

EFC CALCULATION AND INTERPRETTING THE ISIR

“IASFAA – IN IT TO WIN IT”
2011 FALL CONFERENCE
CORALVILLE MARRIOTT

SESSION OBJECTIVES

- ▶ Define basic EFC formulas
- ▶ Identify special calculations
- ▶ Differentiate between primary and secondary EFC's
- ▶ Review FAA information page on the ISIR
- ▶ Discuss intermediate values
- ▶ Complete an EFC hand calculation for a dependent student

EXPECTED FAMILY CONTRIBUTION

The Department of Education defines EFC as “a measure of how much the student and his or her family can be expected to contribute to the cost of the student’s education for the year. It is a measure of a family’s financial strength based on income and assets”.

Considered a consistent method of evaluating financial situations among all applicants.

3 BASIC EFC FORMULAS

- ▶ Dependent Student Formula
- ▶ Independent Student Formula
- ▶ Independent Student Formula With Dependent(s) Other Than A Spouse

3 SPECIAL CALCULATIONS

- ▶ Simplified Formula (SNT)
- ▶ Automatic Zero EFC (Auto Zero)
- ▶ Alternate EFC's (For Periods Other Than 9 Months)

SIMPLIFIED FORMULA (SNT)

- ▶ Assets are excluded from this EFC Calculation
- ▶ The parents were not required to file an IRS Form 1040 tax return (or)
- ▶ Anyone counted in the student's household size received a means-tested federal benefit during 2009 or 2010 (or)
- ▶ One of the parents is a dislocated worker as defined in the Workforce Investment Act of 1988

SIMPLIFIED FORMULA (CONT)

- AND the dependent's parents' total AGI or income earned from work is less than \$50,000
- Same parameters apply to the Independent Student Formula except the household is that of the student's (and spouse, if applicable)
- Use of Simplified Formula by CPS is denoted by a flag on the FAA Information Page of the ISIR: SNT Flag (Yes or No)

AUTOMATIC ZERO EFC

- ▶ The parents were not required to file an IRS Form 1040 tax return (or)
- ▶ Anyone counted in the student's household size received a means-tested federal benefit during 2009 or 2010 (or)
- ▶ One of the parents is a dislocated worker as defined in the Workforce Investment Act of 1988
- ▶ AND the dependent's parents' total AGI or income earned from work is \$31,000 or less

AUTOMATIC ZERO EFC (CONT)

- ▶ Income increases to \$32,000 for 12-13
- ▶ Same parameters apply to the Independent Student Formula With Dependents Other than a Spouse except the household is that of the student's
- ▶ An independent student must have dependents other than a spouse to be considered for an automatic zero EFC

AUTOMATIC ZERO EFC (CONT)

- ▶ If the CPS assigns an Automatic Zero EFC, this is denoted on the FAA Information Page of the ISIR
- ▶ The Auto Zero EFC Flag is either set to “Y” or it is blank

!!!! POP QUIZ !!!!

Guy and Jennifer are married with no children. Each make \$25,000 per year and file a 1040A tax return. Which formula will CPS use to calculate their EFC and why???

ALTERNATE EFCs

- ▶ Used to calculate financial aid for periods not equal to 9 months (summer school)
- ▶ Always, Always, Always use 9 month EFC to calculate Pell Grant eligibility
- ▶ Use of Primary and Secondary EFC

PRIMARY VS. SECONDARY EFC

- ▶ Primary EFC is always used in awarding Federal Aid
- ▶ Secondary EFC is only calculated when an applicant qualifies for SNT and still provides complete asset information – not likely to see with advent of web skip logic
- ▶ Secondary EFC could be used in awarding institutional aid

PRIMARY/SECONDARY EFC TYPE

- ▶ Coded 1–6 under the Office Information Section of the ISIR
- ▶ Codes 1, 2, 3 = Full Needs Test
- ▶ Codes 4, 5, 6 = Simplified Needs Test
- ▶ Discussion of Codes on P. 16 of the 2011–12 ISIR Guide

CODES/COMMENTS/MATCH FLAGS

- ▶ Reject Reason Codes found in Appendix A of ISIR Guide
- ▶ Database Matches and Match Flag Codes found in 2011–12 SAR Comment Codes and Text on P. 110–117
- ▶ Discussion of each item on FAA Information Page found on P. 20–34
- ▶ 2011–12 ISIR Guide @ www.ifap.ed.gov

EFC HAND CALCULATION!!!

Get out your pencils and calculators (cell phones). It will take more than “a minute to win it” with a hand calculation...but you will build your financial aid skills in the process!

WHY CAN'T WE JUST LET THE CPS CALCULATE THE EFC FOR US???

- ▶ This will illustrate how each value on the FAFSA impacts EFC
- ▶ Gives a better understanding of how a special circumstance may or may not impact EFC
- ▶ Equips you to better answer all of those FAFSA questions you'll be receiving over the next few months

INTERMEDIATE VALUES

- ▶ 21 Intermediate Values listed on the FAA Information Page of the ISIR
- ▶ 20 of those values are found in either the Dependent or Independent calculation
- ▶ The 21st value is FTI – FISAP Total Income

INTERMEDIATE VALUES

- TI – Total Income
- ATI – Allowances Against Total Income
- STX – State and Other Tax Allowance
- EA – Employment Allowance
- IPA – Income Protection Allowance
- AI – Available Income
- CAI – Contribution from Available Income
(Independent Calculation Only)

INTERMEDIATE VALUES (CONT)

- PCA – Parents' Contribution from Assets
- AAI – Adjusted Available Income
- TSC – Total Student's Contribution
- TPC – Total Parents' Contribution
- STI – Student's Total Income
- SATI – Student's Allowance Against Total Income
- SIC – Dependent Student's Income Contribution

INTERMEDIATE VALUES (CONT)

- ▶ DNW – Discretionary Net Worth
- ▶ NW – Net Worth
- ▶ APA – Education Savings & Asset Protection Allowance
- ▶ SDNW – Student’s Discretionary Net Worth
- ▶ SCA – Dependent Student’s Contribution from Assets
- ▶ FTI – FISAP Total Income

EFC Formulas

- ▶ Found on IFAP @ www.ifap.ed.gov
- ▶ Located in the 2011–12 Federal Student Aid Handbook
- ▶ Application and Verification Guide Section
- ▶ 2012–13 Formulas are also available
- ▶ We will be using EFC Formula A (11–12):
Dependent Student

THE SCENARIO

Our student, Joe Norse, is a dependent student from Minnesota. His parents are married and he has 1 sibling who is also in college this year. Joe's father turned 49 and he is the older parent. This past year, Joe filed a 1040 and had income earned from work of 4776 (including 709 of need-based student employment) and an AGI of 4833. Joe paid no taxes and had 500 in his checking account at the time the FAFSA was filed. He had no other investments or untaxed income.

THE SCENARIO

Joe's parents both have full-time jobs with his father earning 59,627 and his mother earning 32,916. They filed a 1040 tax return reporting an AGI of 97,543 and taxes paid of 5,339. Additionally Joe's parents were able to claim 3,000 in education credits and also contributed 3,434 to a 401K last year. At the time the FAFSA was filed, they reported assets of 3,000 in cash and savings accounts and 10,000 in investments. What is Joe's EFC?

FIRST THINGS FIRST

Does Joe qualify for the Simplified Needs Test or Automatic Zero EFC calculation?

3 STEPS IN CALCULATING PC

- ▶ Calculate Parents' Available Income
- ▶ Calculate Parents' Contribution from Assets
- ▶ Divide by the number in college

Income Protection Allowance

- ▶ Found on Table A3 in the AVG
- ▶ 30% Amount = Food
- ▶ 22% Amount = Housing
- ▶ 9% Amount = Transportation
- ▶ 16% Amount = Clothing/Personal
- ▶ 11% Amount = Medical Care
- ▶ 12% Amount = Other Family Consumption

IPA BREAKDOWN FOR JOE

- ▶ 6657 = Food
- ▶ 4882 = Housing
- ▶ 1997 = Transportation
- ▶ 3550 = Clothing/Personal
- ▶ 2441 = Medical
- ▶ 2663 = Other Family Consumption
- ▶ 22190 = Total IPA

2 STEPS IN CALCULATING STUDENT CONTRIBUTION

- ▶ Contribution from Available Income
- ▶ Contribution from Assets

Student Income

- ▶ Income Protection Allowance for a Dependent Student is 5,250 (increases to 6,000 in 12-13)
- ▶ If a parents' adjusted available income is negative, it will reduce the student's contribution from income

STUDENT CONTRIBUTION FROM ASSETS

Calculation differs from parent calculation in the following ways:

- ▶ No APA
- ▶ No adjustments to net worth of a business or investment farm
- ▶ Net worth assessed at 20% vs. 12% for parents

DIFFERENCES IN INDEPENDENT STUDENT FORMULAS

- ▶ Different values for IPA – 8550 for Independent Student; 13,710 for a married student if spouse isn't enrolled $\frac{1}{2}$ time
- ▶ Use of a table for IPA if the student has dependents other than spouse
- ▶ Adjusted Net Worth for a business or investment farm uses different tables – no adjustments for dependent students
- ▶ Asset Protection Allowance exists

THINGS TO CONSIDER:

When the FAFSA was filed, all of the income earned from work was listed under 1 parent instead of both. How does this change the EFC?

THINGS TO CONSIDER:

What happens when the student and parent change their state of legal residence to Wisconsin?

What if they both change their state of legal residence to California?

MORE THINGS TO CONSIDER:

How will the EFC change by increasing the net worth of the parents' investments by 50,000?

What if we add 4,800 in child support paid by the parents' to this equation?

WHY DID WE LOOK AT THESE CHANGES IN THE SCENARIO?

To demonstrate that values other than those that are required to be verified can impact EFC...which is probably why the verification process is changing

A COUPLE OF WORDS ON PROFESSIONAL JUDGEMENT

- ▶ You can only modify values of data elements
- ▶ Be sure that adjustments aren't covered by IPA
- ▶ Case-by-case basis only
- ▶ Cannot make formula adjustments
- ▶ Cannot adjust data elements just because you believe the formula isn't treating a family fairly

FINAL WORD ON PROFESSIONAL JUDGEMENT

DOCUMENT

DOCUMENT

DOCUMENT

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