

Federal Need Analysis

Instructor's Notes

Time Estimate:

Lecture 30 minutes

Exercise 10 minutes

Total Time: 40 minutes

By the end of this session, you will be able to:

- **perform need analysis and**
- **properly use an estimated EFC, official EFC, and school-recalculated EFC.**

INTRODUCTION

We'll venture through need analysis by discussing the theory of federal need analysis and using worksheets to calculate Chris Jackson's Expected Family Contribution (EFC). Also, we will discuss the use of an **estimated EFC** (your calculation), the **official EFC** (the calculation from the Central Processing System [CPS]), and the **school-recalculated EFC** (your adjustment of the official EFC).

Although we will calculate a student's EFC, we will not perform every step of this process. To get all the details, you need a copy of *The 1997-98 EFC Formula Book*, which can be ordered by calling 1-800-433-3243. (OH 1)

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WHAT IS FEDERAL NEED ANALYSIS?

In a nutshell, federal need analysis is the process of determining a student's Expected Family Contribution (EFC).

In Session 12, we discussed Chris Jackson's FAFSA. In Sessions 13 and 14, we discussed obtaining and interpreting the FAFSA results.

In this session, we'll examine how the data from the FAFSA are processed by the CPS to calculate an EFC.

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Q: What are some reasons that you might need to calculate a student's EFC, even though the CPS produces an official one?

A: You might want to construct a tentative financial aid package.

You can use your professional judgment in individual cases to change an applicant's data elements used in the EFC calculation. If you don't understand the calculation, you might make an inappropriate adjustment.

You can better explain eligibility to students and answer that age-old student question, "Why is my EFC so high?"

The formulas used to calculate an EFC for Title IV programs are mandated by Congress.

These formulas:

- measure a family's financial strength from income and assets;
- recognize a family's basic subsistence expenses (food, shelter, and other family needs) according to family size;
- provide offsets for certain expenses (employment expenses, Social Security, and income tax) that may be deducted from a family's total income; and
- provide asset reserves (or a protection allowance) to protect a portion of a family's net assets.

THE EFC WORKSHEETS

A student's EFC for Title IV programs can be calculated using the appropriate worksheet. All the worksheets are in your Workbook, beginning on page 2. Please turn there now.

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There are three EFC formulas for federal need analysis. A worksheet corresponds to each of them. As listed in your Workbook, the three worksheets are: (OH 2)

- Worksheet A—Dependent Student;
- Worksheet B—Independent Student (with no dependents other than a spouse); and
- Worksheet C—Independent Student (with dependents other than a spouse).

A simplified version of each worksheet, which contains fewer data elements, is available for students who qualify for the Simplified Needs Test (SNT) on the FAFSA.

- During our FAFSA discussion, we explained Worksheets A and B on page 7 of the FAFSA's instructions. Because of income levels and types of tax returns required, those qualifying for the SNT were able to leave the asset section of the FAFSA blank.
 - The simplified worksheets even apply to parents and students who completed the asset section of the FAFSA, **but didn't have to do so.**

Automatic Zero EFC

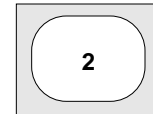
Students who qualify for the SNT may also automatically be eligible for what is known as an automatic zero EFC.

This occurs if: (OH 3)

- a **dependent** student's parents' income is \$12,000 or less, or
- an **independent** student with **dependents other than a spouse** earns \$12,000 or less per year.

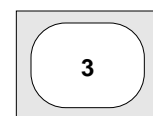
If either of those situations is true, along with qualification for the SNT, you need not calculate the student's EFC. The EFC is zero.

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Professional Judgment

Sometimes students will come to you with unique situations that aren't clearly covered by federal regulations and formulas.

You may use professional judgment to address exceptional circumstances.

Remember, you must always **carefully document any use of professional judgment** in the student's file. We will discuss professional judgment in greater detail in Session 17.

Before we get into the case study, are there any questions?

CASE STUDY

You'll need to retrieve Chris's FAFSA from pages 7-10 of Session 12 to use in this exercise. Your Workbook contains the other needed charts and worksheets.

Before you calculate an EFC, you must ask yourself some questions. Use Chris's FAFSA and the need analysis worksheets to answer the questions on page 27 of your Workbook.

» Allow participants 2 minutes to complete the exercise.

Q1: Is Chris an independent or a dependent student?

A1: Dependent. In Section D of her FAFSA, Chris marked "No" to all of the questions.

Q2: Which worksheet must you use for Chris? Why?

A2: Worksheet A. Chris is a dependent student.

Q3: Can you use the simplified version of the worksheet? Why or why not?

A3: Yes, because Chris qualifies for the Simplified Needs Test. On Worksheet B on page 7 of the FAFSA instructions, the answer to Question 1 is

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“No,” as Chris’s parents indicated on page 3 that they filed a 1040A, EZ, or TEL. The answers to Questions 2 and 3 are both less than \$50,000. Chris and her parents filled out Section G—Assets—on the FAFSA, *but they did not have to*. Therefore, the simplified worksheet is applicable.

Q4: Does Chris qualify for an automatic zero EFC? Why or why not?

A4: No. Her parents qualify for the Simplified Needs Test, but their AGI is not \$12,000 or less. Therefore, you must still perform the EFC calculation.

Chris Jackson’s Need Analysis

Parents’ Income in 1996 (lines 1-7)

Let’s start with the first section of Worksheet A—Parent’s Income in 1996 on page 28 of your Workbook. For time’s sake, some of the answers are already filled in for you. Please complete Numbers 3, 5, and 7.

» Allow participants 2 minutes to complete the exercise.

Q: What is Chris’s parents’ Total Income? (OH 4)

A: \$22,261. They have no untaxed income to factor in.

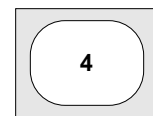
Notice that Number 3 of this section alerts you to the possibility of an automatic zero EFC. Since Mr. and Mrs. Jackson’s taxable income exceeds \$12,000, though, they are not eligible.

What questions do you have about the first section?

Allowances Against Parents’ Income and Available Income (lines 8-15)

Now go on to Allowances Against Parents’ Income. For Number 9, you’ll need to refer to Table A1 on page 8 of your

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Workbook. Please complete Numbers 9, 13, and 14 on Worksheet A.

» Allow participants 2 minutes to complete the exercise.

Q: What results did you get for Number 9—State and other tax allowance and Number 13—Employment Expenses?

A: \$1,781. The percentage to use from the table is 8%. And \$2,700, which is less than 35% of the lesser of the earned incomes.

Q: What are Chris's parents' Total Allowances? (OH 5)

A: \$29,483. This is the amount that will be protected.

Do you have any questions here?

Now calculate the Available Income.

» Allow participants 1 minute.

Q: What is the Available Income? (OH 6)

A: -\$7,222. As the note says, a negative number is fine.

If Chris's parents had been **required** to report their assets, the asset section would need to be completed. However, since her parents only volunteered the information on the FAFSA, the assets are not considered during need analysis.

Parents' Contribution (lines 27-30)

Notice that Parents' Contribution from Assets is shaded. This is because Chris and her parents qualify for the Simplified Needs Test, so their assets are not considered.

Using what you have found, calculate Chris's Parents' Contribution.

» Allow participants 1 minute.

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Q: What will Chris's parents be contributing? (OH 7)

A: Zero. They will not contribute to Chris's EFC.

Are there any questions about this calculation?

Let's turn to Chris. Her contribution must be added to her parents' contribution in order to get her EFC. Much of her worksheet is already completed. Notice that her assets also are not considered.

Also, notice Number 41—Income Protection Allowance. This \$1,750 is a built-in protection for dependent students.

Complete the Expected Family Contribution section of the worksheet.

» Allow participants 1 minute.

Q: What is Chris's EFC? (OH 8)

A: Zero. Neither Chris nor her parents have any funds to contribute.

Are there any questions about her EFC?

This case study offered a quick look at need analysis. We are not going into any more detail about the calculations, but we do suggest, once again, that you get a copy of *The 1997-98 EFC Formula Book*.

Remember, even though the CPS automatically produces an EFC, you will need to perform the calculations yourself sometimes in exceptional circumstances.

EFC ADJUSTMENT FOR OTHER THAN 9-MONTH ENROLLMENT

The need analysis we performed and resulting EFC we calculated was for a 9-month enrollment period. For **dependent** students, the law specifies how schools must adjust EFCs for enrollment periods that are not equal to 9 months. (OH 9)

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- This adjustment is included on the third page of both versions of EFC Worksheet A; these are on pages 4 and 7 of your Workbook.
- As a service to schools, the CPS calculates EFCs for dependent students who are enrolled for periods other than 9 months. These adjusted EFCs are printed at the bottom of SARs, SAR Information Acknowledgments, and ISIRs from the CPS.

For **independent** students with periods of enrollment other than 9 months, the law does not specify how EFCs should be adjusted. (OH 10)

- However, the CPS calculates a simple proration of EFCs and these adjusted EFCs are printed at the foot of SARs and on ISIRs from the CPS. Both the simplified and regular versions of EFC Worksheet B and EFC Worksheet C include this adjustment.

Remember: Adjusted EFCs printed on SARs of dependent students and prorated EFCs for independent students are **not** used in determining Pell Grant awards. They are used only when determining eligibility for other Title IV programs when the student's enrollment is less than or greater than 9 months.

Any questions about EFCs for other than 9-month enrollment periods?

DISBURSEMENT AND EFC

You may be working with three versions of a student's EFC at some point: the estimated EFC, the official EFC, and the school-recalculated EFC. (OH 11)

When you calculate an EFC before receiving one from the CPS, as we just did, the result is called an **estimated EFC**. An estimated EFC can be obtained:

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- By using student application data to complete the appropriate worksheet, as you did for Chris. This is known as a hand calculation.
- By using EDE software to electronically calculate the EFC.

These are just *estimated* EFCs. Keep in mind that several payment restrictions apply. This will be discussed soon.

The second version of the EFC is called the **official EFC**. This version is processed by the CPS and printed on SARs or ISIRs.

The third version of the EFC can occur after you receive an official EFC. It may be necessary to make corrections, to update information, or to make adjustments on the basis of professional judgment. Schools then can recalculate the EFC. The result is called a **school-recalculated EFC**.

The chart on page 26 of your Workbook, titled “Disbursements and EFC,” outlines the disbursement restrictions for each type of EFC and each Title IV program. Please take a moment to read over the chart. [IG, pg. 12]

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Notice the school and student liabilities for disbursements made on school-recalculated EFCs that are not reprocessed by the CPS.

BACK AT THE OFFICE

When you return to your office, check to see if your school has EDExpress capabilities so that you can electronically calculate a student's estimated EFC. Also, highlight the states from which most of your student's come on the tables used during the calculation.

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What else should you do when you return to your office?

PARENTS' INCOME IN 1996	
1. Parents' Adjusted Gross Income (FAFSA/SAR #67)	\$22,261
2. a. Father's income earned from work (FAFSA/SAR #69)	\$8,566
2. b. Mother's income earned from work (FAFSA/SAR #70)	+ \$13,695
Total parents' income earned from work	= 2. \$22,261
3. Parents' Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.) *	\$22,261
4. Untaxed income and benefits:	
• Earned Income Credit (tax filers only) (FAFSA/SAR #71)	0
• Social Security benefits (FAFSA/SAR #72)	+ 0
• AFDC/ADC (FAFSA/SAR #73)	+ 0
• Child support received (FAFSA/SAR #74)	+ 0
• Other untaxed income (FAFSA/SAR #75)	+ 0
Total untaxed income and benefits	= 4. 0
5. Taxable and untaxed income (sum of line 3 and line 4)	\$22,261
6. Exclusions (FAFSA/SAR #76)	- 0
7. TOTAL INCOME (line 5 minus line 6) If negative, enter zero.	= \$22,261

ALLOWANCES AGAINST PARENTS' INCOME	
8. 1996 U.S. income tax paid (FAFSA/SAR #68) (tax filers only); if negative, enter zero.	\$369
9. State and other tax allowance (Table A1)	+ \$1,781
10. Father's Social Security tax (Table A2)	+ \$655
11. Mother's Social Security tax (Table A2)	+ \$1,048
12. Income protection allowance (Table A3)	+ \$22,930
13. Employment expense allowance:	
• Two working parents: 35% of the lesser of the earned incomes, or \$2,700, whichever is less.	
• One parent families: 35% of earned income, or \$2,700, whichever is less	
• Two-parent families, one working parent: zero	+ \$2,700
14. TOTAL ALLOWANCES	= \$29,483
AVAILABLE INCOME	
Total income (from line 7)	\$22,261
Total allowances (from line 14)	- \$29,483
15. AVAILABLE INCOME (AI) May be a negative number.	= - \$7,222

* STOP HERE if both of the following are true: line 3 is \$12,000 or less, and the parents are eligible to file a 1996 IRS Form 1040A or 1040EZ (they are not required to file a 1996 Form 1040, or they are not required to file any income tax return)—the student's EFC is zero.

PARENTS' CONTRIBUTION FROM ASSETS	
16. Cash, savings, & checking (FAFSA/SAR #85)	
17. Other real estate & investments value ** (FAFSA/SAR #86)	
Other real estate & investments debt ** (FAFSA/SAR #87)	-
Net worth of real estate & investments If negative, enter zero.	= 17.
18. Business value ** (FAFSA/SAR #88)	
Business debt ** (FAFSA/SAR #89)	-
Net worth of business If negative, enter zero	= 18.
19. Investment farm value ** (FAFSA/SAR #90)	
Investment farm debt ** (FAFSA/SAR #91)	-
Net worth of farm If negative, enter zero. If the family resides on the farm, enter zero.	= 19.
20. Net worth of business/farm (sum of lines 18 and 19)	20.
21. Adjusted net worth of business/farm (Calculate using Table A4.)	+
22. Net worth (sum of lines 16, 17, and 21)	=
23. Education savings and asset protection allowance (Table A5)	-
24. Discretionary net worth (line 22 minus line 23)	=
25. Asset conversion rate	X .12
26. CONTRIBUTION FROM ASSETS If negative, enter zero.	=

PARENTS' CONTRIBUTION	
Available income (AI) (from line 15)	- \$7,222
Contribution from assets (from line 26)	+
27. Adjusted available income (AAI) May be a negative number.	= - \$7,222
28. Total parents' contribution from AAI (Calculate using Table A6; if negative, enter zero.)	0
29. Number in college in 1997-98 (FAFSA/SAR #52)	÷ 2
30. PARENTS' CONTRIBUTION (standard contribution for 9-month enrollment)	0

** Do not include the family's home.

continued on reverse

STUDENT'S INCOME IN 1996

31. Adjusted Gross Income (FAFSA/SAR #55)	0
32. Income earned from work (FAFSA/SAR #57)	0
33. Taxable Income (If tax filer, enter the amount from line 31. If non-tax filer, enter the amount from line 32.)	0
34. Untaxed income and benefits:	
• Social Security benefits (FAFSA/SAR #60)	0
• Other untaxed income (FAFSA/SAR #63)	0
Total untaxed income and benefits = 34.	0
35. Taxable and untaxed income (sum of line 33 and line 34)	0
36. Exclusions (FAFSA/SAR #64)	0
37. TOTAL INCOME (line 35 minus line 36) If negative, enter zero.	0

ALLOWANCES AGAINST STUDENT INCOME

38. 1996 U.S. income tax paid (FAFSA/SAR #56) (tax filers only); if negative, enter zero.	0
39. State and other tax allowance (Table A7)	0
40. Social Security tax allowance (Table A2)	0
41. Income protection allowance	\$1,750
42. TOTAL ALLOWANCES	\$1,750

STUDENT CONTRIBUTION FROM INCOME

Total income (from line 37)	0
Total allowances (from line 42)	\$1,750
43. Available income (AI) If negative, enter zero.	0
44. Assessment of AI	.50
45. STUDENT CONTRIBUTION FROM AI	0

STUDENT CONTRIBUTION FROM ASSETS

46. Cash, savings, & checking (FAFSA/SAR #75)	
47. Other real estate & investments value * (FAFSA/SAR #78)	
Other real estate & investments debt * (FAFSA/SAR #79)	-
Net worth of real estate & investments If negative, enter zero.	= 47.
48. Business value * (FAFSA/SAR #80)	
Business debt * (FAFSA/SAR #81)	-
Net worth of business If negative, enter zero	= 48.
49. Investment farm value * (FAFSA/SAR #82)	
Investment farm debt * (FAFSA/SAR #83)	-
Net worth of farm If negative, enter zero. If the family resides on the farm, enter zero.	= 49.
50. Net worth (sum of lines 46 through 49)	=
51. Assessment rate	X .35
52. CONTRIBUTION FROM ASSETS If negative, enter zero.	=

EXPECTED FAMILY CONTRIBUTION

PARENTS' CONTRIBUTION (from line 30)	0
STUDENT CONTRIBUTION FROM AI (from line 45)	0
STUDENT CONTRIBUTION FROM ASSETS (from line 52)	+
53. EXPECTED FAMILY CONTRIBUTION	= 0

* Do not include the student's home.

Disbursements and EFC

Types of EFC	Pell Grant	Campus-Based Programs	FFEL/Direct Loans
Estimated EFC	No disbursements	No disbursements	PLUS disbursements only
Official EFC	Make disbursements	Make disbursements	Make disbursements
School-Recalculated EFC	<ul style="list-style-type: none"> • 1st payment only if student selected for verification by either CPS or the school • No subsequent payments 	<ul style="list-style-type: none"> • Disbursements okay • Reprocessing by CPS optional • School liable 	<ul style="list-style-type: none"> • Disbursements okay • Reprocessing by CPS optional • School liable