

Help Desk

**Q:** Our kids are 10 and 16. We expect to inherit \$200,000, which we need for retirement. Can we still get financial aid for college? —NAME WITHHELD

**A.** Yes—but it'll be iffy the year after you receive the windfall. You'll have to list the money as income on the FAFSA aid form (even though it's not counted as income on your taxes). And since the aid formulas weigh income far more heavily than assets, you'll probably be on the hook for full tuition that year. Your best bet for snagging some bucks? After you send your form to the schools, submit a request for a "professional judgment review." Include a brief letter to the financial aid administrator stating the inheritance is a one-time event that doesn't reflect your expected future earnings, and enclose a copy of the relevant estate paperwork, says Mark Kantrowitz, publisher of Fastweb.com and FinAid.org.

The good news is that the following year the money is considered part of your assets, which gives you a better shot at aid. You can limit the impact a little more by fully funding a retirement account like a Roth IRA; the FAFSA formula doesn't count retirement savings. Or use the money to cancel debt: Having a large credit card balance doesn't buy you a better aid package. Using assets to pay it off improves both your finances and chances at aid. —GEORGE MANNES

TAXES

**Q:** My husband and I always seem to owe on our taxes. What can we do? —J.B., Indianapolis

**A.** Assuming you have the correct amount of money withheld from your paycheck (use the withholding calculator at [irs.gov](http://irs.gov) to check), chances are you either have sizable investment income or you're getting hit with the alternative minimum tax (AMT), says New York City CPA Ryan Himmel. If you get lots of income from interest, capital gains, and dividends, paying estimated quarterly taxes will at least prevent you from getting surprised in April.

If the AMT is the culprit, you have less wiggle room. You could adjust your withholding, or bumping up your charitable contributions might help. And you can always up your 401(k) deferrals, which will cut your federal tax burden and boost your retirement savings too. —SUSIE POPPICK

INSURANCE

**Q:** What is an umbrella insurance policy, and under what circumstances should I have one? —MATTHEW M., Smithfield, N.Y.

**A.** An umbrella policy is extra liability insurance that protects you if you are sued. Homeowners and auto policies offer personal liability coverage, but most people only carry the minimum required by their state, typically \$20,000 to \$100,000. In the rare event you were to have an injury claim for, say, an auto accident, you'd be on the hook for much more.

Umbrella insurance is important if you own a small business or otherwise have a high risk of personal injury suits (say, you host lots of guests), says Amy Bach, executive director of United Policyholders. Plus it's cheap: A \$1 million policy costs \$200 to \$500 a year. —TALI YAHALOM

## HOW A WINDFALL AFFECTS AID

*The year after you get an inheritance, the income bump curtails your aid. Then the money becomes part of your assets, which colleges don't tap as heavily.*

### FOR A FAMILY OF FOUR WITH A \$100,000 INCOME

NONRETIREMENT ASSETS	ESTIMATED CONTRIBUTION FOR A SCHOOL COSTING \$50,000 A YEAR
Pre-inheritance \$50,000	\$18,600
Post-inheritance, year one \$250,000	\$50,000 (NO AID)
Post-inheritance, year two \$225,000	\$28,200

NOTES: Assumes a family in Illinois, 50-year-old parents, one child in college, a \$200,000 inheritance, and tuition paid through both savings and current income. SOURCES: [aie.org](http://aie.org), [finaid.org](http://finaid.org)