



**Financial Services, LLC**

33 South Commercial Street  
Manchester, New Hampshire 03101  
Tel: 603-641-1010  
Fax: 603-641-0707  
e-mail: [fdemaio@jtdfinancial.com](mailto:fdemaio@jtdfinancial.com)  
[www.jtdfinancial.com](http://www.jtdfinancial.com)

## **COULD A ROTH IRA CONVERSION AFFECT A STUDENT'S FINANCIAL AID?**

*Run the numbers, because the answer could be "yes."*

provided by Frank DeMaio

**An underreported story.** In 2010, we have a wave of IRA owners converting traditional IRAs to Roths. There are all kinds of compelling reasons to make that move. Yet for some IRA owners, the conversion may have an unintended consequence: it may reduce their son or daughter's chances for college financial aid.

**A Roth conversion will increase your taxable income.** As some scholarships, grants and loans are awarded based on income levels, a big jump in AGI could potentially jeopardize them. This can be a problem if you're a "millionaire next door" who wants your kids to exploit financial aid as much as possible.

**That income must be recorded on the FAFSA.** Universities commonly use the Free Application for Federal Student Aid (FAFSA) as a test to determine whether a student is eligible for grants, loans and some scholarships. The FAFSA is all about family income - factors like net worth and invested assets don't come into play. Mom and Dad's higher AGI could mean lower levels of financial aid, because the income boost from the Roth conversion will make it look like Mom and Dad can now shoulder a greater percentage of education costs.<sup>1,2</sup>

A *New York Times* article offered an example. Take a hypothetical family of four with total 2010 income of \$75,000 and one college student. For every \$10,000 of taxable income stemming from a Roth conversion, the parents' expected annual contribution to that student's education would go up by \$3,200 in a FAFSA estimate.<sup>1</sup>

In April, Mark Kantrowitz (publisher of FastWeb.com, an online scholarship directory) told *Financial Advisor Magazine* that the Department of Education had requested universities to recognize the effect of 2010 Roth conversions on family incomes. No evidence suggests colleges are doing this en masse.<sup>2</sup>

**Financial aid decisions are often based on multiple years of income.** Keep this in mind. IRA owners who go Roth this year are well aware that they may divide taxes on the conversion across the 2011 and 2012 tax years. Well, that decision may affect family incomes for those years, and possibly chances at student loans, grants and scholarships through 2013.<sup>1</sup>

---

\* Registered Principal Offering Securities through UNITED PLANNERS' FINANCIAL SERVICES OF AMERICA, A Limited Partnership. Member: FINRA, SIPC. JTD Financial Services and United Planners' are not affiliated.

**If your kids are young, time is on your side.** If your children are a few years or more away from college, you can make a Roth conversion without having to worry about its impact on FAFSA applications.

Any potential Roth IRA conversion should be analyzed for its impact on other aspects of your family's financial life. The impact on college financial aid is but one factor to consider. The potential long-term benefits of a Roth IRA conversion are considerable. Confer with a financial consultant to see if the decision is appropriate before you elect to make the move.

Frank DeMaio is a Registered Representative offering securities through UNITED PLANNERS' FINANCIAL SERVICES OF AMERICA, a Limited Partnership, Member FINRA, SIPC. Frank may be reached at 603-641-1010.

\* Registered Principal Offering Securities through UNITED PLANNERS' FINANCIAL SERVICES OF AMERICA, A Limited Partnership. Member: FINRA, SIPC. JTD Financial Services and United Planners' are not affiliated.

These are the views of Peter Montoya Inc., not the named Representative nor United Planners, and should not be construed as investment advice. Neither the named Representative nor United Planners gives tax or legal advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The publisher is not engaged in rendering legal, accounting or other professional services. If other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor for further information.

---

#### **Citations.**

<sup>1</sup> [bucks.blogs.nytimes.com/2010/04/16/how-a-roth-i-r-a-conversion-can-hurt-financial-aid/](http://bucks.blogs.nytimes.com/2010/04/16/how-a-roth-i-r-a-conversion-can-hurt-financial-aid/) [4/16/10]

<sup>2</sup> [fa-mag.com/fa-news/5452-roth-ira-rollovers-could-affect-college-financial-aid.html](http://fa-mag.com/fa-news/5452-roth-ira-rollovers-could-affect-college-financial-aid.html) [4/21/10]