

Understanding EFC Calculations

-An Introduction to
Hand Calculation for
Financial Aid
Administrators



CAPFAA Comprehensive Training

March 15, 2018

Agenda

- What is the EFC?
- Why do I need to know this?
- Information Sources
- Dependent vs. Independent
- 3 Formulas
- Simplified Needs and Auto Zero
- Assumptions
- Formula Details and Hints
- Hand Calcs Step-by-Step
- Discussion



What is the EFC?



- Expected Family Contribution
- Measure of financial strength, including borrowing power
- Determines eligibility for Federal Aid
 - $COA - EFC = \text{Need}$
- Federal Methodology
 - Formulas used with FAFSA data

Why do I need to know this?

- Counseling students and families
- Finding FAFSA errors
- Finding conditions to override assumptions
- To PJ or not to PJ
- Information System testing



Information Sources

- Federal Register (May-ish)
- Application and Verification Guide (AVG) (summer)
 - The EFC Formula
 - Check for changes to thresholds and allowances each year!
 - Information for Financial Aid Professionals
 - <https://ifap.ed.gov>
 - Laws & Regulations: Federal Registers
 - Handbooks (AVG in here)
- EDE Technical Reference (assumptions - Summer)
- Free Application for Federal Student Aid (FAFSA)
- Summary of Changes for the Application Processing System Guide (fall)



Qualification for Independent Status (2018-2019) – continued next slide, any one...



- Student born before January 1, 1995
- Student married or separated at time of application
- For 1819, enrolled in Master's or Doctoral program
- Currently active duty US Armed Forces or Nat'l Guard/ Reserves called into federal active duty
- Veteran of US Armed Forces (see definition in AVG)
- Has child(ren) receive more than $\frac{1}{2}$ support from student from July 1, 2018 – June 30, 2018



Qualification for Independent Status (2018-2019) – continued

- Has legal dependents who live with and receives more than $\frac{1}{2}$ support from student through June 30, 2019 (see AVG)
- Prior to age 13, both parents were deceased, or student was in foster care, or student was ward of the court
- As determined by Court in state of legal residence, student is legally an emancipated minor
- As determined by Court in state of legal residence, student is in legal guardianship

Qualification for Independent Status (2018-2019) – continued



- On or after July 1, 2017, student was determined by:
 - HS or school district's homeless liaison
 - Director of emergency shelter, runaway/ homeless youth basic shelter, or transitional housing/living program
 - College Financial Aid Administrator
- ...to be unaccompanied homeless youth -OR- self-supporting and at risk of homelessness

Three EFC Formulas



- Formula A – Dependent Students
- Formula B – Independent Students withOUT Dependents other than a spouse
- Formula C - Independent Students WITH Dependents other than a spouse

1819 Simplified Needs - Dependent



Parent & Student assets are not counted when
Parents' Combined 2016 income is \$49,999 or less
AND any one condition met:

- Anyone in Parent's Household had means-tested benefit in 2016 or 2017
- Parent(s) filed or were eligible to file 2016 IRS 1040A or 1040EZ or not required to file
- Parent is a dislocated worker

1819 Simplified Needs - Independent



Student/Spouse's assets are not counted when Student/Spouse Combined 2016 income is \$49,999 or less AND any one condition met:

- Anyone in Student's Household had means-tested benefit in 2016 or 2017
- Student (and spouse if married) filed or were eligible to file 2016 IRS 1040A or 1040EZ or were not required to file
- Student (or spouse if married) is a dislocated worker

Who Can File 1040A / 1040EZ?



Generally people may file these forms when they:

- Make less than \$100,000 per year
- Do not itemize deductions (other than to claim American Opportunity or Lifetime Learning Tax Credits)
- Do not receive income from a business or farm
- Do not receive self-employment income
- Does not receive alimony
- Do not file Schedule D for Capital Gains

1819 Auto Zero - Dependent

EFC is automatically \$0 when Parents' Combined 2016 income is \$25,000 or less...

- Tax filers: AGI
- Nonfilers: Income from work

AND any one condition met:

- Anyone in Parent's Household had means-tested benefit in 2016 or 2017
- Parent(s) filed or were eligible to file 2016 IRS 1040A or 1040EZ or not required to file
- Parent is a dislocated worker



1819 Auto Zero - Independent



NOT AVAILABLE FOR FORMULA B!

EFC is automatically \$0 when Student/Spouse Combined 2016 income is \$25,000 or less...

- Tax filers: AGI
- Nonfilers: Income form work

AND any one condition met:

- Anyone in Student's Household had means-tested benefit in 2016 or 2017
- Student (and spouse if married) filed or were eligible to file 2016 IRS 1040A or 1040EZ or were not required to file
- Student (or spouse if married) is a dislocated worker

Assumptions – Parent Data



- # in college 7 or more, assume 1
- Adjusted Gross Income = \$0 when there is income from work, assume AGI = income from work
- Additional Financial Information high percentage of income, assume AFI = \$0

If valid, override in system!

Assumptions – Student Data



- # in college = household size (Indie Student), assume 1
- Adjusted Gross Income = \$0 when there is income from work, assume AGI = income from work
- Additional Financial Information high percentage of income, assume AFI = \$0

If valid, override in system!

About All FM EFC Formulas - Continued

Untaxed Income is part of Total Income and includes:

- Payments to tax-deferred or sheltered pension and savings plans
- Deductible IRA or Keogh payments
- Child Support Received
- Tax-exempt interest income
- Untaxed IRA distributions, pension, or annuity payments
- Housing, food, and other living allowances
- Veterans' noneducational benefits
- Untaxed income not reported elsewhere (e.g., WC) but EXCLUSIONS APPLY! (e.g., FSA, untaxed SS benefits, etc.)
- Student only: Money received from persons (other than Dependent student's parents) to pay bills and expenses



About All FM EFC Formulas - Continued

Additional Financial Information is subtracted from Total Income and includes:

- Education Tax Credits
- Child Support Paid
- Taxable earnings from need-based work programs like FWS
- Taxable grant and scholarships
- Combat pay
- Co-Op education program earnings



About All FM EFC Formulas - Continued

Assets do NOT include:

- Cars, boats, furniture, etc.
- Principle place of residence
- Family farm, if it is the principal place of residence (and parents or independent student participate)
- Businesses owned 50% or more by family and have 100 or fewer full-time-equivalent employees
- Value of retirement savings and whole-life insurance
- Certain excluded assets for Native Americans



About Formula A – continued next slide



- Dependent Students
- Auto Zero and Simplified Formula possible
- Parent Income Protection Allowance depends on HH size and @# in college
- Parent Employment Expense Allowance depends on whether one or both parents in HH working
- Education Savings & Asset Allowance dependent on oldest parent's age as of December 31, 2018
- Parent Contribution from Assets at 12% of Discretionary Net Worth

About Formula A - continued

- Only percentage of Parent Adjusted Available Income used, depending on AAI
- Different State & Other Tax Allowance table for Parents vs. Dependent Students
- Dependent Student IPA set at \$6570
- No Adjusted Net Worth of Business for Dependent Student
- Dependent Student Contribution from Assets at 20% of Net Worth



About Formula B – continued next slide

- Independent Students
- No Auto Zero possible
- Simplified Formula possible
- Income Protection Allowance depends marital status and whether spouse also ½-time student
- Employment Expense Allowance depends marital status and whether both student & spouse are working



About Formula B - continued

- Asset Protection Allowance dependent on marital status and student's age
- Contribution from Assets at 20% of Discretionary Net Worth
- Full Available Income used, no adjustment

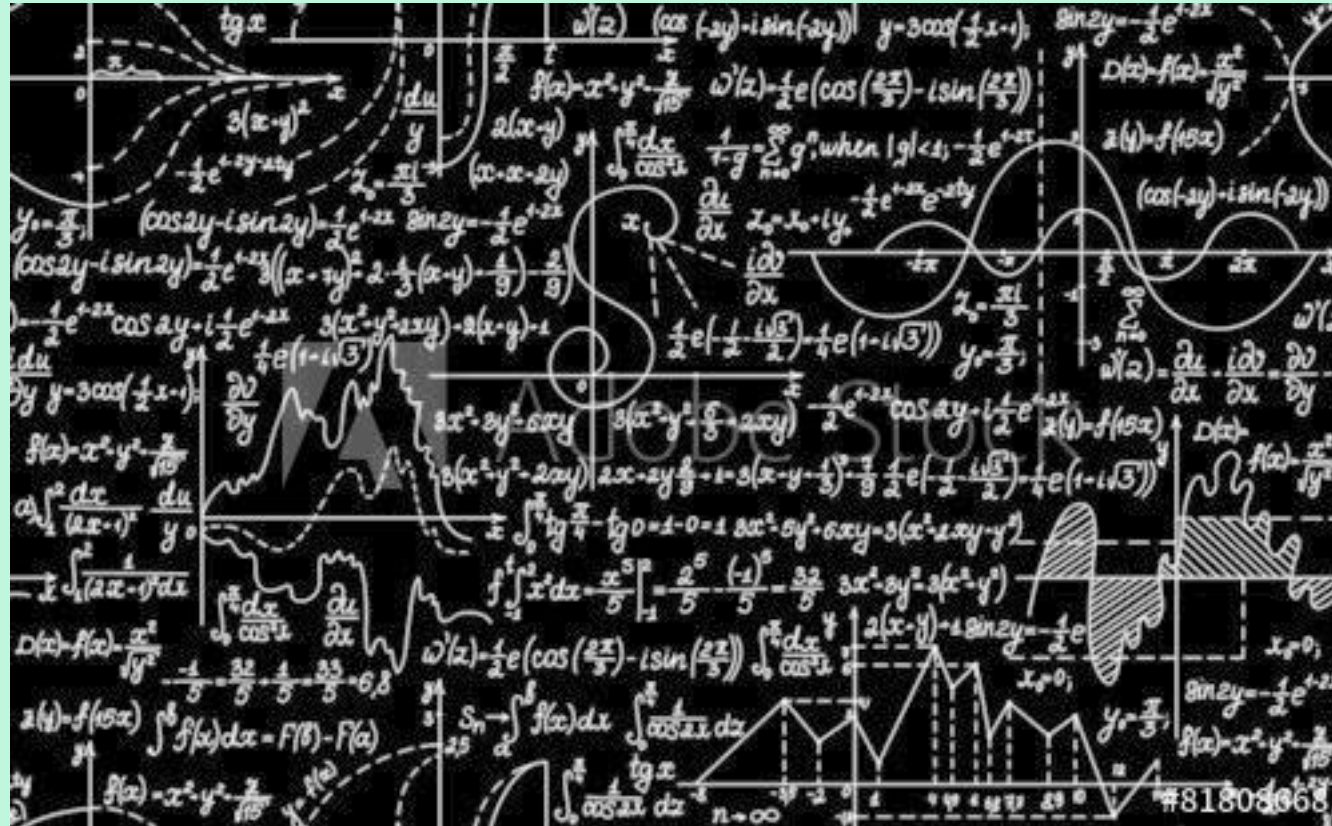


About Formula C – continued next slide

- Independent Students
- Auto Zero and Simplified Formula possible
- Income Protection Allowance depends household size and # in college
- Employment Expense Allowance depends marital status and whether student & spouse are working



Let's Do Some Hand Calcs!



No, it will not be this bad – Promise!

Discussion

- What is one thing you will use back at work tomorrow?
- Can this information be used to help students & families? How?
- Did anything surprise you? What?
- What is something related to EFC calculations that you want to know more about?
- Where can you find more information?

