



2019 ANNUAL CONFERENCE

Why Two EFCs – Comparing FAFSA & CSS Profile Need Analyses

#HECA2019RI



Agenda

- Why colleges don't use FM only
- College Board messaging about IM
- Basic need analysis; why do FM and IM differ
- Comparing FM and IM
 - Income
 - Assets
 - Allowances
 - Adjustments
- College to college variations: equity, other

What is Need Analysis?

- Need analysis is a rationing tool, a way to allocate limited gift aid
- Determines EFC by evaluating a family's economic resources
- EFC not what family pays, it is their rank in terms of neediness compared to all other students
- $\text{Need} = \text{COA} - \text{EFC} = \text{potential eligibility}$
 - COA = Cost of Attendance
 - EFC = Expected Family Contribution
- Lower EFC means higher need; if $\text{EFC} \geq \text{COA}$ then no need

Federal Methodology Need Analysis

- Purpose: To allocate federal need-based aid
 - Federal: Pell, SEOG, work/study, subsidized loans
 - States: Need based aid often driven by FM EFC
 - Colleges: Is FM effective for institutional aid?
- Congress sets Pell budget each year
- Pell eligible if FM EFC $\leq 5,576$; max Pell = \$6,195
- Congress/ED levers for Pell distribution
 - Move grant amount / maximum grant up or down
 - Adjust the FM EFC cutoff up or down
 - Adjust formula, e.g. asset protection allowance

Why a Second Formula

- FM is pretty good at determining that poor people are poor
- FM not as good in assessing differences among moderate or middle income families
- Perceived loopholes in FM
 - Exclusion of “small” businesses (100 employees)
 - Ability of business owners to control AGI compared to W2 employees
 - Stability of homeowners relative to renters
- FM basis: Old econometrics & static statutes
- Colleges want to control college-funded aid

College Board's Messaging on IM

- Institutional Methodology administered by College Board based on CSS Profile
- Horizontal equity – Families with similar financial strength will have similar need
- Vertical equity – Families with fewer resources have more need than those with more resources
- Compared to merit aid or FM, IM targets aid better, benefiting colleges and students
- IM formula secrecy “protects families”
- IM values in this presentation from last available year, AY 2010-2011 – from public sources

FM is FM, But No Standard IM

- Each IM college has its own version of IM
- Consensus Methodology – Not a separate methodology, rather a set of common practices to implement IM among §568 schools
- Alternatives to IM
 - Collect IM-type info without using Profile
 - Adjust income or assets but apply FM tables
- Competitors to IM: OM – “O” for other (or open)
 - Need Access had OM for grad schools but couldn’t succeed in college market with a 3rd methodology
 - Only 150 IM schools, market is small

EFC: Determines Need-aid Eligibility

Two EFC formulas – FAFSA & Profile – but same basic approach

	Parent(s)	Student
Income	Parent Contribution from Income (AGI + untaxed)	Student Contribution from Income (AGI + untaxed)
Assets	Parent Contribution from Assets	Student Contribution from Assets
	Parent Contribution	Student Contribution

$$PC + SC = EFC$$

Basic Need Analysis Model

Assessment function applied to:

Assessable income / assets as reduced by various allowances

What's an assessment function?

	Parent(s)	Student
INCOME		
AGI		
Plus: Untaxed Income		
Less: Exclusions		
Equals: Total Income		
Less: Allowances		
Equals: Available Income		
Apply Assessment Function		
Equals: Contribution from Income	PCI	SCI
ASSETS		
Sum of asset values		
Less: Allowances		
Equals: Discretionary Net Worth		
Apply Assessment Function		
Equals Contribution from Assets	PCA	SCA
Adjustments for family circumstances:		
Multiple children in college		
Non-custodial parent		

Why doesn't FM EFC = IM EFC?

Different definition of income

Different allowances

Different assessment function

Different definition of assets

Different allowances

Different assessment function

Different adjustments

Table A6: Parents' Contribution from AAI

If the parents' AAI—	Then the parents' contribution from AAI is—
Less than -\$3,409	-\$750
\$-3,409 to \$16,400	22% of AAI
\$16,401 to \$20,500	\$3,608 + 25% of AAI over \$16,400
\$20,501 to \$24,700	\$4,633 + 29% of AAI over \$20,500
\$24,701 to \$28,900	\$5,851 + 34% of AAI over \$24,700
\$28,901 to \$33,100	\$7,279 + 40% of AAI over \$28,900
\$33,101 or more	\$8,959 + 47% of AAI over \$33,100

Income: Same for FM & IM

Taxable Income

AGI

Untaxed Income

Pre-tax payments to tax deferred retirement plans

Tax-free contributions to Health Savings Account

Tax-exempt interest

Child support received

Untaxed retirement distributions (but not rollovers)

Housing, food, living allowances (eg clergy, military, resident advisor)

Veterans non-education benefits

Untaxed disability, workers comp, railroad retirement, black lung, refugee aid

Gifts and cash support to student from other than custodial parents

Other (undefined)

Exclusions from Income (called "Additional Financial Info" on FAFSA)

Child support paid

Excluded Income: Same for FM & IM

Items not considered in FM need analysis, excluded by statute

Student financial aid

Employer paid tuition assistance

TANF, SNAP, WIC

Americorps living allowances

Foreign income exclusion

Tax credit for special fuels

Veterans education benefits

Per capita payments to Native Americans (up to \$2K)

Dependent care assistance (up to \$5K)

Items not considered in FM need analysis, excluded by Dept of Ed

Foster care benefits

Adoption assistance payments

Heating assistance (LIHEAP)

Rent subsidies for low income housing

Non-elective retirement or pension contributions

Income: Different for FM & IM

Taxable Income

Tax losses such as capital, rental, business (entered on Profile as a positive number)

Colleges may look at multiple activities independently, ie income from one activity may not "cancel" loss from another

FM

Reduces AGI

IM

Added to income

Depreciation, amortization, sometimes business use of the home (entered on Profile as a positive number)

If activity has loss, only add amount of depreciation/amortization exceeding the loss

Reduces AGI

Added to income

Untaxed Income

Money given to parents or bills paid on their behalf

Money given to students included for both FM and IM, but FM does not include money given to parents

No impact

Added to income

Excluded Income: Different for FM & IM

Exclusions from Income (called "Additional Financial Info" on FAFSA)

Education tax credits

Many IM colleges don't allow exclusion (increases EFC compared to FM), but some add to Federal income tax allowance (decreases EFC, in effect conforming to FM)

FM

IM

Reduces income

See note

Taxable earnings, parent need-based student work
Need-based work excluded for students, not parents

Reduces parent income

No impact

Taxable portion of parent scholarships
Taxable aid excluded for students, not parents

Reduces parent income

No impact

Taxable combat pay

Reduces income

No impact

Excluded Income: Different for FM & IM

Items not considered in FM need analysis, excluded by statute

Untaxed Social Security, SSI

FM

No impact

IM

Added to income

Earned income tax credit, Additional child tax credit

No impact

Added to income

Items not considered in FM need analysis, excluded by Dept of Ed

Pre-tax contributions to Section 125 FSA plans

No impact

Added to income

*IM income includes contributions to Section 125 accounts,
not payments from the accounts*

Assets: Same for FM & IM

FM assets, reported as value minus debt directly and legally secured by the asset

- Cash, savings, checking
- Investments including: CDs, Brokerage accounts, stocks, bonds, mutual funds, vested stock options & restricted stock, ETFs, hedge funds, REITs, private equity, virtual currency
- Real estate other than primary home, including vacation, investment properties, and portion of primary residence used to produce income (eg rentals in multi-unit building)
- Installment contracts including mortgages held
- Custodial accounts (except for 529s owned by UGMA/UTMA, UGMA/UTMA custodial accounts are reported as asset of the owner, not the custodian)
- Trust funds regardless of whether funds are accessible except if restriction is due to involuntary court order – if trust has multiple beneficiaries, report asset in proportion to beneficiary's claim on the trust
- College savings accounts: 529, Coverdell (education IRA), Prepaid tuition plan - student owned accounts reported as parent asset
- Businesses with 100 or more employees or of any size if not owned and controlled by student's family
- Farms if the family does not materially participate or does not maintain primary residence on the farm

Excluded Assets: Same for FM & IM

Assets not included in need analysis

- Qualified retirement plans including 401(k), 403(b), pensions, annuities, IRAs (traditional & Roth) Keogh, SEP, SIMPLE, profit sharing
- Life insurance policies
- Personal property such as clothing, furniture, cars
- Property received by native American students under Maine Indian Claims Settlement Act, Per Capita Act, Distribution of Judgment Funds Act, Alaska Native Claims Settlement Act

Assets: Different for FM & IM

Assets that count for IM but are not included in FM

Family's principal residence

Assets in the name of the student's siblings (excludes siblings' nominal assets)

Family farm if it is primary residence and family materially participates in the farming operation

Businesses owned and controlled by the family and having fewer than 100 employees

Home Equity is source of major variations in need analysis



IM colleges feel that all things being equal, homeowners have more financial strength than renters ...

Nevertheless, how to equitably assess home equity is unclear for several reasons

1. Home may be part of retirement plan, tapping it can jeopardize plan
2. Home may have appreciated out of proportion of family's ability to buy a similar home
3. Home equity may not be available if family doesn't have the income to support payments on debt the home could theoretically collateralize

Parent Allowances

Parent Income Allowances, FM

- Federal Income Tax
- FICA Allowance
- Allowance for State & Other Taxes
- Income Protection Allowance
- Employment Expense Allowance

Parent Asset Allowances, FM

- Business/Farm Net Worth Adjustment
- Education Savings and Asset Protection Allowance

Parent Income Allowances, IM

- Federal Income Tax (same as FM)
- FICA Allowance (same as FM)
- Allowance for State & Other Taxes
- Income Protection Allowance
- Employment Expense Allowance
- Medical/Dental Expense Allowance (if expense exceeds 3.5% of income)
- Pre-college Tuition Allowance
- Annual Education Savings Allowance

Parent Asset Allowances, IM

- Business/Farm Net Worth Allowance
- Emergency Reserve Allowance
- Cumulative Education Savings Allowance
- Low Income Asset Allowance

Student Allowances

Student Income Allowances, FM

- Federal Income Tax
- FICA Allowance
- Allowance for State & Other Taxes
- Income Protection Allowance
- Allowance for parents' negative Adjusted Available Income

Student Asset Allowances, FM

- None, Student assets assessed at 20%

Student Income Allowances, IM

- Federal Income Tax (same as FM)
- FICA Allowance (same as FM)
- Allowance for State & Other Taxes
- Test 1: Minimum Student Contribution
- Test 2: Very Low Parent Contribution Limit

Student Asset Allowances, IM

- None, Student assets assessed at 25%

Adjustments

Multiple children in college, FM

Parent contribution divided by the number of children in college (except those attending military academies)

Parent(s) contribution to EFC is the same, regardless of number in college – PC never exceeds 100% of unadjusted calculation

Children in graduate school qualify as part of the number in college if the parent(s) provide more than 50% of the graduate student's support

Non-custodial parent, FM

Non-custodial parent excluded from EFC but support other than child support counts as untaxed income to student

Multiple children in college, IM

Parent contribution adjusted, but not as much as in FM

Parent(s) contribution to total college cost is somewhat higher – PC for 2 students is 60% each, so total PC for 2 is 120% of PC for 1; PC for 3 students is 45% each, total PC for 3 is 135%

Children in graduate school generally do not count as part of number in college

Some colleges reduce the benefit of the adjustment if other students attend lower cost colleges such as in-state public or community college

Non-custodial parent, IM

Non-custodial parent (and spouse if applicable) included in EFC, support not counted as untaxed income

Home Equity Variations in IM

Home Equity Variations

Some colleges substitute a home value imputed for inflation for the reported home value
Value (before debt) equals greater of purchase price x multiple based on inflation since purchase date OR reported value – If college imputes value and also caps, it will use imputed value in calculating the caps

Many colleges cap home equity as a multiple of income – 1.2 is common
Use the lesser of (value minus debt) or $1.2 \times IM$ income

Some colleges cap home value as a multiple of income, then subtract debt – eg 2 or 3x
Use the lesser of (value minus debt) or $(3 \times IM \text{ income})$ minus debt

Colleges that cap may either

1. Use capped value as default, while allowing exceptions for unusual circumstances, OR
2. Default to uncapped value, capping in cases of unusual circumstances

Some IM colleges don't cap, or don't consider equity, or some other variation

In case of family farm, IM may allocate value among residence and operating farm in calculating EFC

Other IM Variations

Imputed Values

Substitute a value imputed for inflation for reported real estate value

Value (before debt) equals greater of purchase price x multiple based on inflation since purchase date OR reported value

Impute investment asset values based on interest and dividend income

Use the greater of (interest + dividends) ÷ presumed rate of return (eg 3 or 4%) or reported value

Other Variations

Combine student and parent assets (excluding student trusts), assess at parent rate

Philosophy is that parents are source of student assets so not penalized for putting in student name

Use higher of FM or IM EFC (or use higher of FM or IM PC or SC)

Substitute different assessment table

FM assessment based on 1967 Bureau of Labor Statistics adjusted for inflation; IM uses Consumer Expenditure Survey data in which allocations change from time to time – College Board changed table around 2009, impact on families was a few hundred dollars but impact on one mid-sized school was \$1.5M

Other IM Variations

Other Variations

Different summer earnings expectations for first-years vs later years

Summer earnings expectation is a term for the minimum student contribution

Different summer earnings expectations for lower income students

COLA adjustment – Some colleges increase Income Protection and Emergency Reserve Allowances to reflect higher cost-of-living in major metro areas

Not uncommon for colleges not to use Medical or Pre-college Tuition Allowances

Special allowances: rental allowance, special farm discount

Special rules such as Harvard: Zero EFC if parent income < \$65K; If family income between \$65-150K EFC = 0-10% of income; Family income > \$150K pay proportionately more than 10%. All subject to adjustment if families of any income have significant assets
In this example Harvard still uses IM definitions of income and assets, with variations as it chooses, then uses its custom need analysis

Unfair Question: What Will Parents Pay

- Some colleges will use the higher of their calculated PC or the answer to this question
- After asking families to bare their financial souls so colleges can decide what they'll pay, colleges have the nerve to ask this question
- But will answering zero harm admission prospects at a need-aware college?
- One approach: enter $\frac{1}{3}$ or $\frac{1}{2}$ of EFC

How much does the student expect to receive from the following sources to pay for educational expenses for the 2018-19 academic year?

The student's parents*	<input type="text"/>
Other relatives (and any other sources) to help pay for college expenses*	<input type="text"/>

Provide the best estimate of what the student's parents completing this application plan to pay from their income and assets.

Do not include amounts they plan to borrow.

Do not include amounts from family members other than the parents.

Unfair Question: Other Income/Asset

- After defining and asking questions about often obscure elements of income & assets, they ask open-ended: “Is there anything else?”
- Problem is that people may come to different conclusions as to what to enter due to innocence, naivete, hope, or other motives
- If they can itemize things like black lung benefits, they can surely do a better job of defining what constitutes “other income or assets”

Divorced/Separated in IM

- Divorced or separated parents: Generally sum of each biological parent's PC calculated as if the student were a member of each parent's household
- If biological parent has remarried do need analysis including new spouse, then either:
 1. Divide combined PC by two for that parent's PC,
OR
 2. Multiply combined PCI by biological parent's proportion of earned income to total earned income, add to 50% of PCA

Need-Blind / Need-Aware

- Vast majority of colleges are need-blind
- Easy to be need-blind if you don't meet need
- Two categories of need-aware colleges
 - Those meeting full need: eg Colby, Bates, Colorado
 - Those that gap: eg Wheaton (MA), Stonehill
- Need-aware colleges that meet need usually use IM; Need-aware schools that gap frequently do
- Arguably more responsible to be need-aware if the college otherwise would not meet need
- Many need-aware colleges limit aid if student does not apply when applying for admission

Colby: After Year 1

While our admissions process is need-aware, we'll meet 100 percent of your demonstrated financial need if you are admitted...

Students who do not apply for financial aid prior to admission will not be considered for College grant assistance until their junior year, unless their family financial circumstances change unexpectedly.

Skidmore: After Year 1

What happens if I did not initially receive financial aid from Skidmore College as a freshman, but later find out I need to apply?

Those students admitted without Skidmore College grant assistance are normally first eligible to receive such aid, if need is demonstrated, in their junior year.

Others: After Year 1

Case Western: Please note, families who anticipate applying for financial aid at any point in the four years must complete our financial aid application requirements for the student's first year in order to be eligible for need-based financial aid in subsequent years.

Colorado College: Policy similar to Case Western

Bates: Students who do not apply for aid as incoming students are welcome to apply in subsequent years if their family circumstances change.

Why IM Should Be Public

- Secrecy reduces competition among colleges
- Reduces competition among NPC vendors
- Paternalistic attitude hinders good planning
- Unintentional blunders – most would also be blunders in FM, which is open, but ...
- Some aid officers say opening IM can help people cheat – what if tax rules were secret?
- Secrecy exacerbates inequity – people answer questions differently because opacity makes the questions less comprehensible
- Secrecy diminishes trust between college & family

Who Advises Families if IM is Secret

- College financial aid officers are among the few resources for help understanding IM
- FAOs routinely recommend that students and families seek out financial aid for help
- Can FAOs offer quality advice, especially about other colleges?
- Some may not be fully aware of how other colleges award need- or merit-aid
- FAOs are busy – how much can they help?
- FAOs have inherent conflict – their college wants to recruit students

Resources

- Schools using Profile - <https://profile.collegeboard.org/profile/ppi/participatingInstitutions.aspx>
- Profile user tutorial (long) - <https://cb.collegeboard.org/css-profile/tutorial/>
- Economic rationale for IM (2004) – https://finaidonline.collegeboard.com/fin/VignetteServlet/VignetteServlet.srv?relativePath=/profile/pdfs/Primer_Baum.pdf
- College Board website for financial aid professionals – <https://professionals.collegeboard.org/higher-ed/financial-aid>
- College Board Professional Judgment tip sheets – <https://professionals.collegeboard.org/higher-ed/financial-aid/im/tips>
- Consensus Methodology: 568 Group website – <http://www.568group.org/home/>
- Consensus Methodology: 2006 GAO summary on effect of CM – <https://www.gao.gov/products/GAO-06-963>
- Consensus Methodology: 2006 GAO report (97 pages) on effect of CM with rebuttal from CM schools, with tables comparing FM, standard IM, CM; although some information is dated it's still interesting and helpful – <https://www.gao.gov/assets/260/251608.pdf>

Questions



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