

NASFAA 2008 National Conference

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**US Department of
Education**



Education



NEED ANALYSIS

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Overview

- The Basics
- HERA and CCRAA changes
 - Higher Education Reconciliation Act of 2005 (HERA) (PL 109-171) enacted February 8, 2006
 - College Cost Reduction and Access Act of 2007 (CCRAA) (PL 110-84) enacted September 27, 2007
- Questions



The Basics

- Part F of the Higher Education Act of 1965, as amended (the HEA)

Cost of Attendance

Less Expected Family Contribution

Equals Need



The Basics – Contribution

➤ Contribution

Available Income

Contribution from Assets

in College





The Basics – Contribution from Income

➤ Available Income

Total Income

Less Allowances

Equals Discretionary Income





The Basics – Contribution from Income

- Total Income =
 - Taxable Income (Adjusted Gross Income)
 - (Income Earned from Work)
 - Plus Untaxed Income
 - Less Excluded Income



The Basics – Contribution from Income

- Untaxed Income
 - Earned Income Credit
 - Additional Child Tax Credits Line 68 (IRS 1040)
 - Welfare Benefits including TANF (Don't include Food Stamps or Subsidized Housing)
 - Untaxed Social Security benefits (SSI)
 - Payments to tax-deferred pension & savings plans (Reported on W-2, Boxes 12a – 12d)
 - IRA deductions & payments to a SEP & to a KEOGH & other qualified plans
 - Child support received
 - Tax exempt interest



The Basics – Contribution from Income

- Untaxed income – continued
 - Foreign income exclusion
 - Untaxed portion of IRA distributions (Lines 15a – 15b)
 - Untaxed portions of pensions (Lines 16a – 16b)
 - Credit for federal tax on special fuels (Form 4136 – non farmers only)
 - Housing, food and other living allowances paid to military, clergy, and others
 - Veterans noneducation benefits – Disability, Death Pension & Dependency and Indemnity Compensation, VA Work Study Allowances
 - Other untaxed income not reported elsewhere (including Combat Pay not included in AGI for Tax filers)
 - Money received or paid on your behalf



The Basics – Contribution from Income

- Excluded Income
 - Payments from states for foster care or adoption assistance
 - Per Capita payments to Native Americans (unless the amount exceeds \$2,000)
 - Payments from the state for Heating Assistance



The Basics – Contribution from Income

- Total Income =
 - (Taxable + Untaxable – Excluded)
- Less Allowances
- Equals Discretionary Income



The Basics – Contribution from Income - Allowances

- U.S. Income Tax Paid (if neg. = \$0)
- State & Other Tax Allowance
- Social Security Tax
- Income Protection Allowance
- Employment Expense Allowance



The Basics – Contribution from Income - Allowances

- Income Protection Allowance – based on family size
 - 30% Food
 - 22% Housing
 - 9% Transportation
 - 16% Clothing & Personal Expense
 - 11% Medicine
 - 12% Other Expenses



The Basics – Contribution from Income - Allowances

- Employment Expense Allowance
 - Two worker family: 35% of lesser earned income or \$3,300, which ever is less
 - One worker family: 35% of earned income or \$3,300, which ever is less



The Basics – Contribution from Income – Available Income

Total Income

Less Total Allowances

Equals Available Income (could be a
negative number)





The Basics – Contribution from Assets

- Cash, Savings & Checking
- Plus Net Worth of Investments
- Plus Net Worth of Business/Farm
- Equals Total Net Worth



The Basics – Contribution from Assets

- Total Net Worth
- Less Education Savings & Asset Protection Allowance
- Equals Discretionary Net Worth



The Basics – Contribution from Assets

- Discretionary Net Worth
- Times Asset Conversion Rate
 - Parent's rate = 12 %
 - Dependent Student's rate = 20 %
 - Independent w/out Dependents Other than A Spouse Student's rate = 20%
 - Independent w/Dependents Other than A Spouse Student's rate = 7%
- Equals Contribution from Assets



Simplified Need Analysis

- Same as the Regular Need Analysis except:
 - Assets are not considered in the EFC calculation
 - Earned Income < \$50,000
 - Not required to complete IRS Form 1040 or family member received a Federally means tested benefit



Simplified Need Analysis

- The means-tested federal benefit programs are:
 - Supplemental Security Income (SSI)
 - Food Stamps
 - Free and Reduced Price School Lunches
 - Temporary Assistance for Needy Families (TANF)
 - Special Supplemental Nutrition
 - Program for Women, Infants, and Children (WIC)



Auto-Zero EFC

- Combined Income Earned from Work < \$20,000
- Not required to complete IRS Form 1040 or family member received a Federally means tested benefit
- $EFC = 0$



HERA & CCRAA

Cost of Attendance

- An institution may exclude from both COA & EFA any assistance provided by a State and designated by the State to offset a specific component of COA



HERA & CCRAA

Cost of Attendance

- An institution may choose to include room and board in the COA for a less-than-half-time student
- Up to 3 semesters (or equivalent) with no more than 2 semesters being consecutive
- Applies on an institution by institution basis



HERA & CCRAA

Cost of Attendance

- An institution may include in a student's COA the one-time cost of obtaining a first professional license or certificate
- May only be provided one time per student
- Must be for direct costs for obtaining 1st license or certification



HERA & CCRAA

Cost of Attendance

- Allowable direct costs include licensing exam fees and costs of applying for and obtaining the license
- Does **not** include costs associated with preparing for an exam unless part of eligible program
- Costs must be incurred while student is enrolled



HERA & CCRAA

Simplified & Auto-Zero

- Changes made by HERA – effective 2006-2007
- Changes made by CCRAA – effective 2009-2010





HERA & CCRAA

Auto-Zero

- HERA raised the maximum AGI to \$20,000
- CCRAA increased the maximum AGI to \$30,000 and indexed it to CPI



HERA & CCRAA

Auto-Zero

- For dependent student, AGI of parents is used
- For independent students with dependents other than a spouse, AGI of student and spouse is used
- Auto Zero EFC calculation is not available to an independent student without dependents other than a spouse



HERA & CCRAA

Simplified & Auto-Zero

- HERA provided an alternative to the tax filing standard
- May qualify if, in addition to meeting the relevant income criteria, the student (or spouse) or dependent student's parent(s) received benefits from one of the following means-tested Federal benefit programs – (see next slide)



HERA & CCRAA

Simplified & Auto-Zero

- Supplemental security income (SSI) program
- Free and reduced price school lunch program
- Temporary assistance for needy families (TANF)
- Special supplemental nutrition program for women, infants, and children (WIC)
- Food Stamps



HERA & CCRAA

Simplified & Auto-Zero

- Receipt by anyone included in the household size
- Must be received in base year (may use professional judgment to consider receipt after end of base year)
- No required documentation – self-certification is sufficient



HERA & CCRAA

Simplified & Auto-Zero

- CCRAA added dislocated worker as an alternative to type of tax filing and means tested benefits
- CCRAA increased the time frame for receipt of means tested benefits from 12 to 24 months



HERA & CCRAA

Simplified & Auto-Zero

- The HERA added –
 - Only the type of tax return filed by a dependent student's parents is considered for SNT and Auto-Zero EFC calculations



HERA & CCRAA

Independent Student

- HERA added –
 - Individuals who are currently serving on active duty in the U.S. Armed Forces for purposes other than training are now considered to be independent students
 - Includes applicants who have been called to Federal active duty for purposes other than training from the National Guard or Ready Reserves



HERA & CCRAA

Independent Student

- CCRAA added three additional categories:
 1. Is in foster care or a ward of the court, at any time when the individual is 13 years of age or older
 2. Is an emancipated minor or is in legal guardianship as determined by a court in the student's state of legal residence



HERA & CCRAA

Independent Student

➤ CCRAA added three additional categories:

3. The student has been verified during the school year in which the application is submitted as an unaccompanied youth who is a homeless child or youth, or as unaccompanied, at risk of homelessness, and self-supporting, by—
 - (i) a local educational agency homeless liaison, designated by section 722(g)(1)(J)(ii) of the McKinney-Vento Homeless Assistance Act;
 - (ii) the director of a program funded under the Runaway and Homeless Youth Act or a designee of the director;
 - (iii) the director of a program funded under subtitle B of title IV of the McKinney-Vento Homeless Assistance Act (relating to emergency shelter grants) or a designee of the director; or
 - (iv) a financial aid administrator



HERA & CCRAA

Assets

- HERA modified the definition of “qualified education benefit” and made the treatment consistent in the need analysis
- The term “qualified education benefits” includes
 - Coverdell Education Savings accounts
 - Prepaid tuition plans offered by a State
 - Qualified tuition programs (529 prepaid tuition plans and 529 savings plans)



HERA & CCRAA

Assets

- Are not treated as an adjustment to COA or as estimated financial assistance in packaging
- Treated as assets of the owner of the plan unless owned by dependent student





HERA & CCRAA

Assets

- If owned by dependent student, not counted
- If plan owned by someone whose information is not included on the FAFSA, not counted





HERA & CCRAA

Assets

- Value of asset reported –
 - For savings plans or savings accounts, the balance of the account on the date the FAFSA is signed.
 - For prepaid tuition plans, the “refund” value of any tuition credits or certificates purchased. It is the amount the owner of the plan would receive if the account is liquidated. Available from plan administrator



HERA & CCRAA

Assets

- Value of all plans owned by the parent of dependent applicant must be reported (such as plans for the applicants siblings).
- Value of all plans owned by independent student (and spouse) must be reported (such as plans for children).



HERA & CCRAA

Assets

- CCRAA made the following additional changes –
 - Qualified education benefit (529 plan) owned by dependent student is an asset of the parent
 - Distributions from 529 plans excluded from estimated financial assistance



HERA & CCRAA

Assets

The term “assets” will not include a small business with not more than 100 full-time or full-time equivalent employees (or any part of such a small business) that is owned and controlled by the family -

small business = 100 or fewer FTE employees

owned and controlled by the family =
50% + ownership; and

family = directly related or are or were related by marriage



HERA & CCRAA

Assets

- Asset assessment rate changes:
 - Dependent from 35% to 20%
 - Independents w/o dependents other than a spouse from 35% to 20%
 - Independents with dependents other than a spouse from 12% to 7%



HERA & CCRAA

- Income Protection Allowance (IPA) in EFC Formulas
 - Modifies the way student income protection allowances are calculated and updated
 - Will result in a lower EFC



HERA & CCRAA

Professional Judgment and Dependency Overrides

- **CCRAA**
- Adds dislocated worker and homelessness as example of when an FAA can use professional judgment
- Provides that an FAA can use a dependency override made by another FAA within the same award year
- Both effective for the 2009-2010 award year



HERA & CCRAA

Untaxed Income

- **CCRAA**
- Excludes from specified list of “untaxed income”
 - Welfare benefits
 - Earned income credits
 - Special fuel tax credit
 - Excluded foreign income
 - Untaxed Social Security Benefits
 - Additional child tax credit claimed for Federal income tax
 - Job Training Partnership Act noneducational benefits
- Effective 2009-2010 award year





HERA & CCRAA

Excludable Income

- **CCRAA**
- **Special Combat Pay – pay received by a member of the U.S. Armed Forces because of exposure to a hazardous situation – (see IRS Pub. – 3 Tax Guide for Armed Forces)**



QUESTIONS???



Contact Information

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