If a student has \$3,000, 20 percent is expected to be contributed to college.) [Grandparent](#) savings can hurt too.

The base year is just the beginning of the financial aid years. To receive aid (if you qualify), you'll need to fill out forms for every year your kids are in college. O'Shaughnessy cautions families not to get too focused on tinkering with finances because she says for most families, it won't make a big difference in financial aid. By far the better way to influence college costs is to [apply to affordable colleges](#) to begin with.

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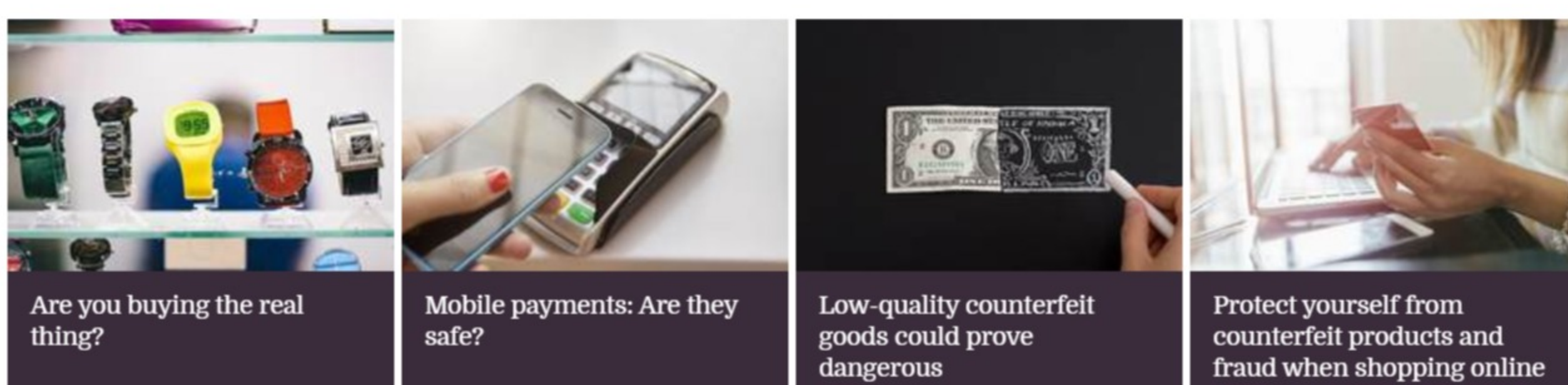
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