

## Federal Methodology

# KASFAA New Members Workshop



## FEDERAL METHODOLOGY

- Method for assessing ability to pay consists of two steps:
  - Measuring a family's financial strength
  - Assessing a portion of family's financial resources as being available to contribute toward educational costs



## HOW IS EFC DETERMINED

- Three Federal Methodology (FM) models
  - Dependent student
  - Independent student without dependents other than a spouse
  - Independent student with dependents other than a spouse

## HOW IS EFC DETERMINED

- Three distinct FM formulas



- Regular
- Simplified
- Automatic zero

## SIMPLIFIED AND AUTO ZERO FORMULAS FOR DEPENDENT STUDENTS

- Simplified Formula**
  - Assets not considered if
    - Parent AGI or earnings from work \$49,999 or less **and**
    - Parent are **not required** to file IRS form 1040 **or**
    - Anyone included in the parent household received benefits from a means-tested federal program
- Automatic Zero**
  - EFC is automatically zero if
    - Parent AGI or income earned from work is \$31,000 or less **and**
    - Parent is **not required** to file IRS form 1040 **or**
    - Anyone included in the parent household received benefits from a means-tested federal program

## MEANS-TESTED FEDERAL BENEFIT PROGRAMS

- Means-Tested Federal Benefit Programs
  - Supplemental Security Income (SSI)
  - Temporary Assistance for Needy Families (TANF)
  - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
  - Food Stamp Program
  - Free or Reduced Price School Lunch Program

## INDEPENDENT STUDENTS WITHOUT DEPENDENTS OTHER THAN A SPOUSE

### ◉ Simplified Formula

- Assets not considered if
  - ◉ Student (and spouse, if applicable) AGI or earnings from work \$49,999 or less **and**
  - ◉ Student (and spouse if applicable) are not required to file IRS form 1040 **or**
  - ◉ Anyone included in the student household received benefits from a means-tested federal program

### ◉ Automatic Zero

- Does not apply

## INDEPENDENT STUDENTS WITH DEPENDENTS OTHER THAN A SPOUSE

### ◉ Simplified Formula

- Assets not considered if
  - ◉ Student (and spouse, if applicable) AGI or earnings from work \$49,999 or less **and**
  - ◉ Student (and spouse if applicable) are not required to file IRS form 1040 **or**
  - ◉ Anyone included in the student household received benefits from a means-tested federal program

### ◉ Automatic Zero

- EFC is automatically zero if
  - ◉ Student (and spouse, if applicable) AGI or income earned from work \$31,000 or less **and**
  - ◉ Student (and spouse if applicable) are not required to file IRS form 1040 **or**
  - ◉ Anyone included in the student household received benefits from a means-tested federal program

## REGULAR METHODOLOGY DEPENDENT STUDENT EFC COMPONENTS

### ◉ Parent contribution (PC) consists of:

- Contribution from parent available income
- Contribution from parent assets

### ◉ Student contribution (SC) consists of:

- Contribution from student available income
- Contribution from student assets

## REGULAR METHODOLOGY INDEPENDENT STUDENT EFC COMPONENTS

- ◉ Contribution from student (and spouse, if applicable) available income
- ◉ Contribution from student (and spouse, if applicable) assets

## FACTORS THAT AFFECT EFC

- ◉ Number in Household
- ◉ Number in College
- ◉ Taxed and Untaxed income
- ◉ Taxes paid
- ◉ Investments
- ◉ Age of the older parent
- ◉ Number of wage earners



## FEDERAL METHODOLOGY CHARACTERISTICS

- ◉ Base-year income is used
  - 2010 is base year for 2011-2012
  - 2011 is base year for 2012-2013
- ◉ Allowances protect portions of income and assets
  - Allowance for Federal and State Income Taxes paid and Social Security/FICA
  - Income Protection Allowance (food, housing, transportation, medical, etc.)
  - Employment Expense Allowance

## FEDERAL METHODOLOGY CHARACTERISTICS

- ◉ Distributes available family resources among all family members attending postsecondary schools (except dependent student parent)
- ◉ EFC calculated for nine-month enrollment period
  - Alternative periods (spring, summer)

## ROUNDING RULES

- ◉ Carry all calculations to three decimals
- ◉ Round resulting amounts to nearest whole number
  - .001 to .499 rounded down
  - .500 to .999 rounded up

## EFC WORKSHEETS AND TABLES

- ◉ The "Application and Verification Guide" included in the Federal Student Aid Handbook, published annually by the US Department of Education, contains complete EFC details and worksheets/tables.
- ◉ Using 2010-2011 for our example
- ◉ Refer to materials in your notebook

## CASE STUDY CECIL DAVIS

- ◉ Refer to description of case study in your notebook.
- ◉ Hand calculate an EFC for Cecil for 9 months
- ◉ Review results

## Questions and Answers?



## PRESENTATION ADAPTED FROM

NASFAA Core



2011-2012 EFC  
Formula Guide

<http://www.ifap.ed.gov/ifap/wst.jsp>