

Session 15



Fundamentals of EFC Calculations Part 1

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

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

How is EFC Determined?



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

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 \$15,000 or less and
 - Neither parents nor student required to file IRS form 1040

How is EFC Determined?

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

Independent Students

- ❑ Independent Students without Dependents other than a spouse
 - Applies to single and married independent students
 - These students may NOT qualify for auto zero EFC
 - These 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

Independent Students

- Independent Students with Dependents other than a Spouse
 - Analysis looks much like that of parents of dependent students
 - Can qualify for Auto Zero EFC if
 - Student's (and spouse's) AGI or income earned from work is \$15,000 or less and
 - Student (and spouse) not required to file IRS form 1040

Independent Students



- These 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

Treatment of Income in FM

□ Total Income:

Base year income from all taxable and
untaxable sources

-Exclusions (FAFSA Worksheet C)

=Total Income

2004-2005 EFC FORMULA **A**: DEPENDENT STUDENT

| PARENTS' INCOME IN 2003 | | |
|---|--------|-----------------|
| 1. Parents' Adjusted Gross Income (FAFSA/SAR #73) (If negative, enter zero.) | | 47,896 |
| 2. a. Father's income earned from work (FAFSA/SAR #76) | 48,000 | |
| 2. b. Mother's income earned from work (FAFSA/SAR #77) | 0 | |
| Total parents' income earned from work | | = 48,000 |
| 3. Parents' Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)* | | 47,896 |
| 4. Untaxed income and benefits: | | |
| • Total from FAFSA Worksheet A (FAFSA/SAR #78) | 0 | |
| • Total from FAFSA Worksheet B (FAFSA/SAR #79) | 650 | |
| Total untaxed income and benefits | | = 650 |
| 5. Taxable and untaxed income (sum of line 3 and line 4) | | 48,546 |
| 6. Total from FAFSA Worksheet C (FAFSA/SAR #80) - | | 0 |
| 7. TOTAL INCOME (line 5 minus line 6) Maybe a negative number. | | = 48,546 |

Treatment of Income in FM

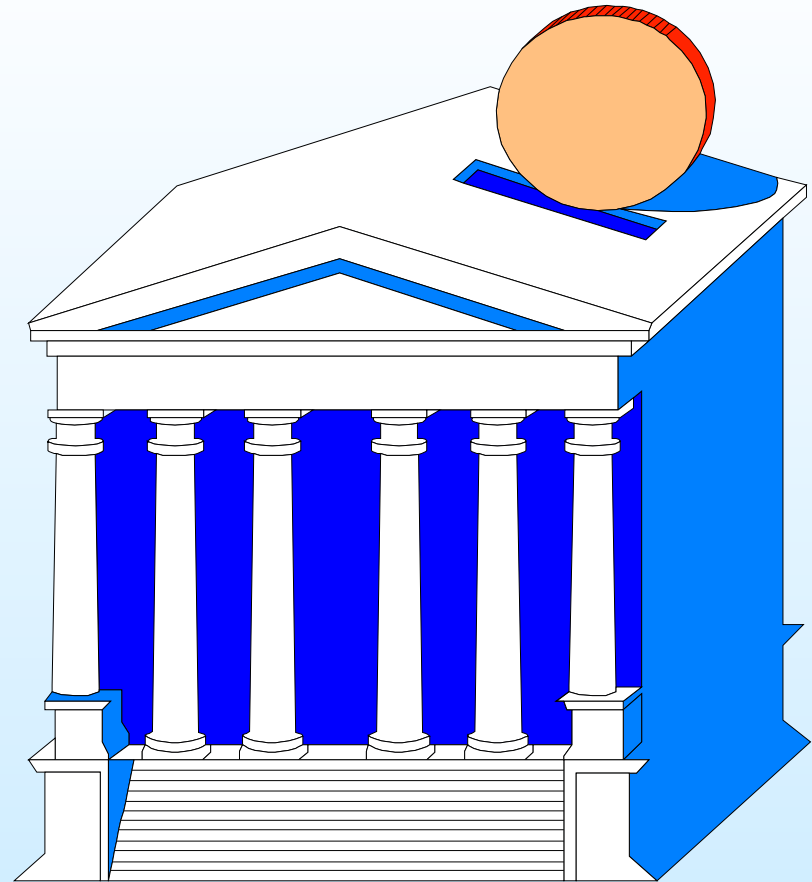
□ Available Income

- 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

2004-2005 EFC FORMULA **A**: DEPENDENT STUDENT

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| ALLOWANCES AGAINST PARENTS' INCOME | |
|---|---------------|
| 8. 2003 U.S. income tax paid (FAFSA/SAR #74) (tax filers only); if negative, enter zero. | 4,144 |
| 9. State and other tax allowance (Table A1. If negative, enter zero.) | 3,884 |
| 10. Father's Social Security tax allow. (Table A2) | 3,672 |
| 11. Mother's Social Security tax allow. (Table A2) | 0 |
| 12. Income protection allowance (Table A3) | 17,060 |
| 13. Employment expense allowance: <ul style="list-style-type: none"> • Two working parents: 35% of the lesser of the earned incomes, or \$3,000, whichever is less • One-parent families: 35% of earned income, or \$3,000, whichever is less • Two-parent families, one working parent: enter zero | 0 |
| 14. TOTAL ALLOWANCES | 28,760 |

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| AVAILABLE INCOME | |
|--|-----------------|
| Total income (from line 7) | 48,546 |
| Total allowances (from line 14) | - 28,760 |
| 15. AVAILABLE INCOME (AI) Maybe a negative number. | = 19,786 |

***STOP HERE if both of the following are true: line 3 is \$15,000 or less, plus the student and parents are eligible to file a 2003 IRS Form 1040A or 1040EZ (they are not required to file a 2003 Form 1040), or they are not required to file any income tax return. If both circumstances are true, the Expected Family Contribution is automatically zero.**

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 \$100K
 - Decreases protection percentage after \$100K

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

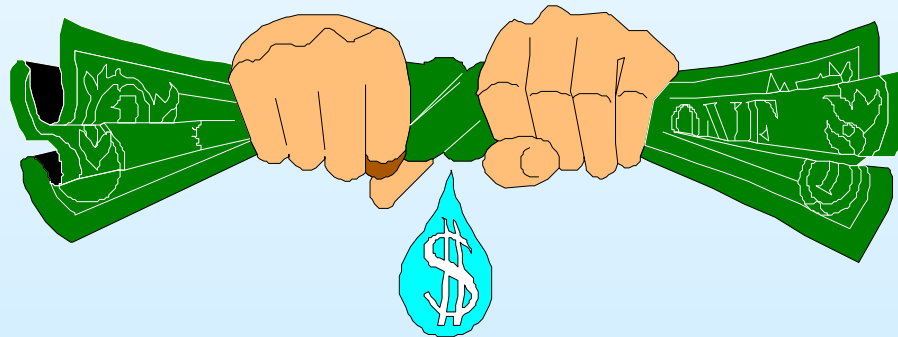
- Education Savings and Asset Protection Allowance
 - Protects assets for retirement and future education costs
 - Applies > age 25
 - Increases with age
 - Adjusted for marital status
 - No protection for dependent students

Treatment of Assets in FM

Discretionary Net Worth

X 12% (asset conversion rate)

=Contribution from Assets



2004-2005 EFC FORMULA **A**: DEPENDENT STUDENT

| PARENTS' CONTRIBUTION FROM ASSETS | | |
|---|---|--------|
| 16. Cash, savings & checking (FAFSA/SAR #81) | | 1,500 |
| 17. Net worth of investments** (FAFSA/SAR #82) If negative, enter zero. | | 1,000 |
| 18. Net worth of business and/or investment farm (FAFSA/SAR #83) If negative, enter zero. | | 0 |
| 19. Adjusted net worth of business/farm (Calculate using Table A4.) | + | 0 |
| 20. Net worth (sum of lines 16, 17, and 19) | = | 2,500 |
| 21. Education savings and asset protection allowance (Table A5) | - | 43,200 |
| 22. Discretionary net worth (line 20 minus line 21) | = | 0 |
| 23. Asset conversion rate | X | .12 |
| 24. CONTRIBUTION FROM ASSETS If negative, enter zero. | = | 0 |

**Do not include the family's home.

***To calculate the parents' contribution for other than 9-month enrollment, see page 11.

Adjusted Available Income

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

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

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

2004-2005 EFC FORMULA **A**: DEPENDENT STUDENT

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| PARENTS' CONTRIBUTION | | |
|--|---|--------|
| Available Income (AI) (from line 15) | | 19,786 |
| Contribution from assets (from line 24) | + | 0 |
| 25. Adjusted Available Income (AAI) May be a negative number. | = | 19,786 |
| 26. Total parents' contribution from AAI (Calculate using Table A6; if negative, enter zero.) | | 4,820 |
| 27. Number in college in 2004-2005 (Exclude parents) (FAFSA/SAR #66) | ÷ | 1 |
| 28. PARENTS' CONTRIBUTION (standard contribution for 9-month enrollment) ^{***} If negative, enter zero. | = | 4,820 |

**Do not include the family's home.

***To calculate the parents' contribution for other than 9-month enrollment, see page 11.

Determining Student's Contribution

Total of student taxed + untaxed income

- state and federal taxes

- \$2420 IPA

- allowance for parents' negative AAI

= Available income (AI)

X 50% assessment of AI

= Student contribution from AI



| STUDENT'S INCOME IN 2003 | |
|---|-------|
| 29. Adjusted Gross Income (FAFSA/SAR #35) (If negative, enter zero.) | |
| 30. Income earned from work (FAFSA/SAR #38) | 1,660 |
| 31. Taxable Income (If tax filer, enter the amount from line 29. If non-tax filer, enter the amount from line 30.) | |
| | 1,660 |
| 32. Untaxed income and benefits: Total from FAFSA Worksheet A (FAFSA/SAR #40) 0 Total from FAFSA Worksheet B (FAFSA/SAR #41) 0 + _____ Total untaxed income and benefits = | |
| | |
| | |
| | |
| 33. Taxable and untaxed income (sum of line 31 and line 32) | 1,660 |
| 34. Total from FAFSA Worksheet C (FAFSA/SAR #42) | 0 |
| 35. TOTAL INCOME (line 33 minus line 34) May be a negative number. | 1,660 |



| ALLOWANCES AGAINST STUDENT INCOME | | |
|---|----------|--------------|
| 36. 2003 U.S. income tax paid (FAFSA/SAR #36) (tax filers only); if negative, enter zero. | | 0 |
| 37. State and other tax allowance (Table A7. If negative, enter zero.) | + | 100 |
| 38. Social Security tax allowance (Table A2) | + | 127 |
| 39. Income protection allowance | + | 2,420 |
| 40. Allowance for parents' negative Adjusted Available Income (If line 25 is negative, enter line 25 as a positive number in line 40. If line 25 is zero or positive, enter zero in line 40.) | + | 0 |
| 41. TOTAL ALLOWANCES | = | 2,647 |

| STUDENT'S CONTRIBUTION FROM INCOME | | |
|--|---|-------|
| Total income (from line 35) | | 1,660 |
| Total allowances (from line 41) | . | 2,647 |
| 42. Available income (AI) | = | 0 |
| 43. Assessment of AI | X | .50 |
| 44. STUDENT'S CONTRIBUTION FROM AI If negative, enter zero. | = | 0 |

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

| STUDENT'S CONTRIBUTION FROM ASSETS | |
|---|-------|
| 45. Cash, savings & checking (FAFSA/SAR #43) | 50 |
| 46. Net worth of investments* (FAFSA/SAR #44) If negative, enter zero. | 0 |
| 47. Net worth of business and/or investment firm (FAFSA/SAR #45) If negative, enter zero. | 0 |
| 48. Net worth (sum of lines 45 through 47) | = 50 |
| 49. Assessment rate | X .35 |
| 50. STUDENT'S CONTRIBUTION FROM ASSETS | = 18 |

*Do not include the student's home.
**To calculate the EFC for other than 9-month enrollment,
see the next page.

Determining EFC

Parents' Contribution

+ Student's Contribution from AI

+ Student's Contribution from assets

= 9 month EFC



| EXPECTED FAMILY CONTRIBUTION | |
|--|-------|
| PARENTS' CONTRIBUTION (from line 28) | 4,820 |
| STUDENT'S CONTRIBUTION FROM AI (from line 44) + | 0 |
| STUDENT'S CONTRIBUTION FROM ASSETS (from line 50) + | 18 |
| 51. EXPECTED FAMILY CONTRIBUTION (standard contribution for 9-month enrollment)** If negative, enter zero. = | 4,838 |

*Do not include the student's home.

**To calculate the EFC for other than 9-month enrollment, see the next page.

Tech Slide

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