



SPRING CONFERENCE

Kansas City, Missouri

2003

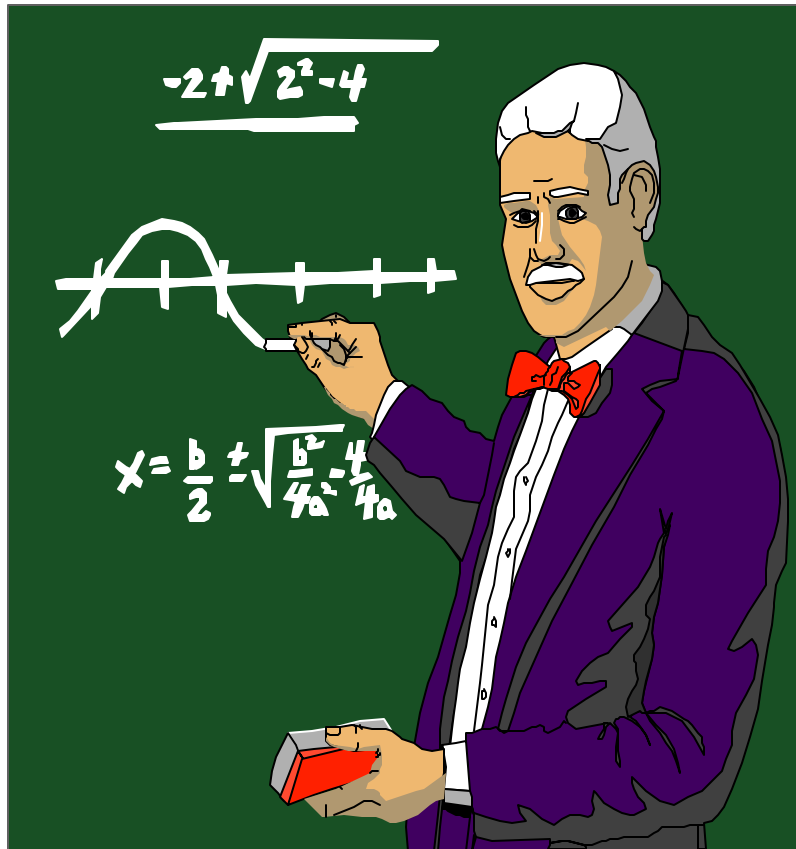
Session 7

Need Analysis and How EFCs are Calculated

How is EFC Determined?

- Three Federal Methodology (FM) models
 - Dependent student
 - Independent student
 - Independent student with dependents other than a spouse

How is EFC Determined?



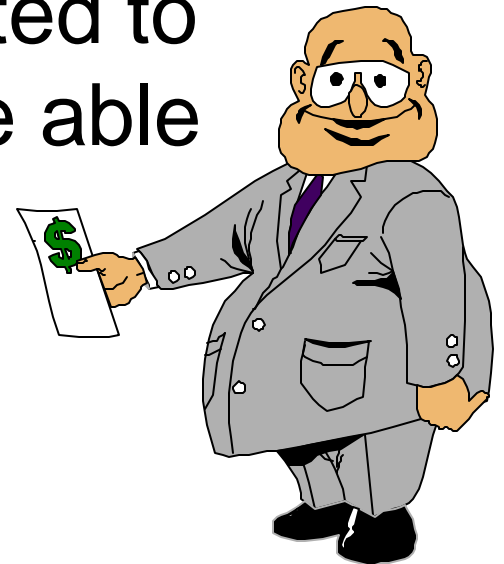
- Three distinct FM formulas
 - Regular
 - Simplified
 - Automatic zero

Factors that affect EFC

- Number in Household
 - Number in College
- Taxed and Untaxed income
 - Taxes paid
- Investments
- Age of the older parent
- Number of wage earners

Principles of Need Analysis

- Family has primary responsibility to pay for educational costs
- Student and parents are expected to contribute to the extent they are able



Principles of Need Analysis

- Family should be accepted in its present financial condition
- Families should be evaluated in an equitable and consistent manner



Need Analysis Concepts

- Need-based funds are available to assist with educational costs that exceed the family's ability to pay
- FM assesses strength at the time of application
- Family resources are devoted first to basic subsistence

Need Analysis Concepts



- Beyond basic needs, families can exercise discretion
- FM allowances protect family resources
 - Basic needs
 - Non-education related discretionary costs

Need Analysis Concepts

- FM measures discretionary resources
 - Establishes a portion available for education



Treatment of Income in FM

- Total Income:

Base year income from all taxable and
untaxable sources

-Exclusions (FAFSA Worksheet C)

=Total Income



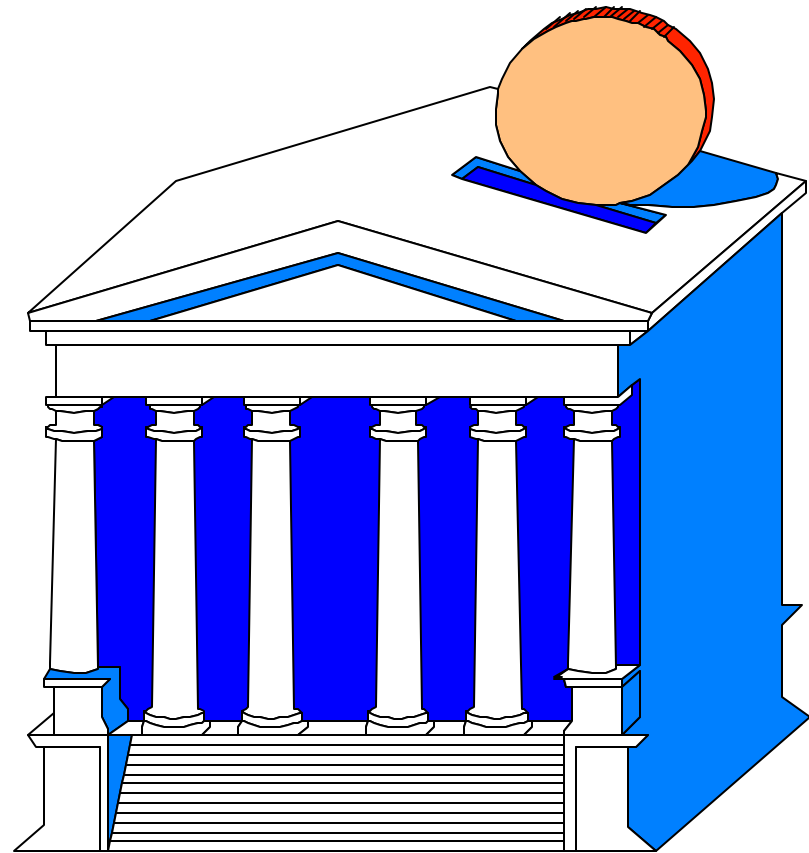
Treatment of Income in FM

- Available Income
 - Portion of income remaining for discretionary spending:

$$\begin{array}{r} \text{Total income} \\ - \text{Total Allowances} \\ \hline = \text{Available Income (AI)} \end{array}$$

Total Allowances

- Allowances for taxes
 - U. S. Income tax paid
 - Estimate of state and other taxes
 - State of residence
 - Amount of total income
 - FICA



Total Allowances

- Income Protection Allowance-IPA
 - Estimates amount needed for basic needs
 - Based on BLS lower budget expenditures adjusted for CPI
 - Increases with each household member
 - Decreases with each member in college

Total Allowances

- Employment expense allowance
 - Represents additional costs when both parents work
 - Applies to single parent working families



Treatment of Assets in FM

- Assets defined
 - Cash, savings, checking
 - Investments and trusts
 - Real estate equity
 - Business/farm equity (non-family farms only)
 - Protects first 60% of equity up to \$95K
 - Decreases protection percentage after \$95K

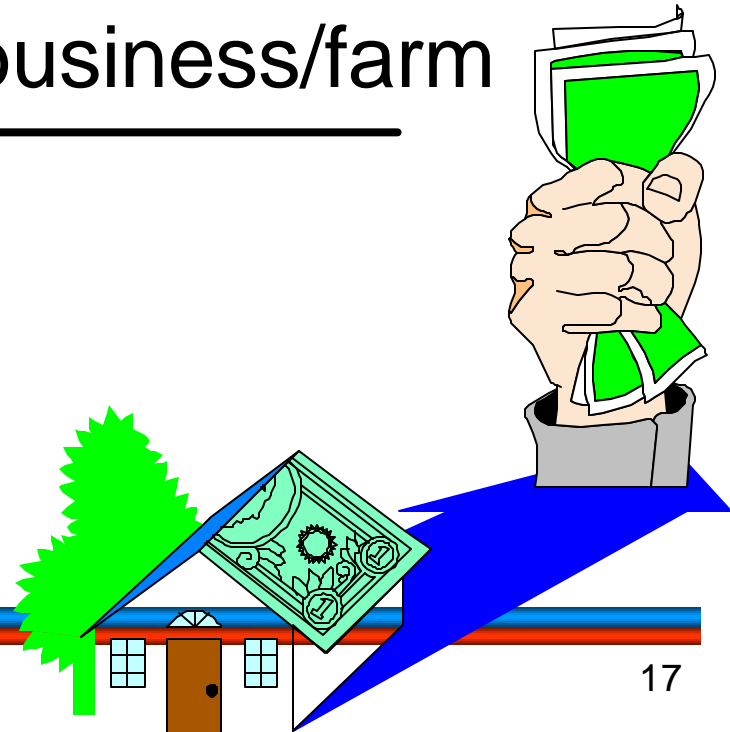
Treatment of Assets in FM

Cash, savings, checking

+Net worth of real estate and investments

+Adjusted net worth of business/farm

=Total Net Worth

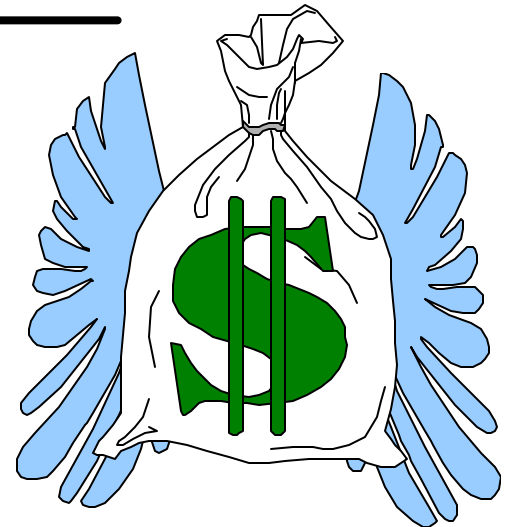


Treatment of Assets in FM

Total Net Worth

-Education Savings and Asset Protection
Allowance

=Discretionary Net Worth



Treatment of Assets in FM

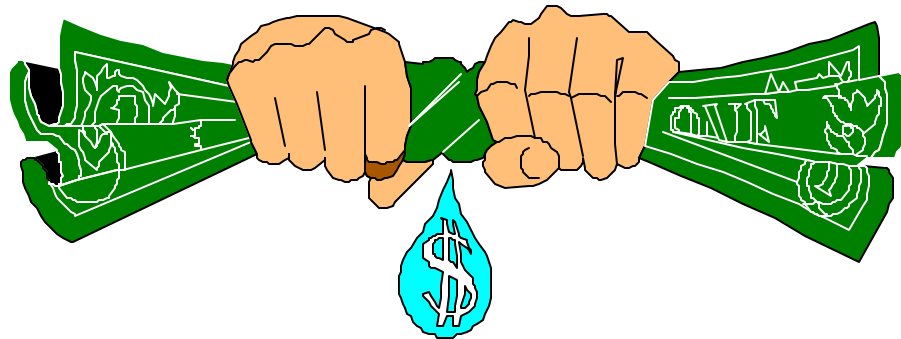
- Education Savings and Asset Protection Allowance
 - Protects assets for retirement and future education costs
 - Applies > age 25
 - Increases with age
 - Adjusted for marital status
 - No protection for dependent students

Treatment of Assets in FM

Discretionary Net Worth

X 12% (asset conversion rate)

=Contribution from Assets



Adjusted Available Income

$$\begin{aligned} & \text{Parents' Available Income (+ / -)} \\ & \text{+Parents' Contribution from Assets (+/ 0)} \\ & \text{=Total Adjusted Available Income (+ / -)} \end{aligned}$$

Determining Parents' Contribution

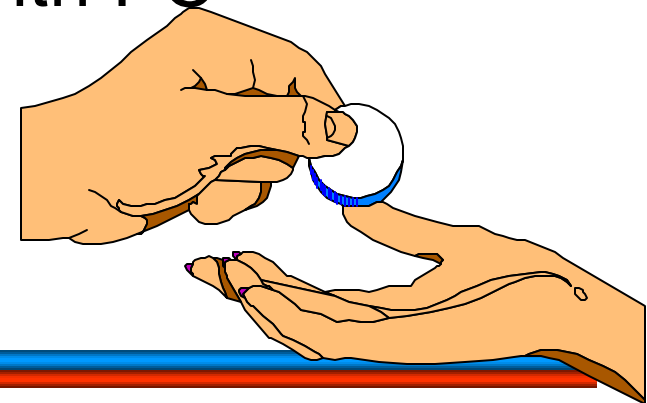
- As income increases, amount needed for basic household expenses decreases
 - Discretionary income increases
 - Income available for education

$$\begin{array}{l} \text{Adjusted Available Income (AAI)} \\ \times \text{AAI contribution rate} \\ \hline = \text{Total Parents' Contribution from AAI} \end{array}$$

Determining Parents' Contribution

- Total contribution from AAI is divided evenly among all household members in college

$$\frac{\text{Total PC from AAI}}{\text{Number in College}} = \text{9-month PC}$$



Determining Student's Contribution

Total of student taxed + untaxed income
- state and federal taxes
- \$2330 IPA
- allowance for parents' negative AAI

= Available income (AI)

X 50% assessment of AI

= Student contribution from AI

Determining Student's Contribution

Cash, savings, checking

+Net worth of real estate and investments

+Adjusted net worth of business/farm

=Total Net Worth

X 35%

=Student contribution from assets

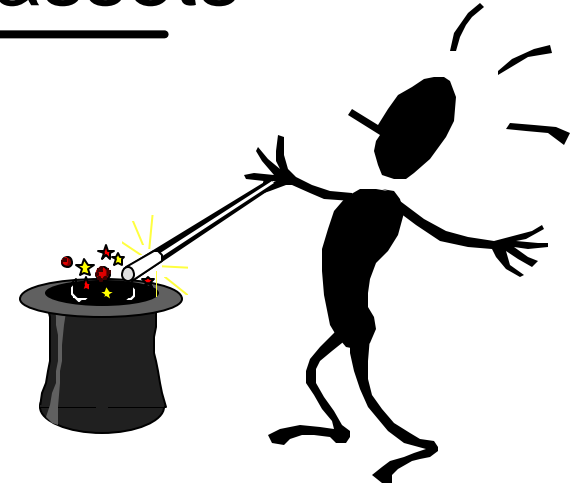
Determining EFC

Parents' Contribution

+Student's Contribution from AI

+Student's Contribution from assets

= 9 month EFC



Simplified Formula



- Assets not considered
 - Parents' AGI or earnings from work < \$50,000 and
 - Neither parents nor student required to file IRS form 1040

Automatic Zero

- EFC is automatically zero if
 - Parents' AGI or income earned from work is \$13,000 or less and
 - Neither parents nor student required to file IRS form 1040
 - Note that in 03-04, income guideline increases to \$15,000

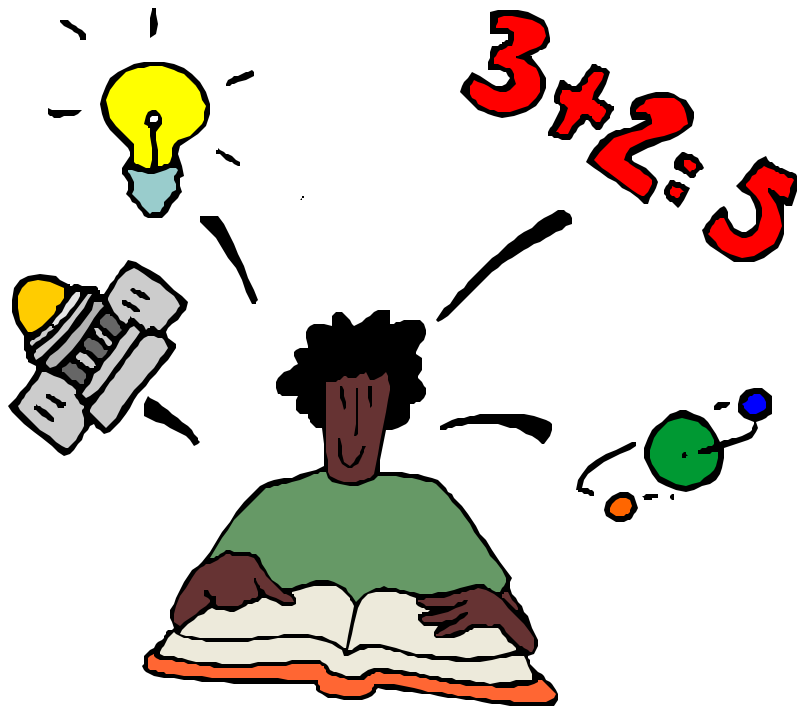
Independent Students

- Independent Students without Dependents other than a spouse
 - Applies to single and married independent students
 - May NOT qualify for auto zero EFC
 - May qualify for simplified formula
 - Student (and spouse) AGI or earnings from work < \$50,000 and
 - Student (and spouse) not required to file IRS form 1040

Independent Students

- Independent Students with Dependents other than a Spouse
 - Analysis looks much like that of parents of dependent students
 - EFC automatically zero if
 - Student's (and spouse's) AGI or income earned from work is \$13,000 or less and
 - Student (and spouse) not required to file IRS form 1040

Independent Students



- May qualify for simplified formula
 - Student (and spouse) AGI or earnings from work < \$50,000 and
 - Student (and spouse) not required to file IRS form 1040

Tech Slide

We appreciate your feedback and comments.

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