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# INTRODUCTION

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## ***What is this book for?***

This book provides information to the financial aid community about the calculation of a student's expected family contribution (EFC). This book is composed of four parts: (1) the introduction, which gives background information and guidance for using the proper formula to calculate a student's EFC, (2) the narrative descriptions of the formulas, (3) the worksheets and tables needed for calculating the EFC, and (4) sample case studies.

## ***What is the EFC?***

The expected family contribution (EFC) is the amount that a family can be expected to contribute toward a student's college costs. By comparing the EFC to the student's cost of attendance, the financial aid administrator at the school can determine the student's financial need for federal student aid from the U.S. Department of Education (the Department) and from other sources. The EFC formula is used to determine need for assistance from the following Student Financial Assistance (SFA) Programs: Federal Pell Grant, Subsidized Stafford Loan (under the Direct Loan Program and the Federal Family Education Loan [FFEL] Program), and "campus-based" programs—Federal Supplemental Educational Opportunity Grants (FSEOG), Federal Perkins Loans, and Federal Work-Study (FWS) programs. The methodology for determining the EFC is found in Part F of Title IV of the Higher Education Act of 1965, as amended (HEA). Updated tables used in the computation of the EFC for the 1998-99 award year were published in the *Federal Register* May 29, 1997 (with corrections published August 25, 1997).

Note that the financial aid administrator puts together a financial aid package that comes as close as possible to meeting a student's need. However, because funds are limited, the amount awarded to the student may fall short of the amount of aid for which the student is eligible.

## ***What is the source of data used in EFC calculations?***

All data used to calculate a student's EFC come from the information the student provides on the Department's *Free Application for Federal Student Aid* (FAFSA). A student may submit a FAFSA (1) through the Internet by using *FAFSA on the Web*, (2) by using *FAFSA Express* software, (3) by filing an application electronically at those schools that participate in the Department's Electronic Data Exchange (EDE), or (4) by mailing a paper FAFSA. A student who applied for federal student aid in the previous award year may be eligible to apply by filing a Renewal FAFSA, either by using the paper Renewal application mailed to their home, or through the Internet.

Applying for federal aid is free. However, to be considered for nonfederal aid, such as institutional aid, a student may have to fill out additional forms and pay a processing fee.

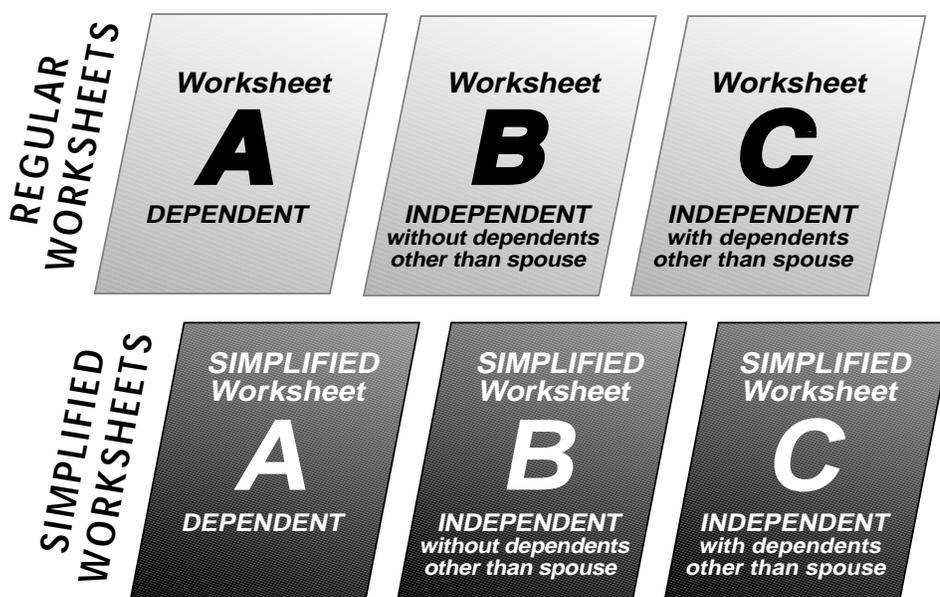
## ***Who processes the application, and how is a student notified of his or her EFC?***

The student's FAFSA information is sent to the federal central processing system. The EFC is computed by the central processing system using the information the student reported on his or her

application. Each student will receive a Student Aid Report (SAR) that reports the information from the student's application and, if the information provided was complete, the student's EFC. The student is instructed to check carefully the data on the SAR to ensure that it is correct. If corrections to the SAR are necessary, a student's school may submit the corrections electronically (if the school participates in EDE). If a student applied by mail, by using *FAFSA Express*, or by using *FAFSA on the Web*, the student may make corrections on Part 2 of the SAR and return it to the address given at the end of Part 2. If the student applied electronically through a school and would like to make corrections to information by mail, the student must request a copy of his or her SAR from the Federal Student Aid Information Center (see the inside front cover for the address and phone number.)

### ***Which EFC worksheet should be used?***

There are three regular (full-data) formulas—(A) for the dependent student, (B) for the independent student *without* dependent(s) other than a spouse, and (C) for the independent student *with* dependent(s) other than a spouse. In addition, there is a simplified version of each formula with fewer data elements.



### ***What is the definition of an independent student?***

Because the EFC formula for a dependent student uses parental data, while the two formulas for independent students do not, the first step in calculating a student's EFC must be to determine his or her dependency status. For the 1998-99 award year, a student is automatically determined to be an independent applicant for federal student aid if he or she meets one of the following criteria:

- ❖ was born before January 1, 1975;
- ❖ is a veteran of the U.S. Armed Forces (see the box below);

- ❖ is enrolled in a graduate or professional program (beyond a bachelor's degree),
- ❖ is married;
- ❖ is an orphan or a ward of the court, or *was* a ward of the court until age 18; or
- ❖ has legal dependents other than a spouse (see the box below).

In unusual circumstances, the financial aid administrator at the student's school may make a special-case determination of independence even if the student initially filed as a dependent student. See the discussion on special circumstances on page 5.

***TERMS USED IN THE DEFINITION OF AN INDEPENDENT STUDENT***

***VETERAN.*** A student who has engaged in active service in the U.S. Army, Navy, Air Force, Marines or Coast Guard and was released under a condition other than dishonorable—including a student who attended a U.S. military academy but withdrew in good standing—or a student who is not a veteran now but will be a veteran by June 30, 1999.

***LEGAL DEPENDENT.*** Any child of the student who receives more than half support from the student (the child does not have to live with the student), including a natural or adopted child, or a child for whom the student is legal guardian. Also, any person who lives with the student and receives more than half of his or her support from the student and will continue to receive more than half support from the student during the award year.

***Which students qualify for the simplified EFC formulas?***

The criteria listed below determine which students may have their EFCs calculated by a simplified formula. Assets are not considered in the simplified EFC formulas.

For the 1998-99 award year, a *dependent* student qualifies for the simplified EFC formula if *all* of the following are true:

- (1) the student's *parents* filed or are eligible to file a 1997 IRS Form 1040A or 1040EZ\* (they are not required to file a 1997 Form 1040), or the parents are not required to file any income tax return; *and*
- (2) the *student* filed or is eligible to file a 1997 IRS Form 1040A or 1040EZ\* (he or she is not required to file a 1997 Form 1040), or he or she is not required to file any income tax return; *and*

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\* One of the following 1997 income tax forms may be filed as an alternative to filing a Form 1040A or 1040EZ: the income tax return required by the tax code of the Commonwealth of Puerto Rico, Guam, American Samoa, the Virgin Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, or Palau.

- (3) the 1997 income of the student's *parents* from the two sources below is \$49,999 or less (excluding any income of the dependent student);
  - ❖ the parents' adjusted gross income from 1997 Form 1040A or 1040EZ\* is \$49,999 or less, and
  - ❖ the income shown on the 1997 W-2 forms of both parents (plus any other earnings from work not included on the W-2s) is \$49,999 or less.

For the 1998-99 award year, an *independent* student qualifies for the simplified EFC formula if *both* of the following are true:

- (1) the student (and the student's spouse, if any) filed or is eligible to file a 1997 IRS Form 1040A or 1040EZ\* (he or she is not required to file a 1997 Form 1040), or he or she is not required to file any income tax return; *and*
- (2) the student's (and spouse's) 1997 income from the two sources below is \$49,999 or less;
  - ❖ the student's (and spouse's) adjusted gross income from 1997 Form 1040A or 1040EZ\* is \$49,999 or less,
  - ❖ the income shown on the student's (and spouse's) 1997 W-2 forms (plus any other earnings from work not included on the W-2s) is \$49,999 or less.

### ***Which students automatically qualify for a zero EFC?***

As a result of the Higher Education Amendments of 1992, certain students are automatically eligible for a zero EFC. For the 1998-99 award year, a *dependent student* automatically qualifies for a zero EFC if *both* of the following are true:

- (1) the student's parents filed or are eligible to file a 1997 IRS Form 1040A or 1040EZ (they are not required to file a 1997 Form 1040), or the parents are not required to file any income tax return; *and*
- (2) the sum of both parents' 1997 adjusted gross incomes is \$12,000\*\* or less, or if the parents are not tax filers, the sum of their earned incomes is \$12,000 or less.

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\* One of the following 1997 income tax forms may be filed as an alternative to filing a Form 1040A or 1040EZ: the income tax return required by the tax code of the Commonwealth of Puerto Rico, Guam, American Samoa, the Virgin Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, or Palau.

\*\* This amount is based on the maximum amount of income, rounded to the nearest thousand, that may be earned in order to claim the Internal Revenue Service's "maximum federal earned income credit." The maximum amount of 1997 income that may be earned in order to claim the credit, when rounded to the nearest thousand, equals \$12,000.

An *independent student with dependents other than a spouse* automatically qualifies for a zero EFC if *both* of the following are true:

- (1) the student (and student's spouse, if any) filed or is eligible to file a 1997 IRS Form 1040A or 1040EZ (he or she is not required to file a 1997 Form 1040), or the student (and spouse) is not required to file any income tax return; *and*
- (2) the sum of the 1997 adjusted gross income(s) of the student (and spouse) is \$12,000\* or less, or if the student (and spouse) are not tax filers, the sum of their earned income(s) is \$12,000 or less.

Note that the automatic eligibility criteria for a zero EFC are not applicable to a single or married *independent student without dependents other than a spouse*.

### ***How are special circumstances handled?***

A financial aid administrator may use professional judgment on a case-by-case basis to take into account a student's special circumstances to

- ❖ adjust the value of specific data items reported on the student's SAR to increase or decrease a student's EFC.
- ❖ increase or decrease a student's cost of attendance. (Information about calculating a student's cost of attendance is on pages 7 and 8.)
- ❖ change a student's dependency status from dependent to independent.

Special circumstances are conditions that differentiate an individual student, not conditions that exist for a whole class of students. The reason for an adjustment must relate to that student's special circumstances and must be documented in the student's file. The financial aid administrator must resolve any inconsistent or conflicting information shown on the SAR before making any adjustments. A financial aid administrator's decision regarding adjustments is final and cannot be appealed to the Department.

Note that the aid administrator may not adjust the EFC itself—only individual data items. For example, if a dependent student's parent had an adjusted gross income (AGI) of \$25,000 in 1997, but had medical/dental expenses of \$5000, the aid administrator might decide to adjust the reported AGI to take into account the unusually high medical/dental expenses. The recalculated EFC would reflect the change to the reported AGI.

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\* This amount is based on the maximum amount of income, rounded to the nearest thousand, that may be earned in order to claim the Internal Revenue Service's "maximum federal earned income credit." The maximum amount of 1997 income that may be earned in order to claim the credit, when rounded to the nearest thousand, equals \$12,000.

Keep in mind that the income protection allowance in the EFC formula already excludes a limited amount of income that would be required to maintain a modest living standard for a family. For example, for the 1998-99 award year, the income protection allowance for a family of four with one student in college will be \$18,510. Of this amount, \$2,036.10 represents family expenditures for medical care. Although a family with \$2,500 in annual medical expenses may understandably consider these expenses to be worthy of professional judgment consideration, the expenses have already been taken into account in the EFC formula. As a rule of thumb, the income protection allowance comprises the following: food-30%, housing-22%, transportation-9%, clothing and personal care-16%, medical care-11%, and other family consumption-12%.

The authority granted the financial aid administrator in the law does not apply to general modifications to the formulas or tables used in the calculation of a student's EFC. Financial aid administrators are prohibited from replacing or modifying values such as the income protection allowance, tax allowances, taxation rates from adjusted available income, etc. The law also does not allow the financial aid administrator to make adjustments to an applicant's cost of attendance or to any of the data items used to calculate the EFC simply because the financial aid administrator believes that the values contained in the EFC tables are generally not appropriate or adequate for the school's SFA applicants and their families. Again, individual circumstances must exist and be documented before a financial aid administrator may make a professional judgment adjustment.

A student who does not meet any of the criteria for independent status may still be considered independent, even if the student initially filed as a dependent student. Note that a financial aid administrator *cannot* require a student who meets one of the independent criteria to file as a dependent student. However, on a case-by-case basis, the aid administrator may use his or her professional judgment to adjust the data items used in calculating an independent student's EFC to reflect a parental contribution. Again, any such individual determination must be documented in the student's file.

### ***How does the student's Federal Pell Grant eligibility affect other federal student aid?***

The regulations for most federal student aid programs require a student to first apply for a Pell Grant and to have his or her eligibility (or ineligibility) for aid from that program determined before eligibility for aid from other programs may be determined. (Note that graduate and professional students are not eligible for Pell Grants.) For the 1997-98 award year, if a student's EFC was between zero and 2500, the student was eligible for a Pell Grant. The maximum 1997-98 grant was \$2,700 for a student with an EFC of zero. The aid administrator determines the actual amount of the award by using a table (one of the *Federal Pell Grant Payment Schedules*), which correlates the student's EFC and enrollment status with the cost of attending the postsecondary institution (see the information about calculating a student's cost of attendance on pages 7 and 8).

After the student's eligibility or ineligibility for a Pell Grant is determined, the financial aid administrator determines the student's need for a Subsidized Stafford Loan (under either the Direct Loan Program or the FFEL Program), or for aid from the campus-based program. A student is considered to have financial need if the cost of attending the school exceeds the student's EFC. However, a school may not award aid from a campus-based program if that aid plus the other resources the student will receive during the award period exceeds the student's financial need (resources include other federal student aid, fellowships, long-term school loans, etc.). Similarly, a

subsidized Stafford Loan (Direct or FFEL) plus expected financial aid other than the loan may not exceed the student's financial need. PLUS Loans and unsubsidized Stafford Loans (Direct or FFEL) do not require a need test; however, applicants must have their Pell Grant and subsidized Stafford Loan eligibility determined before they can receive final approval. A PLUS Loan or an unsubsidized Stafford Loan may be used to replace part or all of a student's EFC. Although the Federal Pell Grant Program provides funds to every eligible student, campus-based program funds are limited; therefore, a student might not receive all the aid for which he or she is eligible from those programs.

### ***How is the student's cost of attendance used to determine financial need?***

A student's "cost of attendance" is the total amount it is estimated that it will cost the student to attend the school during a period of enrollment. The financial aid administrator at the school the student is attending is responsible for calculating the student's costs based on formulas provided by law (see the box on the following page). The student's "financial need" for assistance from the federal student financial aid programs is equal to his or her cost of attendance, minus the student's EFC, minus financial aid from other sources (such as a scholarship from the school). The total aid a student received from the federal student aid programs and other sources for a period of enrollment, when added to the student's EFC, must not exceed the student's cost of attendance. Unlike aid from other federal student aid programs, there is no need test for a PLUS Loan or an unsubsidized Stafford Loan; these loans can be used to replace part or all of the student's EFC.

### ***Why might a calculation of an EFC using these worksheets differ from the EFC reported on a student's SAR?***

When it appears that an applicant has reported inconsistent data, the central processing system may make certain assumptions to resolve the inconsistency. These assumed values, which are reported on the student's SAR, are used to calculate the student's EFC. Therefore, in some cases, the EFC produced by these worksheets may differ from the EFC produced by the central processing system if the data printed on the SAR is not used.

### ***Are there any changes to the worksheets for 1998-99?***

Yes. The Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act, 1998 (Public Law 105-78) allowed the Department to increase the income protection allowances for dependent students (not for the dependent student's parents) and for independent students without dependents other than a spouse for the 1998-99 award year. The Department has increased the income protection allowance for a dependent student for the 1998-99 award year to \$2,200 (see Formula A). The Department has increased the income protection allowance for an independent student without dependents other than a spouse for the 1998-99 award year to: \$4,250 for unmarried students, \$4,250 for married students if both the student and spouse are enrolled at least half time, and \$7,250 for married students if only the student is enrolled at least half time (see Formula B).

In addition, the worksheets in the *1997-98 EFC Formula Book* indicated incorrectly that a negative total income was set to zero. Total income may be a negative number because exclusions from income may exceed the sum of the income. The worksheets have been changed to indicate that total income may be a negative number.

## Cost of attendance definition

Except as provided below, a student's **cost of attendance** is the sum of the following:

1. The tuition and fees normally assessed a student carrying the same academic workload, including costs for rental or purchase of equipment, materials, or supplies required of all students in the same course of study;
2. An allowance for books, supplies, transportation, and miscellaneous personal expenses;
3. For *a student without dependents living at home with parents*, an allowance for room and board of not less than \$1,500; or, for *a student without dependents living in institutionally owned or operated housing*, a standard allowance for room and board based on the amount normally assessed most residents; or, for *all other students*, an allowance of not less than \$2,500 based on reasonably incurred room and board expenses for such students;
4. For a student with dependents, an allowance based on the estimated actual expenses incurred for dependent care (during periods that include, but are not limited to, class-time, study-time, field work, internships, and commuting time for the student) based on the number and age of such dependents, not to exceed the reasonable cost in the community in which the student resides for the kind of care provided;
5. For study abroad programs approved for credit by the student's home institution, reasonable costs associated with such study;
6. For a student with a disability, an allowance for expenses related to a student's disability including special services, personal assistance, transportation, equipment, and supplies that are reasonably incurred and not provided for by other agencies;
7. For students placed in a work experience under a cooperative education program, an allowance for reasonable costs associated with such employment; and
8. For students receiving SFA loans, the fees required to receive them (for example, the loan fee for a Direct Loan or the origination fee and insurance premium for an FFEL Loan). Schools may also include the fees required for nonfederal student loans (that is, nonfederal loans that must be considered resources for the student when packaging). In all cases, the school can either use the exact loan fees charged to the student or an average of fees charged to borrowers of the same type of loan at that school.

Exceptions:

- ❖ **Less than half-time students**—A student's cost of attendance can include only tuition and fees, an allowance for books, supplies, and transportation, and an allowance for dependent care expenses in accordance with item #4 above.
- ❖ **Incarcerated students**—An allowance for tuition and fees and, if required, books and supplies. No other expenses can be included. An incarcerated student is ineligible to receive an SFA loan. If the student is incarcerated in a federal or state penal institution, he or she may not receive a Pell Grant.
- ❖ **Correspondence study students**—Generally, a student's cost of attendance can include only tuition and fees. However, if the student is fulfilling a required period of residential training, the student's cost of attendance can also include required books, supplies, travel, and room and board costs specifically incurred.
- ❖ **Students receiving instruction by telecommunications**—No distinction shall be made regarding the mode of instruction in determining costs, except that the cost of rental or purchase of equipment cannot be included as an element of the cost of attendance. However, if the financial aid administrator determines using his or her professional judgment under section 479A of the HEA that a course of instruction offered through telecommunications results in a substantially reduced cost of attendance to the student, the financial aid administrator must reduce the student's eligibility for grants, loans, or work-study assistance.