

MILITARY VETERANS | PRESERVATION PROTOCOL

The "Invisible" College Fund

Repositioning visible assets into FAFSA-exempt vehicles to maximize federal financial aid eligibility.

BOTTOM LINE UP FRONT

Savings in standard bank accounts can disqualify your children from thousands of dollars in college grants. The government "taxes" your visible savings by reducing the financial aid they offer your kids.

The Problem: The FAFSA Penalty

The Free Application for Federal Student Aid (FAFSA) uses a formula called the Student Aid Index (SAI) to determine how much a family can "afford" to pay for college. This formula counts most financial assets -- savings accounts, brokerage accounts, CDs -- as available resources, reducing the amount of grants and subsidized loans offered.

The impact is significant: parent assets are assessed at up to 5.64% per year. A family with \$200,000 in visible savings could see their financial aid reduced by over \$11,000 per year, per child. Over four years, that's \$44,000 in lost grants -- money the family effectively "paid" as a penalty for being financially responsible.

For military families who have diligently saved through TSP contributions and deployment savings, this penalty is particularly frustrating: the discipline that built the savings now reduces the benefits available to their children.

The Solution: Asset Repositioning

We reposition cash into "invisible" vehicles that the FAFSA formula is legally required to ignore. These are not loopholes -- they are categories explicitly excluded from the SAI calculation by federal regulation.

Category 1: Retirement Accounts (100% Exempt)

Assets in qualified retirement plans -- including IRAs, 401(k)s, TSP, and Roth accounts -- are completely excluded from the FAFSA calculation. Strategic contributions and conversions timed before the FAFSA filing window can shelter significant assets.

Category 2: Cash Value Life Insurance (100% Exempt)

Permanent life insurance with a cash value component is explicitly excluded from FAFSA reporting. For families with excess savings beyond their retirement contribution limits, properly structured policies can shelter additional capital while providing a death benefit and tax-advantaged growth.

Category 3: Primary Residence Equity (100% Exempt)

Home equity is not counted in the FAFSA formula. Accelerated mortgage payments or strategic home improvements can shift visible savings into invisible equity, reducing the SAI without reducing actual family wealth.

The Goal

To lower your "Student Aid Index," turning your paper wealth into "free money" through government grants. The repositioning is done using mainstream financial vehicles that serve legitimate financial planning purposes beyond aid optimization.

Timing Is Critical

FAFSA uses a "prior-prior year" income methodology and assesses assets as of the filing date. Repositioning must be completed before the earliest FAFSA filing date (October 1) of the student's senior year of high school. Ideally, planning begins 2-3 years before the first FAFSA filing to allow time for systematic repositioning without triggering tax events.

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