

National Training for Counselors and Mentors

Funding Education
Beyond High School



Academic Year
2014 – 2015

And the Number Is ...

Agenda

- How the expected family contribution (EFC) is calculated
- Appropriate use of professional judgment
- Role of high school counselors and mentors in need analysis and professional judgment

Importance of Learning about EFC Calculations and Professional Judgment

- Counselors and mentors are a critical source of information about the financial aid process
- Help in counseling students and families about applying for aid and understanding output

Need Analysis

Need analysis has two parts:

- Estimating a student's college costs
- Calculating the EFC

Guiding Principles of Need Analysis

- Parents and students have the primary responsibility for meeting college costs
- The distribution of financial aid resources should be based on the family's ability to pay—not willingness to pay
- The assessment of a family's ability to pay should be independent of the amount of financial aid available and cost of attending college

Guiding Principles of Need Analysis

- There should be horizontal equity, also known as equity across the board, in the distribution of limited financial aid resources. That is, families in similar circumstances with similar resources should be expected to make similar contributions

Guiding Principles of Need Analysis

- Families in different circumstances should be expected to make contributions appropriate to their financial resources. This is known as vertical equity and may sometimes be referred to as leveling the playing field

Guiding Principles of Need Analysis

- The need analysis formula should provide a “snapshot” of the family’s financial circumstances at the time of application
- The need analysis results are a benchmark. As such, the final assessment of a family’s ability to contribute to the student’s college costs is subject to the professional judgment of the financial aid administrator

The EFC Formula

- Detailed in the Higher Education Act of 1965, as amended (HEA)
- Must be used to determine a student's eligibility for federal student aid

The EFC Formula

- Calculates a *family* contribution
 - Both the student and parents bear responsibility for paying for college
- Separate models for dependent and independent students
- Assumes enrollment for a full academic year (approximately 9 months)

EFC Formula: Income

Total income is the sum of:

- Taxable income (tax filers) or income earned from work (nonfilers)
- Untaxed income

EFC Formula: Untaxed Income

Untaxed income reported on the FAFSA:

- Payments to tax-deferred pension and savings plans (paid directly or withheld from earnings), including, but not limited to, amounts reported on W-2 forms
- IRA deductions and payments to self-employed SEP, SIMPLE, Keogh, and other qualified plans

EFC Formula: Untaxed Income

Untaxed income reported on the FAFSA:

- Child support received
- Tax-exempt interest income
- Untaxed portions of pensions
- Untaxed portions of IRA distributions, excluding rollovers
- Housing, food, and other living allowances paid to members of the military, clergy, and others

EFC Formula: Untaxed Income

Untaxed income reported on the FAFSA:

- Veteran's non-educational benefits
- Other untaxed income not included in the above categories, such as workers' compensation and private disability benefits
- Money received or paid on the student's behalf not reported elsewhere on the FAFSA

EFC Formula: Additional Financial Information

- Education tax credits
- Child support paid
- Taxable earnings from need-based employment programs

EFC Formula: Additional Financial Information

- Grant and scholarship aid reported as part of adjusted gross income (AGI)
- Taxable combat pay or special combat pay
- Earnings from work under a cooperative education program offered by a college

EFC Formula: Allowances

- U.S. income tax paid
- State and other taxes
- Social Security taxes
- Income protection allowance
- Employment expense allowance

EFC Formula: Available Income

Amount of income remaining after all applicable allowances have been subtracted

EFC Formula: Assets

Reported on the FAFSA:

- Current balance of cash, savings, and checking accounts
- Net worth of investments, including real estate but excluding the family's primary residence
- Net worth of businesses and investment farms

EFC Formula: Treatment of Assets

Two primary family assets not reported on the FAFSA:

- Family's primary residence
- Retirement plans

EFC Formula: Assets

Parents' contribution from assets:

- Education Savings and Asset Protection Allowance subtracted from net worth
- Contribution is 12% of remaining assets

EFC Formula: Assets

Student's contribution from assets:

- 20% of net worth

EFC Formula: Parents' Total Contribution

$$\begin{aligned} & \text{Parents' available income} \\ + & \text{Parents' contribution from assets} \\ \hline = & \text{Parents' adjusted available income} \end{aligned}$$

EFC Formula: Parents: Total Contribution

Parents' total contribution from adjusted available income:

- Calculated using a table
 - Percentage of adjusted available income; or
 - Base amount plus percentage of adjusted available income

EFC Formula: Parent Contribution

Parents' total contribution
from adjusted available income

Number of family members in college

EFC Formula: Student Contribution

50% of student's available income

+ Student's contribution from assets

Student contribution

EFC Formula: EFC

Parent contribution

+ Student contribution

Expected family contribution

EFC Formula: Helpful Highlights

- Family bears some responsibility to pay for college
- Purpose of the income protection allowance
- Source of parent contribution
- EFC not necessarily what the family will pay out of pocket

Professional Judgment: Definition

“the authority of the financial aid administrator, on the basis of adequate documentation, to make adjustments on a case-by-case basis to the cost of attendance or the values of the data items required to calculate the expected student or parent contribution (or both) to allow for treatment of an individual eligible applicant with special circumstances.”

Professional Judgment: Basics

- Families cannot report special circumstances on the FAFSA
- Professional judgment exercised after the family files the FAFSA and completes verification (if required)
- Professional judgment exercised by the financial aid administrator

Professional Judgment: Application

- Common professional judgment situations
- Situations where professional judgment is not appropriate

Professional Judgment: Process

- Varies from college to college
- Documentation
- Authority of the financial aid administrator

Role of High School Counselors and Mentors

- Need analysis
 - Explain purpose of the EFC formula
 - Discuss confusing aspects of the formula
- Professional judgment
 - Explain the general concept
 - Explain appropriate use

Questions/Discussion



Provided by:

