



# SPRING CONFERENCE

Kansas City, Missouri

*2003*



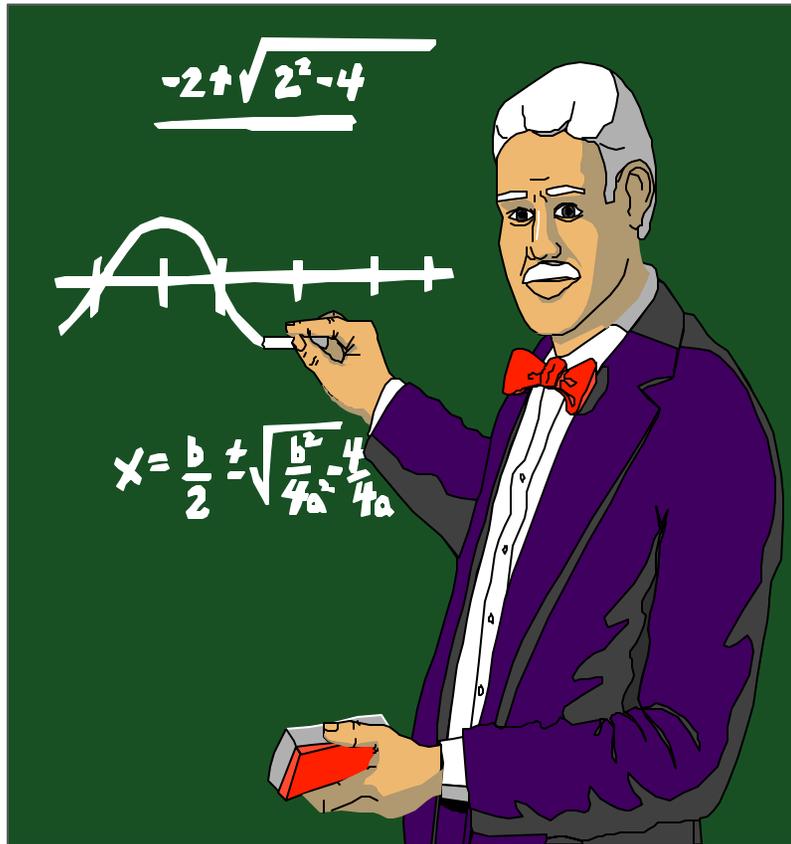
## Session 7

# 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

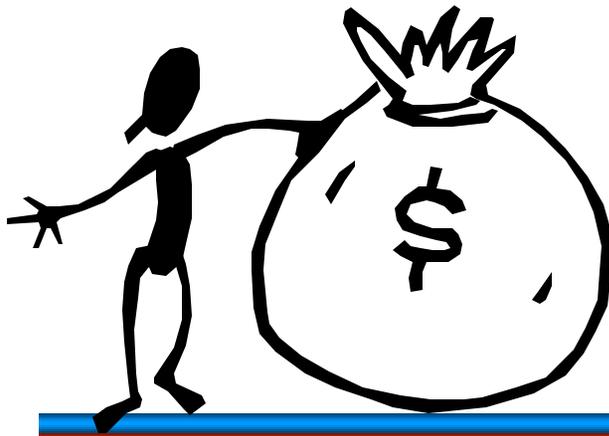
# Principles of Need Analysis

- 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)

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=Total Income



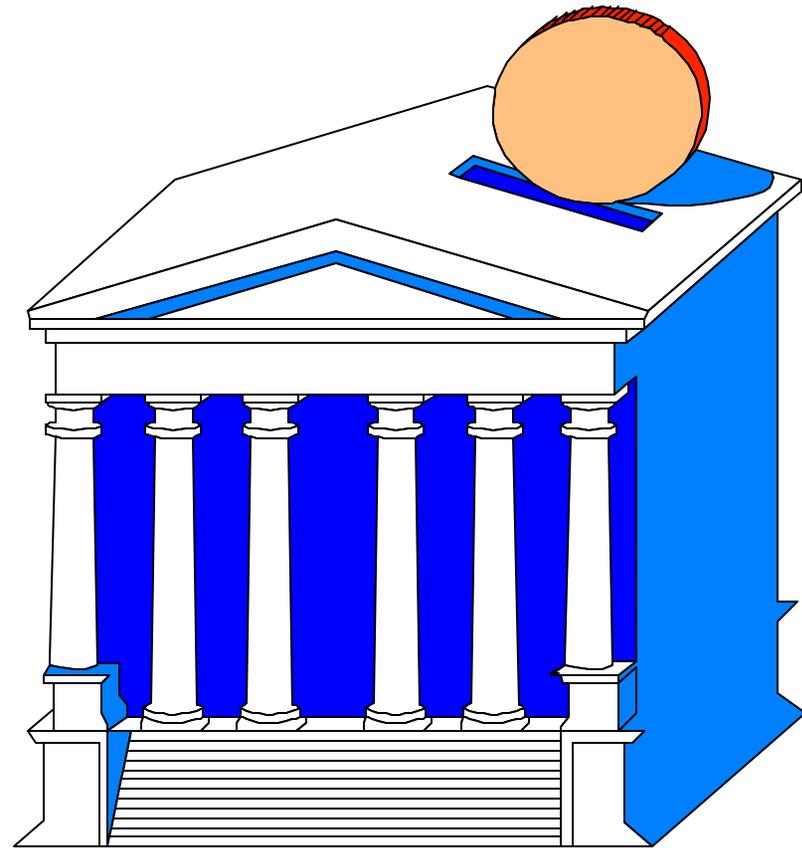
# Treatment of Income in FM

- 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

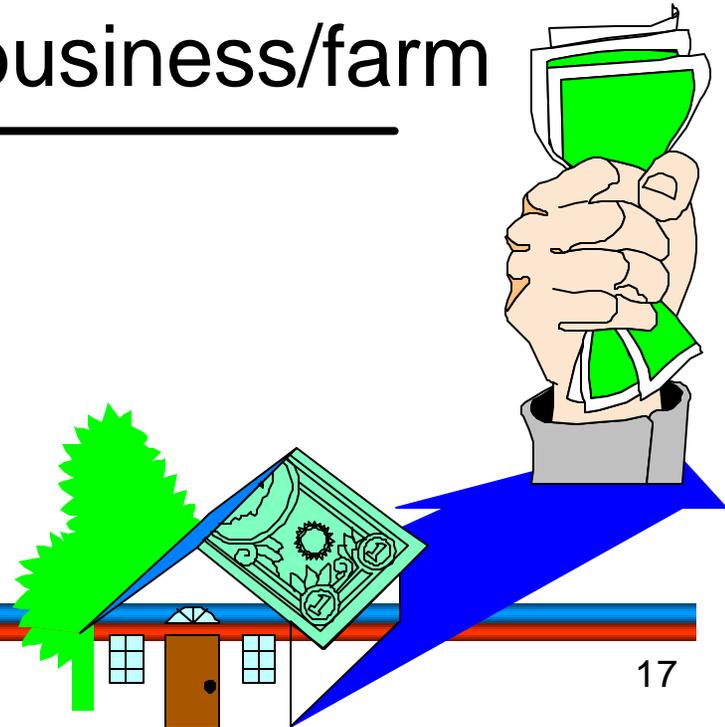
Cash, savings, checking

+Net worth of real estate and investments

+Adjusted net worth of business/farm

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=Total Net Worth



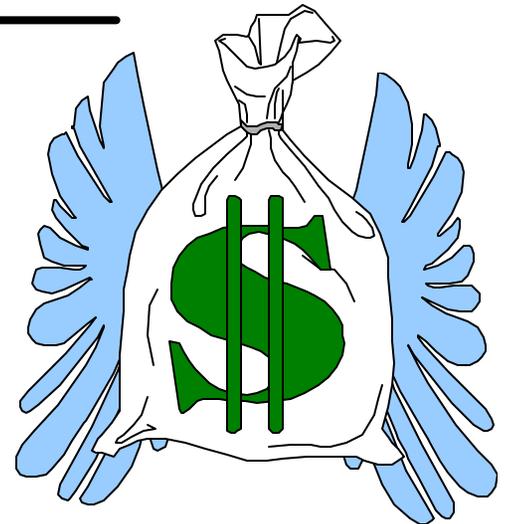
# Treatment of Assets in FM

Total Net Worth

-Education Savings and Asset Protection  
Allowance

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=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)

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=Contribution from Assets



# Adjusted Available Income

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

# Determining Parents' Contribution

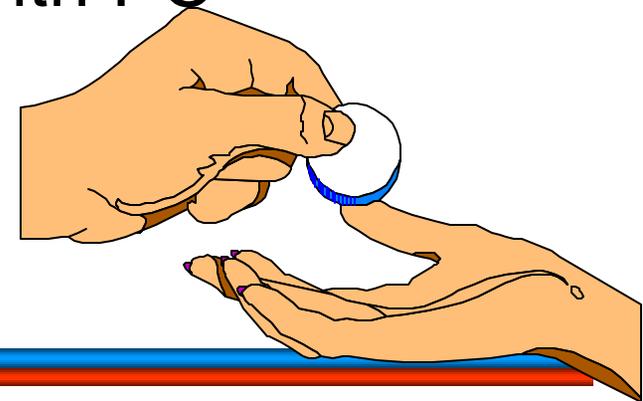
- As income increases, amount needed for basic household expenses decreases
  - Discretionary income increases
  - Income available for education

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

# Determining Parents' Contribution

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

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



# Determining Student's Contribution

Total of student taxed + untaxed income

- state and federal taxes

- \$2330 IPA

- allowance for parents' negative AAI

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= Available income (AI)

X 50% assessment of AI

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= 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

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= 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

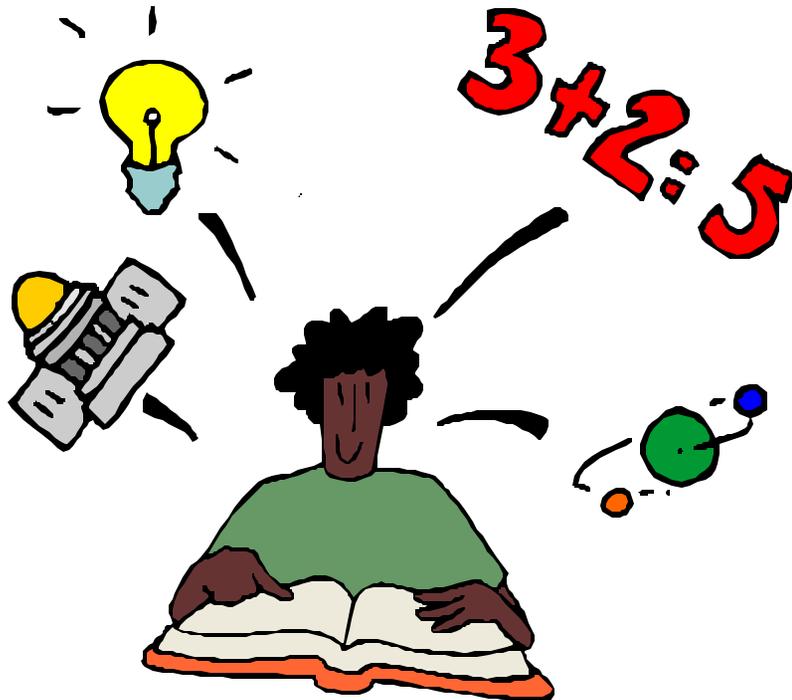
# Independent Students

- 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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