SSS Computation Manual

Academic Year 2021-2022

SCHOOL & STUDENT™ SERVICES

by communitybrands

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About **SSS** and **NAIS**

School and Student Services (SSS) provides a need-based financial aid analysis system for families, schools, and organizations. SSS is a unique suite of products and services owned and managed by Community Brands as part of its endeavor to help private schools thrive in today's digital environment. SSS maintains a collaboration with NAIS by using the NAIS needs assessment methodology within the SSS software platform to calculate the ability of families to pay tuition. The origins of the service and the methodology began in the mid-1950's with a coalition of independent boarding schools that later entrusted NAIS to operate the service in 1968. In 2016, NAIS entered into a collaboration with Community Brands, whereby NAIS maintains stewardship of the methodology, updating and improving it to remain relevant to current economic realities, while SSS/ Community Brands owns the software platform and development, document processing, sales, and client service delivery aspects of the operations. NAIS collaborates with SSS in the interest of improving financial aid solutions to schools that are reflective of NAIS standards of best practice in financial aid management.

METHODOLOGY BY

Advisory Task Force

NAIS relies upon the advice and guidance of a group of financial aid practitioners to shape the Methodology. This advisory group reflects and supports leadership to schools in developing sound financial aid policies and best practices. It works to promote greater access to private education though a strong need-based financial aid methodology. In its work, this advisory group strives to:

- Uphold and promote the principles of need-based financial assistance in private elementary, middle, and secondary schools.
- Maintain the integrity and validity of the Methodology.
- Support NAIS's efforts to provide relevant research and data that advances strategic thought leadership in issues of financial aid and affordability to the broader private school community.

NAIS Principles of Good Practice for Financial Aid Administration

Recognizing that each family bears the primary responsibility for financing a student's educational costs, NAIS's "Principles of Good Practice for Financial Aid Administration" are designed to serve as guideposts in the development of professional policies and orderly procedures among schools. Through these principles, NAIS affirms its belief that the purpose of a financial aid program is to provide monetary assistance to those students who cannot afford the cost of attending an independent school. Furthermore, these principles reflect the standards of equity and fairness NAIS embraces and reasserts NAIS's ongoing commitment to access and diversity.

About **SSS** and **NAIS**

Principles of Good Practice for Financial Aid Administration

1. **The school** adheres to all applicable local, state, and federal laws and regulations, including those that require non-discriminatory practice in administering its financial aid policies.

2. **The school** operates within the context of both short- and long-range financial aid budget and policy goals.

3. **The school** uses objective research to measure the effectiveness of its progress towards its goals, and communicates the outcomes to its constituents, as appropriate.

4. **The school** provides clear and transparent information to families through outreach, education, and guidance on all aspects of its financial aid process and the factors that influence admission and aid eligibility.

5. **The school** determines eligibility for admission without regard to a student's application for financial aid.

6. **The school** commits to providing financial aid dollars to applicants who demonstrate that their family resources are insufficient to meet all or part of the total educational costs.

7. **The school** continues to provide support to students as long as they demonstrate financial need.

8. **The school** maintains the same standards of behavior and academic performance for recipients of financial aid as it does for non-recipients.

9. **The school** enacts documented procedures that ensure a fair, consistent, and equitable assessment of each family's ability to contribute toward educational expenses.

10. **The school** makes and communicates financial aid decisions in a manner that allows families to make timely, careful, and fully-informed enrollment decisions.

11. **The school** establishes administrative and accounting procedures that distinguish the school's need-based financial aid program from tuition assistance programs that are not based on financial need.

12. **The school** safeguards the confidentiality of financial aid applications, records, and decisions while respecting the right of each family to discuss its own financial aid outcomes in an appropriate manner.

13. **The school** supports collaboration between the financial aid office and other offices within the school.

14. **The school** supports collegial relationships with other schools and organizations for professional development, exchange of best practices, and other information sharing, as appropriate.

Revised and approved by the NAIS board in 2013.

About **SSS** and **NAIS**

Changes to SSS Platform for the 2021-2022 Academic Year

Annual changes with SSS occur to keep pace with economic conditions, integrate newly available statistics, and improve service quality. Based in part on suggestions from member schools and staff, the following list highlights just a few key changes that have been implemented for the 2021-2022 Academic Year:

Changes to the School Portal

- Integration with TADS Tuition Management
- New login page
- Updates to Family Contribution Worksheet to reflect changes to the PFS

Changes to the Family Portal

- Third gender option added to the PFS
- Updates to the navigation and workflow of Section 5 to ensure users don't run into errors while selecting schools
- Additional questions added throughout the PFS to bring clarity to certain questions.

Changes to Methodology

- To convert the mean (average) consumer spending for a 4-person household into a median value in the Income Protection Allowance calculation, SSS now takes 80% of the mean value instead of the 75% conversion previously used.
- SSS is using a 2.29 percent increase in the Consumer Price Index (Urban) to update several of the tables used in the methodology.
- SSS updated the tables used for estimated federal income tax liability, Social Security, and Medicare rates based on the IRS regulations for 2020.

1 Introduction

A. The Purpose of the SSS Computation Manual

The SSS Computation Manual explains in detail the need-analysis computation procedures developed by NAIS and implemented within School and Student Services. The *Manual* has been revised to reflect any changes to the NAIS methodology that will be in effect during the current processing year. It contains tables that have been updated to the most recent year of available information. It also provides guidance to financial aid practitioners on reviewing applications and exercising effective professional judgment. Please note that the *Manual* is not intended to be a Users' Guide to using the SSS School Portal. SSS staff provides online training events and tools to help administrators become familiar with using the School Portal functionality. This *Manual* is solely developed to provide transparency into how NAIS calculates family contributions and to offer instructive help to practitioners in making financial aid decisions.

B. Principles of Financial Aid Administration

The purpose of a financial aid program is to provide financial assistance to parents and their children who would not have the opportunity to attend the school and benefit from an independent education without such help. A school's financial aid program should be guided by the NAIS Principles of Good Practice for Financial Aid Administration (see page 4).

Each school may want to publish complete cost-of-attendance budgets that reflect total student expenses realistically, including books, fees, equipment and lab costs, commuting and travel expenses for students whose homes are some distance from the school, and other typical costs families incur in a year of schooling (see page 20 for an example).

Parents are expected to contribute according to their means, considering total income, assets, number of dependents, and other appropriate information. Although grandparents occasionally contribute toward educational expenses, and this may be encouraged in certain cases by individual financial aid administrators, SSS does not provide a separate means for requesting detailed financial information from grandparents. When appropriate, schools that require grandparents to submit financial information should ask them to complete the PFS.

Financial aid should be offered only after determining that the resources of the family are insufficient to meet the student's total educational expenses. Students who are old enough to hold summer jobs may be expected to contribute some portion of their earnings to school expenses. SSS does consider a student's personal assets in its assessment of the family's ability to pay such expenses.

A school should review its financial aid awards annually and adjust them, if necessary, to reflect changes in family financial need and in the school's total budget. At the time of the initial offer of financial aid, the school should notify parents of the necessity to reapply annually for financial aid.

C. Establishing a Financial Aid Policy

The school should take financial aid into account when setting policy and in short- and long-term institutional planning and budgeting. As a school balances the demands for financial resources for staffing, facilities, equipment, etc., to meet school objectives, it must also determine the goals for its financial aid program and determine the resources needed to meet those goals.

Evidence suggests that few SSS subscriber schools have a financial aid budget large enough to meet the full financial need of all applicants. In most instances, only a percentage of established need can be awarded to any individual applicant. What factors other than the constraints of a school's total financial aid budget affect decisions that must be made in determining financial aid grants to its applicants?

Perhaps the most important factor is the basic purpose for which financial aid is granted. First and foremost, NAIS believes in awarding financial aid based on calculated family need. With need-based financial assistance as the one essential feature in a financial aid policy, a school may wish to specify additional criteria to be used in making financial aid decisions. Among the most frequently cited criteria are encouraging diversity in enrollment, examining length of commitment, acknowledging talent (academic, artistic, athletic, etc.), and filling spaces that might otherwise remain empty. NAIS believes a school should not exceed the established need limit because of these additional criteria. Some schools have endowed scholarships to be awarded based on certain criteria. NAIS strongly encourages schools with such monies to seek students whose families qualify for financial aid under its guidelines. Once the basic purposes of the financial aid program have been determined, the total financial aid budget should be apportioned accordingly.

It may be necessary to provide funds based on a higher percentage of need to economically disadvantaged students. A commitment of an amount that is almost equal to full educational costs (i.e., costs beyond tuition and fees, such as books, transportation, uniforms, etc.) is often necessary to enable such applicants to enroll or continue their academic careers within the school.

Budgeting

To fund their annual financial aid budgets, many schools operate within a maximum allowable percentage of the total school budget for the full academic year. Statistics collected from all schools through the NAIS DASL surveys for the 2019-2020 academic year indicate that budgets for need-based financial aid represent a median of 13.5 percent of tuition revenue. For day schools, budgets for need-based financial aid represent a median 12.8 percent of tuition revenue. For boarding schools, budgets for need-based financial aid represent a median of 27.1 percent of tuition revenue.

1 Introduction

Communicating Objectives to Families

Schools should have clear objectives for their financial aid investment as well as clear criteria and priorities for determining who receives aid. The following procedures may help families understand the financial aid process.

- Advise parents that when financial aid applications contain insufficient information, certain assumptions will be made by SSS about questions in the applications for which there is no information or insufficient information is provided.
- State explicitly who in the school reviews confidential information.
- Indicate whether the school has an appeals process for parents who seek a re-evaluation for their financial aid eligibility.
- Explain how information from applicants about each of the following is relevant in the determination of financial aid:
  - Savings accounts
  - Liquid assets
  - Size of home mortgage/equity
  - Separation or divorce
  - Parents' choice in not having paid employment
  - Parents' own educational costs
  - Parents' own educational debts (loans)
  - Voluntary salary reduction
  - Voluntary early retirement
  - Automobile(s)
  - Recreational expenses (vacation, camps, lessons, boat)

Be sure to access the Content section of Resources within the SSS School Portal to view articles and other resources on financial aid policy and communication strategies.

D. Financial Aid Administrator's Judgment

Although NAIS establishes uniform criteria for evaluating parental ability to pay the total educational expenses of the student, there are times when the strict application of NAIS principles and philosophy may not best reflect a family's or school's situation. When such occasions arise, it is important for a financial aid administrator to remember:

The Methodology and SSS School Portal process combine to provide a baseline measure of the ability of parents and students to contribute towards total educational expenses and does not consider academic ability, character, or other criteria that a school might employ in making its final decision on recipients of financial awards.

As with any system designed to process many different cases, SSS uses a standard set of procedures. These procedures may not be completely applicable to the circumstances reflected by an individual case.

The financial aid administrator has the right to contact the family for further information if what is reported on the PFS is inadequate. For example, a school may request that parents provide a copy of IRS Form 1040, including all schedules, and W-2 Forms to verify information reported on the financial aid application.

The costs for enrolling other children in the applicant's family (from pre-kindergarten through graduate school) and any financial aid related to that schooling should be carefully considered.

Even though the Methodology is designed to treat all cases equitably, the judgment of the financial aid administrator is indispensable. In some instances, the financial aid administrator may need to recalculate the family contribution for education based on school policy and/or additional financial information received from the family. When recalculating family contributions, the financial aid administrator may use the Family Contribution Worksheet (FCW) in the SSS School Portal to identify and enter appropriate revisions to determine a revised EFC. It is the financial aid administrator, who has experience within the school dealing with the individual problems of families in varied financial circumstances, who must ultimately make the recommendation for, or the final decision on, amounts and recipients of financial aid.

Accuracy is the most essential ingredient of effective need analysis; yet such accuracy should consider the nature of the information upon which the analysis is based. Both objective data and subjective data, made available through the PFS, must be evaluated by the financial aid administrator. Complexities and unusual circumstances of each family situation must be acknowledged and considered in a final decision.

The FCW provides information that will guide the financial aid administrator. The unusual conditions flagged in the student's record in the SSS School Portal (see page 18 for the Unusual Conditions message listing) provide helpful information about a family's financial circumstances and should be carefully evaluated. The FCW is not meant to be used as the sole factor in deciding financial aid eligibility. Family circumstances should be considered by the financial aid administrator through scrutiny of all facts provided in the PFS and other documents collected. All families are, therefore, treated equitably according to the available information.

Thus, it should be understood, particularly by new financial aid administrators, that **it is the school's responsibility,** when establishing a final amount of need, to consider known circumstances about the applicant and the applicant's family in addition to the information shown on the FCW. The treatment of each case in a thoughtful, consistent, and reasonable way will help achieve the purpose of financial aid programs.

To help build the professionalism of administrators in making these judgments, SSS offers a series of resources and communities online.

E. Confidentiality of Parent Financial Information

SSS advises schools that an absolute minimum number of staff and/or financial aid committee members should be allowed to have access to any financial information submitted by a parent (PFS, tax forms, etc.) or to the analysis of need. Parents have the right to expect that such information will be treated in complete confidence. Schools should refrain from any public announcement concerning who receives financial aid, or the amount of financial aid offered to any recipient.

The amount of the aid granted typically reflects some insight into the economic circumstances of the family, and this information should be considered completely confidential. To the extent that they are made aware of the amount of financial aid granted to them, students and parents should be encouraged to respect the confidentiality of this information and that of other financial aid applicants.

Schools are advised to maintain in secure files all forms and information pertaining to financial aid awards for currently enrolled students that it wishes to maintain. Such files should be maintained for at least one year after the student leaves school and should be destroyed as soon as possible after that time. Schools are advised to seek advice of their counsel for any federal, state, or local regulations that might apply to financial aid records retention.

To facilitate the document collection and data capture services, SSS partners with two third-party service providers – one for mailed in documents and the other for uploaded documents. Document handling services are covered by SAS 70 Type II certification. SSS systematically destroys all hard copies of documents received within several weeks of receiving them.

F. Explaining Methodology to Parents

Given that NAIS believes that parents are the primary resource for paying for their child's education, it also believes parents have the right to know the way in which SSS uses the methodology to calculate the family contribution. Therefore, we encourage financial aid administrators to discuss SSS processing and methodology with parents. In addition, to assist parents in understanding the calculation, parents may access (at the discretion of the school) a Family Report, which provides a summary of the information used to determine their specific contribution.

Among the most commonly asked questions from parents is: **How did SSS come up with our family contribution, and why did you (the aid administrator) come up with something different?**

Recognizing this, SSS has designed the Family Report to provide insight into how the Estimated Family Contribution may be used by schools. SSS makes the Family Report available online to all parents who file the PFS, unless a school chooses to disallow access for its applicants. The Family Report differs from the School Report. It provides an overview of the financial aid process and calculation and allows the parents to verify key data they submitted on the PFS. The details of the calculation are not included on this report.

The Family Report does not reflect any financial aid amounts the family might be eligible for and does not include the results of any changes or revisions to the SSS calculation that the school administrator makes. The financial aid administrator should feel free to share the details of the calculation with the parents. On the Family Report, a zero (0) parents' contribution will appear when a School Report reflects a negative contribution.

If the family has not received the Family Report, then there are two key factors you will want to explain. First, the aid administrator can explain the basic components of the SSS processing. Using the Family Report available within the SSS School Portal and the PFS, the financial aid administrator can point out which dollar amounts were used by SSS to estimate the contribution. Furthermore, it can be described how certain allowances have been deducted from net income and how assets have been employed to determine net worth. (See Section III.)

The second key factor – one that requires thoughtful documentation by the financial aid administrator – is the application of the school's financial aid policies and the financial aid administrator's judgment. This explanation may also include the review of tax returns, firsthand knowledge of the specific school, limitations imposed by the amount of the school's total budget for financial aid, and other factors considered by the financial aid administrator.

G. Verifying Income and Tax Information

In the financial aid application process, the quality of the assessment of need is only as good as the quality of the information provided by the family. **It is imperative that the process includes comparing PFS data the parents provide with comparable data on other forms and documents.**

For example, the aid administrator may find the federal income tax paid on Form 1040 varies from the amount of federal income tax reported to SSS by the parents and/or the tax paid calculated by SSS. One reason for the difference could be parents fail to report "total itemized deductions" on the PFS, even though they do itemize deductions when completing Form 1040. Another reason may be the family qualifies for certain tax credits that are not factored into the SSS estimate of federal taxes. A third reason for such a difference could be that self-employed persons pay the entire amount of their social security tax (see amount entered on the PFS as self-employment tax paid). Including that sum as part of their total tax for the year on the PFS will make their tax seem far too high in relation to their income. Copies of Form 1040 and other schedules filed by the parent(s) and student applicant and their W-2 and 1099 Forms help to clarify such inconsistencies by enabling the financial aid administrator to:

- Verify income from salary and wages;
- Compare the income tax listed on the PFS to what the parents have actually paid;
- Verify the number of exemptions claimed;
- Verify income from interest and dividends and the sources of such income;
- Review income other than wages and salaries, dividends, and interest (such as rental income, pension payments, and annuities);
- Review medical and dental expenses.

As such, collecting additional documentation, comparing and verifying amounts reported on the PFS, and making the necessary revisions to the NAIS assessment are critical parts of effective financial aid decision-making.

To help schools complete the verification process, SSS provides a data capture service. When SSS collects certain tax documents from families, it pulls from the documents key pieces of information to help administrators locate and verify information submitted on the PFS with information available on those tax forms. On the FCW in a student folder in the School Portal folder, the school will see the figures captured from tax forms alongside the figures submitted on the PFS, and can exercise judgment to make appropriate revisions as necessary.

2 The SSS **Application Process**

Schools can direct parents to complete the PFS online at solutionsbysss.com/parents. Families pay a fee when submitting the PFS. SSS will continue to accept and process PFS's and other documents submitted for the 2020-2021 academic year awards through December 31, 2020.

For the 2021-22 Academic Year, SSS begins to process completed PFS forms on October 2, 2020. Because PFS application data is calculated immediately to determine an Estimated Family Contribution, the FCW, RFC, and a copy of the PFS are available to schools and organizations designated by the parent within minutes following the successful submission of an online PFS.

After the PFS has been submitted, parents can select additional schools to make the RFC and PFS documents available to another school. There is no fee for adding additional schools after the original PFS submission.

Financial aid administrators should carefully read all detailed instructions that accompany the PFS and communicate to parents the following important advice:

- Complete the form fully, as errors or omissions will result in unsuccessful submissions.
- When a number is required, use the number zero (0) instead of words like “none” or “not applicable.”
- If SSS sends follow-up correspondence to parents, they should respond as quickly as possible, as inaction could delay a successful submission.

The PFS must be completed online, as it is designed to reduce the possibility of a family submitting an error filled PFS, ensuring availability of the results to the school administrators as quickly as possible.

3 Overview and rationale of **the methodology**

A. General Assumptions

NAIS takes the position that the sole purpose of providing need-based financial aid is to make possible the attendance of students whose parents cannot afford to pay total educational expenses by themselves. Schools must recognize the importance of using a uniform method to equitably measure the ability of families to pay educational costs. The Methodology, therefore, is based on several assumptions and expectations that are based on national economic factors, while providing flexibility for schools to customize certain elements based on local conditions and/or school policy.

In common with the other national need-analysis systems, the underlying assumption of the Methodology is that parents have an obligation to finance their children's education to the extent that they are able. Several factors, including the size of the family, age of the parents, provisions for retirement, and extraordinary expenses, are considered when evaluating the family's financial strength and ability to contribute to educational expenses. The Methodology does not make distinctions among varying households' day-to-day spending patterns.

Families with similar incomes may, because of any of several different circumstances, have considerably different assets. An objective system of need analysis must treat every family equitably, taking into consideration differences in certain family circumstances that may be beyond a family's control. There must be a distinction made between family expenditures made by choice -- such as purchase of an expensive car, an extensive vacation, expensive club dues, or a second home -- and those of an obligatory nature such as tax payments, emergency home repairs due to fire or flood, or support for dependent relatives.

Because NAIS uses objective information as the basis of its central need-analysis system, the reported family contribution can be considered as a reliable guide for the financial aid administrator.

Differences in family circumstances and/or school policies will almost always require the financial aid administrator to adjust the figures provided on the FCW and RFC. Responsibility for final amounts of family contribution clearly rests with the school official. Parents who call or write to SSS are made aware of this fact. SSS computes and reports a contribution guideline; the financial aid administrator determines an award amount, and the school grants the financial aid funds.

The school is not required to use the family contribution calculated by SSS. A school's policies may cause the recalculation of a family contribution. It is important to educate families about your school's specific policies, including those relating to separated/divorced parents, unemployed parents, etc.

3

Overview and rationale of **the methodology**

B. Four Steps to Assessing the Estimated Family Contribution

In general, there are four major steps in assessing the estimated family contribution (EFC) toward educational expenses and the student's financial need. These steps are outlined below. In the following sections, the rationale underlying these steps is described in more detail.

Step 1: Determining Effective Income

- Determine total income (taxable and nontaxable).
- Determine allowances for federal, state, and local taxes; self-employment, social security and Medicare taxes; employment-related expenses; medical expenses; and unusual expenses.
- Determine effective income by subtracting total allowances from total income.

Step 2: Determining Net Worth and Income Supplement

- Determine total asset value by adding residence equity, other real estate equity, and all other assets.
- Determine net worth by subtracting indebtedness from total assets.
- Determine an income supplement by assessing a portion of the net worth depending upon the age of the older parent.

Step 3: Determining the Estimated Family Contribution

- Determine adjusted effective income by adding the income supplement to the effective income.
- Determine the discretionary income by subtracting the income protection allowance based on family size from the adjusted effective income.
- Determine the estimated parental contribution for education by assessing an increasing proportion of discretionary income as discretionary income increases.
- Determine the estimated parental contribution for each student as a day or boarding student based on the number of children enrolled in tuition-charging institutions. The contribution for a boarding student will be $1,991 higher than that of a day student to reflect a nine-month allowance for food that the parents will save at home while the student is away at school.
- Determine the student asset contribution.
- Determine the estimated family contribution by adding the per-student parents' contribution and the student asset contribution.

Step 4: Determining Student's Financial Need

- Determine the student's financial need by subtracting the family contribution (as a day or boarding student) from the total nine-month school budget (day or boarding) for educational expenses.

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Overview and rationale of **the methodology**

C. What Is "Discretionary Income?"

As with other national systems of financial aid need analysis, the concept of discretionary income is the foundation of the analysis performed by SSS. At the point the family has one dollar of discretionary income, it begins to make choices about how it will be spent. Below that point, the family has virtually no discretion as to its spending. Resources are available only to cover essential expenses, and no contribution for education can be expected from the family.

After the family has discretionary income, the family choices may not be easy; however, the choice to contribute to educational expenses is one decision, among many, that the family can begin to make.

As discretionary income increases, the family's decision-making power grows, and the Methodology assumes that a greater percentage of discretionary income is available for education. It is important to recognize that each family may have a different perspective on how much of its discretionary income it can contribute. Some families are willing to contribute a large percentage, others a small percentage. Each family's reaction will be different, while the Methodology works to treat like families in like situations the same.

D. Understanding "Effective Income"

The first step toward the determination of discretionary income is the assessment of a family's effective income. A family's financial strength increases as its income increases. Effective income is income available to the family after special allowances are made for expenditures about which the family has little or no choice. These allowances are primarily for taxes — federal, Social Security, Medicare, state and other taxes (such as those on sales and property, and city taxes where applicable) — and unusual expenses associated with employment, illnesses, and other uncommon or sporadic circumstances (such as unplanned emergencies).

E. Understanding "Income Supplement"

The possession of assets generally increases a family's financial strength. The Methodology measures the financial strength provided by various levels of assets by determining the potential supplementary income that may be expected from assets of a given value. Because assets generally have been accumulated by deferring the purchase of goods and services in the past, the assets can be considered available to supplement the purchase of goods and services from income in the present and future.

Traditionally, families accumulate assets for three major purposes: providing for retirement, discharging indebtedness, and future spending. In determining the income supplement that can be expected from assets, NAIS recognizes the need to save for retirement. A asset protection allocance is subtracted from the parents' net worth (total assets less indebtedness). The income supplement is derived from the remaining discretionary net worth.

While families may not choose to convert their assets according to the NAIS formula, this technique serves to equitably group families with approximately the same financial strength. Allowances for retirement needs vary according to both the age of the older parent, the number of parents, and the size of available assets within any one age group. At 42 years of age, a parent is expected to have a longer period to invest in retirement than at age 62. Thus, the allowance should be greater when there is less time to save for retirement. Additionally, since the use of assets by a family expands in proportion to the amount of assets, a progressive index will reduce the calculated income supplement at the lower level of net worth and increase it at the upper levels.

Determining the income supplement also recognizes that some families with considerable home equity, relative to their incomes, have difficulty in translating the parental contribution driven by that asset into real cash to cover their parental contribution. Thus, whenever the home equity exceeds three times the parents' total income, the amount in excess of three times total income is protected — that is, not considered — in the calculation of the income supplement.

F. Understanding "Adjusted Effective Income"

The Methodology for need analysis assumes that assets combine with income to reflect the most complete index of a family's financial strength. Adjusted effective income is the sum of effective income (income minus nondiscretionary allowances) and the income supplement (a portion of net worth). Thus, adjusted effective income is deemed to be the resources the family has to cover its basic living costs and, if high enough, its discretionary costs as well. The fact that a family with an income supplement is asked to contribute more toward school expenses than would be required from its effective income alone is a reflection of a family's ability to contribute more from current income for school expenses because its assets provide it with greater financial security.

A family with a small income and large assets may have the same financial strength as a family with a large income and no assets. A two-child family with an effective income of $25,000 and no income supplement from discretionary net worth and a similar family with an adjusted effective income composed of $22,000 effective income and a $3,000 income supplement from discretionary net worth can be considered to have equal financial strength and can also be expected to contribute the same amount toward a year of school expenses.

G. Understanding the Income Protection Allowance (IPA)

The Income Protection Allowance (IPA) represents an initial allowance against the adjusted effective income to recognize the minimal amount needed to provide for the family's basic necessities beyond the nondiscretionary spending such as taxes and unusual expenses. NAIS develops the IPA using baseline data from the U.S. Bureau of Labor Statistics (BLS) Consumer Expenditure Study (CES). **The IPA for the 2021-2022 year is based on the CES for 2019 (the most recently available data at the time the IPA is adjusted), updated for inflation and set at 75% of the median expenditure for a family of four, in order to establish a lower standard of living. New for this processing year, calculating the median expenditure for a family of four was changed to assess 80% of the mean (average) value, instead of the 75% conversion value used previously, based on the recommendation of the Task Force.** This sets a level of consumption sufficient to provide for basic needs, and as updated for inflation, is typically above the federal government's "poverty line," yet below average family spending. Furthermore, the methodology initially assumes that the student applicant will live at home during the nine-month school year, and, therefore, the cost of food for this student is included in the total family consumption costs. Later, the Methodology adjusts the computation to provide estimated family contributions for both boarding and day students.

3 Overview and rationale of **the methodology**

Because a direct allowance from income is provided for state and local taxes, this portion of the CES expenditure is subtracted from the IPA calculation. Because the methodology is calculating a contribution to education, CES education expenses are also subtracted.

To determine the IPA for families of differing sizes, "equivalency scales" based on those published by the BLS are used to adjust the IPA for a family of four. For the 2021-22 academic year applications, the following income protection allowances will be used in the methodology.

For family size of...	The Income Protection Allowance is...
1	$23,558
2	$32,212
3	$38,463
4	$48,078
5	$57,694
6	$66,829
Each additional person	Add $8,654

H. Determining the Estimated Parental Contribution from Discretionary Income

The estimated parental contribution toward educational expenses is derived from discretionary income (adjusted effective income minus the income protection allowance). Because discretionary purchasing power grows as the level of discretionary income increases, a progressive rate of expectation is applied to assess parental ability to contribute toward educational expenses. The Methodology only allows for a lower standard of living through its allowances, so the contribution rates are set in a progressive manner. This ensures the untapped portion of the discretionary income is available for the family's other spending choices. The table on the next page yields the Expected Parental Contribution for a day student. Determining the parental contribution for boarding students is a two-step process:

Step 1: To calculate the SSS expected rates of contribution from discretionary income for ***day students***, SSS uses the following table:

Discretionary income	Expected contribution rate
Not over $6,619	22% of discretionary income
$6,620 to $13,239	$1,457 plus 25% in excess of $6,619
$13,240 to $19,859	$3,113 plus 29% in excess of $13,239
$19,860 to $26,480	$5,034 plus 34% in excess of $19,859
$26,481 to $33,100	$7,286 plus 40% in excess of $26,480
$33,101 and over	$9,935 plus 45% in excess of $33,100

Overview and rationale of **the methodology**

Step 2: To calculate the expected contribution for ***boarding students***, SSS uses the table in Step 1 and then adds the food allowance of $2,086 (the amount assumed to be retained by the parents for food expenses for the applicant not at home).

In other words, the first $6,619 of discretionary income will be assessed at 22 percent. As much as twice that amount (up to $13,239 of discretionary income) will be assessed at $1,457 plus 25 percent, and so on.

Example: If the discretionary income is $10,500, then the parental contribution will be $2,427.

That is... $1,457 + 25 percent of the excess of the discretionary income over $6,619.

Or... $1,457+ [($10,500 - $6,619) X .25] = $1,457 + ($3,881 X .25) = $1,457 + $970 = $2,427.

For a boarding student, the contribution will be $2,427 + $2,086 = $4,513.

I. Understanding the Negative Contribution

To enable financial aid administrators to make appropriate distinctions in family living standards and differentiate among families living below the basic standard used by SSS, negative parental contributions are reported when such figures are computed. Negative contributions reflect extreme hardship in covering tuition and associated educational expenses. SSS reports negative contributions to a maximum of $4,172 (twice the food allowance). To avoid confusion about its meaning among parents, a negative contribution will appear as **zero** on the Report of Family Contribution – Family Report available to the parent.

Financial aid administrators should understand that a family contribution of -$600 shown on the Report of Family Contribution – School Report indicates more need than a contribution of -$250, which, in turn, represents greater need than a contribution reported at $0.

J. Understanding the Student Asset Contribution

Determining the family's ability to contribute to educational expenses also requires considering the resources of the student. SS collects information about the student's assets on the PFS and determines a contribution from these assets. Because the PFS permits parents to apply for financial aid for multiple students, information is collected individually on each student's assets, and the calculation of a student asset contribution is performed for each student. The student asset contribution for a student appears only on the RFC for the school(s) designated to receive information for that student.

The Methodology assumes that the primary reason for accumulating student assets is saving for educational expenses, including elementary, middle, and secondary school, and college (four years, undergraduate). Thus, to determine the student asset contribution, the methodology divides the student assets by the number of years remaining in school plus four years of college. If the student's grade is not provided on the PFS, SSS assumes a grade of nine and divides the student asset value by eight remaining years in school. The maximum number of years that the methodology divides into the assets is 18 for a student in pre-kindergarten.

3

Overview and rationale of **the methodology**

K. The Family Contribution

The methodology measures the family financial strength to contribute to educational expenses by a combination of the parental resources and the student resources. Thus, the methodology adds the parental contribution and the student asset contribution to determine the family contribution. On the FCW and RFC, the EFC displayed for the student is based on whether the parent indicated the student's status on the PFS as day or boarding.

L. Concept of Recalculation

The family contribution calculated by the Methodology is not "law;" rather, a school should use it as a guideline in conjunction with school policies and the review of family tax returns. There will likely be instances when it is necessary to recalculate a family contribution based on explanations on the PFS or other documentation the school receives, including tax returns. The detailed steps to be followed in calculating the family contribution are described in Sections V and VI.

M. Determining Financial Need

Financial need is defined as the difference between the student's total cost of education and the family contribution. Thus, in addition to determining the family contribution, the financial aid administrator must determine the cost of education that the school will use to determine financial need for its financial aid applicants.

Most schools list educational expenses in their materials and websites. It is important for the financial aid administrator to have a comprehensive budget printed and available for financial aid applicants. Schools differ in the way they present their costs; however, it is important to include a fair appraisal of all costs for the school year. Sometimes schools use tuition to determine financial need and financial aid. Even in circumstances where the school gives aid to cover full financial need, the school may still be asking parents to cover $3,000 - $5,000 beyond tuition. The following are examples of cost-of-attendance budgets:

Sample Cost of Attendance Budgets

		Day School	Boarding School
	Tuition:	$21,000	$50,000
Fees:	Testing	$300	$300
	Athletic	$250	$250
	Breakage	$50	$75
	Laboratory	$150	$150
	Mustic/Art	$125	$150
	Books/Supplies	$800	$1,100
	Linen/Laundry	$ —	$300
	Transportation	$300	$1,000
	TOTAL Cost of Attendance	**$23,175**	**$53,675**

4 Unusual Condition Messages

Then SSS receives a PFS, a variety of analyses are performed on the information submitted by the parents. Some of these analyses are designed to assist the financial aid administrator in the review of the PFS and Report of Family Contribution (RFC) and may result in the need to recalculate the family contribution determined by the methodology. "Unusual Condition" messages appear in the student folder and Family Contribution Worksheet because of these edits and refer to elements that need to be reviewed. These elements are marked with a "UC" icon.

Use and possible actions for each are provided beginning on page 50 of this Manual.

Unusual Condition Messages
No income tax reported for the year and total taxable income exceeds $20,000.
Income tax reported for the year is less than 80% of standard tax.
Income tax reported for the year exceeds standard tax by 20% or more.
Taxed income is zero.
Salary/wages for current year differs by 15% or more from projected year.
Medical expenses exceed 5% of total income.
Adjustments to income exceed 25% of gross income.
Unusual expenses exceed 15% of income.
Indebtedness exceeds assets
Taxable dividend and/or interest income represents less than a 1.3% return on the total of bank accounts and investments when this total exceeds $5,000.
Taxable dividend and/or interest income represents more than a 1.3% return on the total of bank accounts and investments when this total exceeds $250.
Other taxable income is negative.
Review per-student Family Contribution. The contribution may not be appropriate given varying school expenses for each student.
The home equity used in the computation has been capped at three times the total income.
More than $2,000 of student assets are listed for at least one of the children in the family; the Estimated Family Contribution for each child may differ as listed below.
Business income/loss shown on 1040, but no business declared on PFS.

5 Procedures **dealing with income**

In all computations of income and expenses, SSS uses the most recently completed full year of financial information. For example, for awards made for the academic year 2021-22, dollar amounts for tax/calendar year 2020 will be used.

Occasionally, a family submits additional or updated information to SSS after the PFS has been processed that necessitates producing a revised EFC. Revised EFCs will be produced and made available to all designated institutions when the updated financial information is successfully submitted. All other additional financial information provided should be carefully reviewed by the school for its impact on the estimated family contribution.

A. Determination of the Family's Total Income before Taxes

Dollar amounts reported on the PFS provide information about income in two categories: taxable and nontaxable. The information is divided to allow accuracy in computing federal income tax, Social Security, and Medicare taxes. Note that the PFS also allows the parents to indicate adjustments to income and are intended to follow the IRS 1040 rules in this area. The IRS allows families to exclude from income voluntary contributions to tax-sheltered retirement accounts on a limited basis. In the Methodology, IRA/Keogh current-year contributions are treated as nontaxable income within the limits allowed by law and as entered by families on the PFS.

If the entry for “Other IRS allowable adjustments to taxable income” exceed 25% of taxable income, an Unusual Condition message will trigger.

Several other unusual condition codes relating to total income will aid the financial aid administrator in determining whether recalculation of the family contribution may be necessary:

- First, **Unusual Condition** message will appear when taxed income is zero.
- A message also results from a system match of total 2021 projected income with total income reported for 2020. If the difference is 15 percent or more, up or down, an **Unusual Condition** message will display. This message tells the financial aid administrator that a projected change in the family income warrants review, and an adjustment, an increase or reduction, in financial aid may be appropriate.
- If a negative amount is reported for “Other taxable income,” an **Unusual Condition** message will trigger, as a negative income may represent a “paper loss” acceptable for tax purposes but warranting further review for financial aid purposes.
- There is an **Unusual Condition** message that corresponds to information provided on the PFS related to dividend and interest income. This message will trigger in two situations: I) if the total of bank accounts and other investments is greater than $5,000 and the taxable dividend and/or interest income reported represents less than 1.3 percent return, or 2) when the taxable dividend and interest income exceed $250 and, assuming a 1.3 percent return, the total of bank accounts and investments represents less than the appropriate amount. (Bank accounts and investments earning less than 1.3 percent are more likely to be kept liquid for frequent use.)
- Another **Unusual Condition** message relates to information provided on the PFS regarding self-employed businesses (business profit/loss and business assets/debt). This message will appear whenever any information relating to business and farm income is present to suggest to the financial aid administrator that additional information, such as a copy of the parents' complete tax return, may be needed to assess the parents' financial situation.

5 Procedures **dealing with income**

The financial aid administrator will want to review and may need to recalculate SSS-generated allowances for federal income taxes paid, using a few Unusual Condition messages as indicators of possible discrepancies. In most cases, the total income figure for the current year is reliable. The best check on income tax paid figures may be found in PFS item "Total Federal Income Tax paid," the Federal Income Tax allowance computed by the methodology using the standard federal tax tables, and the SSS reconciliation between the two. Of course, each of these values should ultimately be checked against the applicant's 1040 to verify the actual amount of income tax liability for the year.

There are two types of nontaxable income (which are included in the total income figure) that should be carefully reviewed by the financial aid administrator:

(1) Social Security Benefits
The PFS asks for annual nontaxable Social Security benefits in the Total Nontaxable Income section of the form. Occasionally, this item is overlooked and information omitted. When a parent who qualifies as a widow(er) or retiree sends a PFS to SSS with these benefits omitted, or when the death of a parent occurs after the submission of the PFS, the financial aid administrator may want to contact the parent and revise the family contribution based on additional information or new circumstances. Information regarding survivor benefits is available through the Social Security Administration.

(2) Other Nontaxable Income
The PFS also asks for all nontaxable income received or estimated to be received by the family (other than social security benefits or child support received). A worksheet detailing the various types of other nontaxable income is included on the PFS to provide the financial aid administrator with more detailed information about a family's financial resources. The worksheet is also a handy tool for families to identify certain nontaxable income they might otherwise leave unreported.

B. Determination of Allowances

The following allowances are included in the Methodology, but special circumstances should always be examined carefully to determine if they should be accepted by an individual school's financial aid administrator.

(1) Federal Income Tax
The methodology provides an allowance for federal income tax by directly calculating an approximate tax based on the reported total taxable income for the current year in the PFS (less any IRS allowable adjustments reported). It also considers the greater of total itemized deductions reported on the PFS or the standard deduction. No comparison is made centrally between the tax reported for the current year and the tax paid for the previous year, even though the previous year's tax is requested on the form.

Even though the PFS asks families to report the amount of federal income tax paid, SSS calculates federal income taxes paid separate based on the filing status of the parent(s), the total taxable income after adjustments (adjusted gross income), and the standard U.S. income tax tables shown below.

5 Procedures **dealing with income**

2020 U.S. Income Tax Rates by Level of Taxable Income

Schedule for Filing as Married, Joint, or Surviving Spouse/Qualifying Widow(er)

Taxable Income*	U.S. Income Tax
Not over $19,750	10% of taxable income
$19,751—$80,250	$1,975 plus 12% of excess over $19,750
$80,251—$171,050	$9,235 plus 22% of excess over $80,250
$171,051—$326,600	$29,211 plus 32% of excess over $171,050
$326,601—$414,700	$66,534 plus 32% of excess over $326,600
$414,701—$622,050	$94,735 plus 35% of excess over $414,700
$622,051 or more	$167,308.50 plus 37% of excess over $622,050

Schedule for Individual Filing a Head of Household

Taxable Income*	U.S. Income Tax
Not over $14,100	10% of taxable income
$14,101—$53,700	$1,410 plus 12% of excess over $14,100
$53,701—$85,500	$6,162 plus 22% of excess over $53,700
$85,501—$163,300	$13,158 plus 32% of excess over $85,500
$163,301—$207,350	$31,830 plus 32% of excess over $163,300
$207,351—$518,400	$45,926 plus 35% of excess over $207,350
$518,401 or more	$154,794 plus 37% of excess over $518,400

Schedule for Individual Filing a Single Return

Taxable Income*	U.S. Income Tax
Not over $9,875	10% of taxable income
$9,876—$40,125	$988.00 plus 12% of excess over $9,875
$40,126—$85,525	$4,617.50 plus 22% of excess over $40,125
$85,526—$163,300	$14,605.50 plus 32% of excess over $85,525
$163,301—$207,350	$33,271.50 plus 32% of excess over $163,300
$207,351—$218,400	$47,367.50 plus 35% of excess over $207,305
$218,401 or more	$1156,235 plus 37% of excess over $218,400

Schedule for Married Filing Separately

Taxable Income*	U.S. Income Tax
Not over $9,875	10% of taxable income
$9,876—$40,125	$988.00 plus 12% of excess over $9,875
$40,126—$85,525	$4,617.50 plus 22% of excess over $40,125
$85,526—$163,300	$14,605.50 plus 32% of excess over $85,525
$163,301—$207,350	$33,271.50 plus 32% of excess over $163,300
$207,351—$311,025	$47,367.50 plus 35% of excess over $207,305
$311,025 or more	$1156,235 plus 37% of excess over $311,025

5 Procedures **dealing with income**

SSS estimates of federal income tax paid, even when using the tax tables and rates above, can be imprecise if the family qualifies for, and takes advantage of, certain tax credits that can reduce taxable income and SSS is unaware that those credits have been taken. As a result, we always recommend verifying the federal tax paid that families report and that SSS calculates using the actual 1040 the parent(s) files. It is likely that SSS will calculate federal income taxes at a higher level than a family might end up paying.

(2) Social Security and Medicare Tax Allowance

SSS computes an allowance for Social Security payments by multiplying each parent's, stepparent's, or guardian's gross income from work (salary and/or wages) by the 2020 Social Security rate of 6.20% of salary and wages up to $137,700, with a maximum allowance of $8,537.

SSS will calculate the allowance for Medicare taxes based on the tax filing status of each parent according to the chart below:

2020 Medicare Tax Rates

Married Filing Joining		Married Filing Separately		All Other Filing Statuses	
$0—$250,000	1.45%	$0—$125,000	1.45%	$0—$200,000	1.45%
Portion over $250,000	2.35%	Portion over $125,000	2.35%	Portion over $200,000	2.35%

Here's an example of how this new calculation would work for a married couple filing jointly:

Two married parents (filing jointly) earn a total of $275,000. The first $250,000 is taxed at 1.45%, or $3,625. The $25,000 of wages over $250,000 is taxed at 2.35%, or $587.50. The total Medicare tax for the couple is $3,625 + $587.50, or $4,212.50.

(3) Self-Employment Taxes

If either or both parents are self-employed and the financial aid administrator chooses to take this into account, SSS will provide an allowance based on the total self-employment tax paid reported by the parent, minus the portion of the self-employment tax already reported as an IRS allowable adjustment to income (since that portion already reduces income used in the calculation).

(4) State and Other Taxes

SSS provides an allowance for state and other taxes that a family pays to the state and/ or the community in which the family lives. This allowance is computed to reflect both a state-based average by income groups and differences in the relative tax burdens from state to state, as a percentage of total income. Included in this allowance are state income taxes, sales taxes, and real estate or other property taxes.

See the table on the following page. Note the rates in the tables did not change compared to the rates in the tables for the 2020-2021 processing year. *All Canadian Provinces use the Canada rate. All Foreign, including Americans Abroad (AA, AE, AP), use the same rate as "Default/Foreign Locales."*

Procedures **dealing with income**

State and Other Allowances

Percentage of Total Income

	$0— $50,000	$50,001— $60,000	$60,001— $70,000	$70,001— $80,000	$80,001— $90,000	$90,001— $100,000	$100,001— $110,000	$110,001— $120,000	$120,001— $130,000	$130,001 and greater
Alabama	9.5	8.5	8.0	7.5	7.5	7.0	6.5	6.5	6.5	6.0
Alaska	3.5	3.5	3.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0
American Samoa	4.0	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Arizona	9.5	8.5	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Arkansas	9.5	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	8.8
California	8.0	8.0	8.0	8.5	9.0	9.5	9.5	9.5	9.5	10.0
Canada	12.0	12.0	12.0	12.5	13.0	13.0	13.0	13.0	13.0	13.5
Colorado	8.0	8.0	8.0	8.5	8.5	8.5	8.5	8.5	8.5	8.0
Connecticut	12.0	12.0	12.0	12.5	13.0	13.0	13.0	13.0	13.0	12.5
Delaware	5.0	6.0	6.0	6.0	6.5	6.5	6.5	6.0	6.0	6.0
District of Columbia	8.5	9.5	8.5	9.5	9.5	9.5	10.0	10.0	10.0	9.5
Fed. States of Micronesia	4.0	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Florida	8.5	7.5	7.0	6.5	6.5	6.5	6.0	6.0	6.0	5.5
Georgia	9.0	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.0
Guam	4.0	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Hawaii	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	7.5
Idaho	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	8.5
Illinois	11.0	10.5	10.5	10.5	10.0	10.0	10.0	10.0	10.0	9.5
Indiana	10.5	10.0	9.5	9.0	9.0	9.0	8.5	8.5	8.5	8.0
Iowa	10.5	10.5	10.0	10.0	10.0	10.0	10.0	10.0	9.5	9.0
Kansas	9.5	10.5	10.5	10.5	10.5	10.0	10.0	10.0	10.0	9.5
Kentucky	9.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0	9.5	9.5
Louisiana	7.5	7.5	7.0	7.0	7.0	7.0	7.0	7.0	7.0	6.5
Maine	10.0	10.5	11.0	11.0	11.0	11.0	11.0	10.5	10.0	9.5
Marshall Island	4.0	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Maryland	9.0	9.5	9.5	9.5	9.5	10.0	10.0	9.5	9.5	9.0
Massachusetts	9.5	10.0	10.5	10.5	11.0	11.0	11.0	11.0	10.5	10.0
Mexico	3.5	3.5	3.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Michigan	11.0	10.5	10.5	10.5	10.5	10.0	10.0	9.5	9.5	9.0
Minnesota	8.5	9.0	9.0	9.0	9.0	9.5	9.5	9.5	9.0	9.0
Mississippi	8.0	8.0	8.0	7.5	7.5	7.5	7.5	7.0	7.0	6.5
Missouri	9.5	9.5	9.5	9.5	9.5	9.0	9.0	9.0	9.0	8.5
Montana	8.0	8.0	8.0	8.0	7.5	7.5	7.5	7.5	7.0	7.0
Nebraska	10.5	10.0	10.0	10.0	10.5	11.0	11.0	11.0	10.5	10.0
Nevada	6.0	6.0	6.0	6.0	6.0	5.5	5.0	5.0	4.5	4.0
New Hampshire	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	7.5	7.0
New Jersey	12.5	12.0	12.0	12.0	11.5	11.0	11.0	10.5	10.5	10.0
New Mexico	9.0	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.0
New York	13.0	13.5	14.0	14.0	14.0	14.0	14.0	14.0	14.0	13.5
North Carolina	9.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0	9.5	9.0
North Dakota	7.5	7.5	7.5	7.0	7.0	7.0	7.0	7.0	6.5	6.0
Northern Mariana Island	4.0	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Ohio	10.5	10.5	10.5	10.5	10.5	10.5	10.5	11.0	11.0	10.5
Oklahoma	10.0	10.0	10.0	10.0	10.0	10.0	9.5	9.0	9.0	8.5
Oregon	10.0	10.0	10.0	10.0	10.0	10.0	10.5	10.5	10.5	10.0
Palau	4.0	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Pennsylvania	11.0	11.0	10.5	10.5	10.5	10.5	10.0	10.0	10.0	9.5
Puerto Rico	4.0	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Rhode Island	12.0	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.0
South Carolina	8.5	9.0	9.0	9.0	9.0	9.0	9.0	9.0	8.5	8.0
South Dakota	7.0	6.0	6.0	6.0	6.0	6.0	6.0	5.5	5.5	5.0
Tennessee	7.5	7.0	6.5	6.0	6.0	6.0	6.0	6.0	5.5	5.0
Texas	7.0	6.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.5
Utah	10.0	9.5	9.0	9.0	9.0	9.0	9.0	8.5	8.5	8.0
Vermont	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5
2.0Virgin Islands	4.0	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Virginia	9.0	9.0	9.0	9.0	9.5	9.5	9.5	9.5	9.5	9.0

5 Procedures **dealing with income**

(5) Employment Allowance

An allowance is provided for two-parent families in which both parents have earned incomes and for one-parent families in which the parent reports earnings. The allowance was developed in recognition of the additional expenses incurred for clothing, transportation, meals away from home, and household operations that were not included in the Bureau of Labor Statistics lower budget standard. For two parent families, the allowance is computed on earnings reported as salaries/wages for each parent and uses whichever total amount is greater. The allowance is computed by taking 50 percent of the first $11,462 and 25 percent of the balance, always to a maximum of $6,388. This maximum is the result of calculations on income of $11,462 and above. Because zero or negative income from a self-employed business owner does not reflect that the parent didn't work, the Methodology automatically uses the full employment allowance for business owners, assuming the family otherwise qualifies for an allowance.

(6) Unreimbursed Medical Expenses

An allowance is made for unreimbursed medical expenses, as reported on the PFS, in excess of five (5) percent of total income, and if the amount reported exceeds the five percent threshold, an **Unusual Condition** message will trigger for review. The amounts reported for medical expenses should then be reviewed by the financial aid administrator. In some cases, the items corresponding to that sum may be non-allowable as suggested by NAIS (see page 37).

(7) Unusual Expenses

NAIS provides an allowance against income to account for unforeseen, emergency, or other non-standard household expenses that a family has experienced. An **Unusual Condition** message will appear if the amount listed under unusual expenses exceeds total income by 15% or more. In some cases, the items corresponding to that sum may be non-allowable as suggested by NAIS (see page 37). The financial aid administrator can review the entry and any explanation provided by the parent(s) on the PFS to determine whether the item(s) should be eliminated and the parent contribution adjusted accordingly. The School Portal uses the amount listed on the PFS in the calculation. No review for appropriateness is performed, leaving that as a matter of professional judgment for the school reviewing the case.

C. Determination of Effective Income

Effective income is calculated by subtracting the non-discretionary allowances described above from total income. This is the amount available for household needs (such as food, housing, support of children, and discretionary purchases).

Total Income [MINUS] Total Allowances = Effective Income

6 Procedures **dealing with assets**

A. Home Equity

Financial aid experts generally agree that home equity should be used in financial need analysis. Families with assets have greater financial strength than those with none and should be expected to contribute more for educational expenses. The NAIS Advisory Task Force endorses the use of home equity in financial need analysis. It is important to note that the home is a valuable asset and provides potential tax and other financial advantages.

In the Methodology, home equity is the difference between present market value of the family's home and unpaid principal on all mortgages and equity loans as reported on the PFS. In most cases, this amount will be used in the methodology as the home equity; however, the Methodology adjusts for those families where home equity is considerably large relative to their incomes. For these families, home equity is capped at three times the parents' total income. For example, for a family with income of $60,000 and home equity of $100,000, the full home equity will be used in the computation of the parental contribution. Whereas, for a family with income of $60,000 and home equity of $250,000, the home equity used in the computation of the parental contribution will be capped at $180,000, or three times the total income. Thus, for the second family, $70,000 of assets in the form of home equity will be protected.

An **Unusual Condition** message will appear when home equity has been capped at three times the parents' total income. The financial aid administrator should review what the impact is of using the Housing Index Multiplier (see table page 28) upon the determination of the home equity before capping and which value is more appropriate in the computation.

The Housing Index Multiplier (HIM) reflects the degree to which the market value of a home has changed since its purchase year. The HIM values published below are based on research and analysis conducted by the Bureau of Economic Analysis at the U.S. Department of Commerce. It reflects overall national trends in property value appreciation or depreciation. As such, it serves as a reasonable marker for general change in home values, but SSS recommends that financial aid administrators are better served to seek out and use more localized measures for validating home values reported by PFS applicants. In the absence of localized tools or measures, the HIM is a useful proxy.

6 Procedures **dealing with assets**

Housing Index Multiplier

Home Purchase Year	Housing Index Multiplier*	Home Purchase Year	Housing Index Multiplier*
1969	8.858	1995	2.116
1970	8.641	1996	2.078
1971	8.154	1997	1.019
1972	7.614	1998	1.967
1973	6.954	1999	1.882
1974	6.322	2000	1.799
1975	5.734	2001	1.799
1976	5.443	2002	1.666
1977	4.930	2003	1.579
1978	4.353	2004	1.455
1979	3,885	2005	1.352
1980	3.488	2006	1.271
1981	3.232	2007	1.258
1982	3.107	2008	1.299
1983	3.083	2009	1.354
1984	3.003	2010	1.376
1985	2.945	2011	1.366
1986	2.828	2012	1.355
1987	2.714	2013	1.284
1988	2.617	2014	1.202
1989	2.525	2015	1.173
1990	2.457	2016	1.124
1991	2.445	2017	1.077
1992	2.420	2018	1.032
1993	2.307	2019	1.000
1994	2.204	2020	1.000

SSS will also display an Unusual Condition message when total mortgage debt is greater than present market value. In these cases, the financial aid administrator may want to ask the parents for further clarification. The Methodology does not allow for "negative equity" and uses zero equity when mortgage debt reported exceeds market value and/or zero net worth when total debt exceeds total asset value.

B. Other Real Estate

SSS determines equity in other real estate just as it determines residence equity. The financial aid administrator may want to review the IRS schedule that families owning other real estate are required to file, typically Schedule E if they own rental property. As mentioned above, an Unusual Condition message also triggers when the total unpaid mortgage for the other real estate is greater than present market value. Clarification from the parents may be needed in this situation.

C. Business or Farm Equity Share

SSS assesses the value of a business or farm by subtracting business debts from business assets reported on the PFS, then multiplying the remainder by the percent of ownership. A negative result of subtracting business debt from business assets is changed to zero. For example, if the PFS shows business assets of $93,000, and also business debts of $36,700, and 100 percent ownership, then the value of this business or farm would be $93,000 less $36,700 times 100 percent, or $56,300. Next, SSS determines a share of this value to be included in the total assets of the household. A share is included in total assets instead of the full asset to recognize that the assets contribute to the capacity of the parents to produce income. The share is computed by the following table:

Net Worth of Business or Farm	Adjustment Rate
$52,936 or less	40% of the amount
$52,937—$158,811	$21,175 plus 50% of the amount over $52,936
$158,812—$264,685	$74,114 plus 60% of the amount over $158,811
$264,686 or more	$137,640 plus 70% of the amount over $264,685

In the example above, the value is established at $56,300. To calculate the share, subtract $52,936 from $56,300 for $3,364 and multiply by 50 percent, or $1,682. Add $21,174 and you get $22,856. So, out of a business with net worth of $56,300, $22,857 would be included as part of the overall net worth of the family completing the PFS.

An **Unusual Condition** message triggers when business or farm ownership is not indicated on the PFS but NAIS has detected business profit or loss reported on the filer's 1040. The financial aid administrator may wish to ask the parent(s) to complete the PFS questions related to the Business/Farm and resubmit the application. The administrator should also be sure to gather the appropriate IRS schedules and forms so that a more complete review of the family's business or farm circumstances can be made. Typically, families owning a business might submit a Schedule C with their 1040's and families owning a farm might submit a Schedule F with their 1040's. If the business is a partnership, typically a Schedule K-1 and Form 1065 would provide useful detail. Likewise, a Schedule K-1 and Form 1120S provide detail for parents who are shareholders in an S-Corporation.

6 Procedures **dealing with assets**

D. Bank Accounts

SSS reviews the parents' interest-bearing bank accounts (i.e. checking and savings accounts) reported on the PFS. If the total of bank accounts and other investments exceeds $5,000, and the dividend/interest income reported on the PFS reflects a return of less than 1.3%, an Unusual Condition message will trigger. Financial aid administrators should review parents' bank account and investment information to determine if one or the other may be misreported. Verifying interest and dividend income from the 1040 is particularly important in this regard.

E. Other Investments

SSS treats other investments as it treats bank accounts in the same manner described in “D. Bank Accounts” above.

F. Debts Outstanding

SSS makes an allowance against assets for indebtedness by subtracting the debts from the total assets reported on the PFS. The entries for how much debt is expected to be paid in the year and for consumer/credit card debt are for the aid administrator’s review only and are not part of the calculation. If debts outstanding exceed total assets, Net Worth is zero, as SSS doesn’t allow for negative Net Worth. If the amount of debt reported exceeds the value of assets reported, an Unusual Condition message will trigger. Carefully review debts outstanding. See Section 10 on pages 36-37 for examples of allowable and non-allowable types of debt.

G. Determination of Income Supplement

The Income Supplement is that portion of discretionary net worth (assets minus debts) that can be added to Effective Income to create Adjusted Effective Income. In other words, some portion of net worth is considered potentially available to help meet household expenses, thereby serving as a supplement to income for meeting costs, including tuition. The Income Supplement varies based on the age of the older parent’s age and the level of discretionary net worth. Separate figures are given for two-parent families and for one-parent families. The age of the parents is determined from the PFS. If the age is not reported on the PFS, SSS assumes the age to be 42.

6 Procedures **dealing with assets**

The Income Supplement can be computed step by step, using the charts on page 32 and the procedures that follow.

Example: Assume a case in which a two-parent family (the older parent is age 55) has a net worth of $250,000. Looking at the asset protection alloance chart, find the allowance of $36,300 (55 years of age, two-parent family) and subtract this amount from net worth of $250,000 to determine the discretionary net worth of $213,700. Using the conversion coefficient for age 55 (3%) and the index number of asset progressivity, the calculation of the income supplement is:

(1st)	$26,472	X	.03	X	.50	=	$397
(2nd)	$26,472	X	.03	X	.75	=	$596
(3rd)	$26,472	X	.03	X	1.05	=	$834
(4th)	$26,472	X	.03	X	1.40	=	$1,112
	$107,821	X	.03	X	1.80	=	$5,822
	$213,700 Total Discretionary Net Worth					**=**	**$8,761 Income Supplement**

	2-Parent Family		1-Parent Family	
40 or less	7%	$25,100	4%	$10,800
41	6%	$25,600	3%	$11,000
42	6%	$26,200	3%	$11,300
43	6%	$26,900	3%	$11,500
44	6%	$27,500	3%	$11,800
45	5%	$28,200	3%	$12,000
46	5%	$28,800	3%	$12,300
47	5%	$29,500	3%	$12,600
48	5%	$30,300	3%	$12,900
49	5%	$31,100	3%	$13,200
50	4%	$31,800	3%	$13,500
51	4%	$32,700	3%	$13,800
52	4%	$33,500	3%	$14,100
53	4%	$34,400	3%	$14,400
54	4%	$35,400	3%	$14,800
55	3%	$36,300	3%	$15,200
56	3%	$37,300	3%	$15,500
57	3%	$38,300	3%	$15,900
58	3%	$39,400	3%	$16,300
59	3%	$40,500	3%	$16,700
60	2%	$41,700	2%	$17,100
61	2%	$42,900	2%	$17,600
62	2%	$44,100	2%	$18,000
63	2%	$45,400	2%	$18,500
64	2%	$46,700	2%	$19,000
65	2%	$48,100	2%	$19,500

Asset Progressivity Index

Discretionary Net Worth	Index Number
$1—$26,472	0.50
$26,473—$53,944	0.75
$52,945—$79,417	1.05
$79,418—$105,890	1.40
$105,891 and over	1.80

7 Adjusted Effective Income and calculating the Parental Contribution

The next step in the Methodology is to determine the adjusted effective income of the parents. Adjusted effective income equals the effective income plus income supplement. This represents the combined financial resources the family has to spend on household living costs and discretionary spending.

From the adjusted effective income, the methodology subtracts the Income Protection Allowance based on the size of the household to reflect protection of income needed to cover minimal, basic level living costs. This leaves discretionary income, from which the parental contribution to school costs is expected to come. As discretionary income rises, the methodology assumes that the parent(s) can use more of it for tuition and other school costs.

Effective Income [PLUS] Income Supplement = Adjusted Effective Income

↓

Adjusted Effective Income [MINUS] Income Protection Allowance = Discretionary Income

↓

Parental Contribution = Portion of Discretionary Income

(see Section H on page 18)

This yields how much the parents can pay for day students. To determine how much the parents can contribute to each student attending a boarding school, the estimated parental contribution must be divided by the number of children attending tuition-charging schools. To determine the parental contribution for the student attending boarding school, the food allowance of $2,086 must be added to the per-student parental contribution for day school.

For example, when the RFC shows an estimated parental contribution of $4,350 and there are two children enrolled in tuition-charging schools, the estimated parental contribution for each student attending a day school will be $2,175 and for each boarding student in boarding $4,261 ($2,175 + $2,086). If one student is indicated as boarding and one as day, the total Parental Contribution will be shown as $6,436 ($2,175 for the day student + $4,261 for the boarding student).

8 Student asset contribution

Because the PFS collects information for each student's assets, the calculation of the student asset contribution is performed individually for each student. The RFC only reflects the student asset contribution for the student who has designated that school to receive the information.

The student asset contribution equals the student assets reported on the PFS, divided by the number of years the student will remain in school plus four years of college. An Unusual Condition message will trigger when student assets are reported as greater than $2,000, alerting the administrator that high student assets are being used in the calculation.

The per-grade denominators that SSS uses for the student assets calculation are:

Year in School	Divide Student Assets By
Pre-Kindergarten	18
Junior Kindergarten	18
Kindergarten	17
Pre-First Grade	17
First Grade	16
Second Grade	15
Third Grade	14
Fourth Grade	13
Fifth Grade	12
Sixth Grade	11
Seventh Grade	10
Eighth Grade	9
Ninth Grade	8
Tenth Grade	7
Eleventh Grade	6
Twelfth Grade	5
Post-Graduate	5
Blank, Assume Ninth Grade	8

9 Estimated Family **Contribution**

The estimated family contribution equals the sum of the per-student parental contribution and the student asset contribution.

Estimated Family Contribution = Parental Contribution [PLUS] Student Asset Contribution

In addition, it is important to be mindful of the total education expenses of the family when determining awards and the education expenses for each child in relation to the family contribution per student.

- An **Unusual Condition message will trigger** whenever there is more than one child attending a tuition-charging school (as reported on the PFS). The financial aid administrator will want to check that the per-student family contribution does not exceed the cost of schooling for any student. In this situation, the excess amount could be added to the family contribution for a child at a school where the cost exceeds the student's family contribution.
- An **Unusual Condition message will trigger** whenever any of the children have reported more than $2,000 of student assets on the PFS. Because the student asset contribution may differ among children, the estimated family contribution for each child may differ also. The message brings this possibility to the attention of the financial aid administrator who can then review the other students' assets by referring to the PFS.

10 Allowable and Non-allowable **expenses**

A. Medical/Dental Expenses

Most current medical and dental expenses are allowable; however, the following should be clarified:

- **Orthodontia, psychiatric care, or special nursing:** Such expenses are generally extensive and may be shown as medical, unusual, and/or indebtedness.
- **Schooling expenses for children with special needs:** These expenses may also be represented in medical, unusual, or indebtedness.
- Generally, medical and dental expenses for cosmetic procedures or cosmetic purposes are not allowable.

B. Allowable Unusual Expenses

- Child support paid, in excess of $5,000
- Closing costs for home purchases or home refinancing
- Current legal fees
- Nursing home/assisted living care
- Sewer, street, and water assessments (installation only)
- Special costs for a child with special needs
- Unreimbursed tuition for parent's education
- Uninsured/unreimbursed natural disaster expenses (flood, fire, storm damage, etc.)
- Union dues

C. Allowable Indebtedness

- Educational indebtedness of parents (past)
- Encumbrances (lien, personal loan for down payment, etc.) against home or other real estate
- Funeral expenses (past)
- General medical and dental expenses (past)
- Indebtedness to purchase investments listed on the PFS (in Assets section)
- Legal fees (past)
- Living expenses if business failure, prolonged illness, unemployment, etc., have depleted income and assets and forced indebtedness
- Past business debts (business dissolved)
- Natural disaster not covered by insurance (flood, fire, storm, etc.)

10 Allowable and Non-allowable **expenses**

D. Non-allowable Unusual Expenses or Indebtedness*

The following types of expenses or debts are considered non-allowable because they are already taken into account through other allowances used in the methodology, such as the Income Protection Allowance (IPA). Knowing your school's particular policies may cause you to add to or subtract from these lists. Whatever you decide, be sure to implement these steps consistently for all families applying for aid.

- Appliances
- Business debts for current business
- Car payments and indebtedness
- Charge accounts and installment purchases
- Charity or church contributions
- Child care/day care expenses
- College expenses for children
- Commuting expenses
- Furniture
- General living expenses (food, clothing, etc.)
- Home repairs (routine)
- Household help expenses
- Insurance premiums
- Payments for condo/association fees
- Living-away-from-home expenses
- Mortgage payments
- Payments for retirement plans
- Schooling expenses for children
- Tax payments
- Travel expenses
- Unpaid taxes and accident costs
- Vacation expenses
- Wedding, continuation, bar mitzvah expenses

*Families are instructed to enter the sum of non-allowable indebtedness on the PFS and explain the debts where applicable. The sum is not included in the computation, but it may be reviewed by the financial aid administrator as a professional judgment matter.

11 **Special** Circumstances

A. Separated, Divorced, and Single-Parent Families

The NAIS Principles of Good Practice for Financial Aid Administration outline clearly that determining the financial need of students' educational expenses is the responsibility of both parents to the extent they are financially able to do so. That principle applies to all parents, including those who are separated or divorced. Remarriage of either natural parent creates a new family unit with new relationships, but because the natural parents still have a parental obligation, the income and assets of the entire new family unit are seen to have a bearing on the natural parent's ability to contribute to the educational expenses of the children. The school must make a policy decision regarding the extent to which it expects contributions from the natural parents, stepparents, and extended family members.

To help schools gather detailed information from non-custodial parents to evaluate these special family circumstances, the NAIS recommends both the custodial and the non-custodial parents complete a separate PFS for each household. The forms and instructions for completion are available on the SSS website throughout the processing year. Non-custodial parents completing the PFS should be instructed to submit the completed statement to SSS in the same manner as the custodial parent. SSS will calculate each family contribution separately and present RFCs and copies of each PFS submitted so the school administrator can determine the parental contribution from each household separately.

When separated or divorced parents' financial circumstances are being evaluated, the SSS standard methodology may require some adjustments to make it possible to determine the family's ability to contribute toward educational expenses. To derive a fair and equitable expected contribution figure, the financial aid administrator must consider the financial factors unique to families with separated or divorced parents. If financial information is missing on either of the PFSs, the financial aid administrator can adjust the financial data on the forms in accordance with the school's established policy.

1. Custodial Parent

The following are some suggestions to help with the evaluation process for the single custodial parent and the custodial parent and step-parent. Methods of analyzing the financial information that is provided are listed at the end of this section. Direct communication with the family is an important part of this evaluation. The Parents' Financial Statement should provide complete information about the financial resources of the custodial parent and step-parent (if any).

The first step is to evaluate the custodial parent's PFS. The custodial parent's family may include:

a. The **single custodial parent** with a child or children from one marriage or from more than one marriage.

Financial information to check for on the PFS in this situation is given below. If the following data are not found on the PFS, explanations should be requested by the financial aid administrator.

- Salary/Self Employment/Alimony Income
    - Some form of taxable or nontaxable income shown.
- Child Support Money
    - Child support money received for all children included in the household or an explanation for why there is none.
    - Any money in lieu of child support received for all children included in the household.
- Assets
    - The custodial parent's net assets shown.
    - If there is joint ownership of any asset or joint liability for any debt (such as the principal residence), only the custodial parent's share should be shown.

b. The **custodial parent and a step-parent** with or without any children from this current marriage and/or with or without any children from the step-parent's previous marriage.

Financial information to check for on the PFS in this situation is given below. If the following data are not found on the PFS, explanations should be requested by the financial aid administrator.

- Salary/Self-Employment Income
  - Some form of taxable or nontaxable income shown from the natural parent and stepparent.
  - While prenuptial agreements should be carefully considered, financial aid administrators should **not feel bound by them**.
- Child Support Money Received for Children Living in the Household
  - Child support money received for the custodial parent's children included in the household or an explanation as to why there is none.
  - Any money in lieu of child support received for the custodial parent's children included in the household.
  - Child support money received for the custodial stepparent's children included in the household or an explanation as to why there is none.
  - Any money in lieu of child support received for the stepparent's children included in the household.
- Child Support Money Paid for Children Not Living in the Household
  - If a custodial parent and/or stepparent indicates that he or she is paying child support money to a former spouse for any children from a previous marriage, this support money should be included as an allowable unusual expense.
  - These children should not be included as living in the present household.
  - These children must be included as tax dependents if the custodial parent or stepparent shows he or she claims them.
- Assets
  - Custodial parent's net assets shown. If there is joint ownership of any asset or joint liability for any debt from a previous marriage, only the custodial parent's share should be included.
  - Step-parent's net assets shown. If there is joint ownership of any asset or joint liability for any debt from a previous marriage, only the stepparent's share should be included.

Analyzing the Data: With the above information, the financial aid administrator should be able to determine a reasonable expected contribution for educational expenses from the custodial parent's household.

Three possible ways to treat the child support money received by the custodial parent:

1. Include the child support money as part of the custodial parent's total income.
2. Remove the child support money from the custodial parent's total income, and add it to the non- custodial parent's total income.
3. Remove from the custodial parent's total income a portion of the applicant's child support money that is equivalent to the portion of the year the applicant resides at school. For example, if the custodial parent receives $4,000 in yearly child support for the applicant who resides at school for nine months (or three-quarters of the year), then remove $3,000 (or three-quarters) of the child support from the parent's total income. Then add this portion of the child support money to the custodial parent's contribution for education for the applicant.

2. Non-custodial Parent

A contribution from the non-custodial parent's household should be added to the contribution from the custodial parent's household to derive a total contribution figure from the family for the applicant with parents who are separated or divorced. When the non-custodial parent completes the PFS, the financial information of the noncustodial parent's household should be carefully reviewed in conjunction with the information provided by the custodial parent. Direct communications with the family is an important part of this process. The following describes methods for analyzing the financial information obtained from a single non-custodial parent, a remarried noncustodial parent, and/or a remarried non-custodial parent with dependent children.

a. The **single non-custodial parent** with or without child living in the household.

Financial information to check for on the PFS in this situation is given below. If the following data are not found on the PFS, explanations should be requested by the financial aid administrator.

- Salary/Self-Employment Income
  - Some form of taxable or nontaxable income shown.
- Child Support Money
  - Child support money (and/or household expenses and any money in lieu of child support) paid to the custodial parent. Check for agreement with the custodial parent's form.
- Assets
  - The non-custodial parent's net assets shown.
  - If there is joint ownership of any asset or joint liability for any debt (such as the debt on the principal residence), only the non-custodial parent's share should be included. Check for agreement with the custodial parent's form.

b. The **remarried non-custodial parent** with **no children living in the household.**

Financial information to check for on the PFS in this situation is given below. If the following data are not found on the PFS, explanations should be requested by the financial aid administrator.

- Salary/Self-Employment Income, Child Support Money, and Assets
  - The same types of financial data as for the single non-custodial parent and, in addition, income and assets of the present spouse.
  - While prenuptial agreements should be carefully considered, financial aid administrators should **not feel bound by them**.

11 **Special** Circumstances

c. The **remarried non-custodial parent and present spouse** who have **dependent children** in the household from a previous andor the current marriage**.**

Financial information to check for on the PFS in this situation is given below. If the following data are not found on the PFS, explanations should be requested by the financial aid administrator.

- Salary/Self-Employment Income
  - Some form of taxable or nontaxable income shown..
  - While prenuptial agreements should be carefully considered, financial aid administrators should **not feel bound by them**.
- Child Support Money Received for Children Living in the Household
  - Child support money received for the present spouse's children (if any) from previous marriage(s) who are included in the household or an explanation as to why there is none.
  - Any money in lieu of child support received for the present spouse's children (if any) from previous marriage(s) who are include in the household.
  - Child support money, and/or household expenses and any money in lieu of child support, received for the non-custodial parent's children from previous marriage(s) who are living in the household.
- Child Support Money Paid for Children Not Living in the Household
  - If the non-custodial parent and/or present spouse indicates that he or she is paying child support money to a former spouse (not the custodial parent) for any children from a previous marriage, this support should be included as an allowable unusual expense.
  - These children should not be included as living in the present household.
  - These children must be included as tax dependents if the non-custodial parent or present spouse shows he or she claims them.
- Assets
  - Non-custodial parents' net assets shown. If there is ownership of any asset or joint liability for any debt from previous marriage(s), only the non-custodial parent's share should be included.
  - Present spouse's net assets shown. If there is joint ownership of any asset or join liability for any debt from previous marriage(s), only the present spouse's share should be included.

Analyzing the Data: Using the above data, the financial aid administrator should be able to determine the non-custodial parent's contribution for education for the applicant.

Two possible ways to treat the child support money paid by the non-custodial parent:

1. Treat the child support money as an unusual expense against the non-custodial parent's total income. Do not include the children covered by the child support as members of the non-custodial parent's household.
2. Remove the child support money as an unusual expense and add it to the non-custodial parent's total income.

3. Joint Custody

When the applicant's parents have joint custody, both parents should provide complete financial information of their households on separate PFSs.

Adjustments for Missing Information: The following are some possible adjustments for missing financial information on the PFS:

- **a.** When income data is missing and current employment is indicated, impute income figure(s) based on the occupation/position shown on the form.
- **b.** When income data is missing and current employment is unknown.
  - Impute a standard amount of income to use in the analysis.
  - Imput a supplement to add to the contribution for education for the applicant.

B. Business/Farm Owners

The Business/Farm portion of the PFS provides more comprehensive income, asset, and liability information for businesses/ farms and can be used by the aid administrator to ascertain some detail about business profit/loss and business assets/debts. By reviewing the business/farm owners' detailed financial data, the financial aid administrator can better evaluate their overall financial strength and discretionary income. The financial aid administrator should also review IRS forms, such as Schedule C, Schedule E, Schedule F, Schedule K-1, Form 1065, and/or Form 1120S, as appropriate, depending on the type(s) of business the parent(s) own.

The additional Business/Farm information allows the financial aid administrator to assess whether the business/farm is the family's sole and/or primary source of income, or if it is just a minor source of support. The financial aid administrator should take interest in parts detailing business/farm expenses, particularly outlining depreciation and gross versus net income for the business. The financial aid administrator should consider whether certain business write-offs represent a real reduction of the family's disposable income or if they constitute "non-cash losses," which serve primarily to reduce federal tax liability. It is important for the fair and equitable treatment of all families that the financial aid administrator determines the business/farm owner's real disposable income available for educational expenses.

C. Child Care/Day Care

Employment-related childcare/day care expenses can be considerable. The PFS asks for the number of children in the family who will be attending full-time childcare, tuition-charging preschools, schools, or colleges. Then, in the methodology, the parents' contribution is divided by this number of children to apportion the parents' contribution appropriately. Note that the PFS also allows parents to report total employment-related day care expenses in 2020. This information can be used to determine whether the adjustment by the number of children reported is appropriate or the financial aid administrator should apportion the parents' contributions differently.

D. Housing Allowance

The financial need of families who receive free housing, such as members of the military and the clergy, should be adjusted because these families are able to use all their adjusted effective income for other expenses, whereas other families must devote a significant portion of that income to housing. In such cases, administrators should seek clarity or documentation of the value of such housing benefits and add that value as nontaxable income to revise the EFC, if not previously reported by the family on the PFS.

11 **Special** Circumstances

E. Cost-of-Living Differences

To determine the Income Protection Allowance described in Section III: G, a national average for household spending, based on data from the Bureau of Labor Statistics, is used to establish a baseline for basic household living expenses (food, clothing, shelter, etc.). Recognizing that in certain locales, the cost of living may be higher or lower than the national average, a financial aid administrator may decide to adjust the financial need analysis that reflects these regional differences. The Methodology uses the Cost of Living Index from The Council for Community and Economic Research (C2ER) in order to provide the financial aid administrator a way to recalculate a family's contribution for education allowing for cost-of-living differences.

Using the SSS School Portal, the administrator can make this Cost-Of-Living Adjustment (COLA) in the EFC to allow for local cost-of-living factors at either a “global” level (i.e., applying the same COLA for everyone) or on a case-by-case basis. A school administrator may choose a COLA value from a list provided by SSS or he/she may choose a school-defined value.

In the Methodology, the Adjusted Effective Income (AEI) reflects the amount of money a family has to meet its living expenses and make discretionary spending decisions. As such, when applying COLA, SSS acknowledges that the family may actually have more or less than the originally calculated amount of adjusted effective income. When a COLA larger than 1.0 is applied, this indicates the cost of living is greater than the national average and when AEI is divided by the COLA factor, AEI goes down, recognizing that in a high-cost area a family will not have as much AEI as the system calculates.

For example, if the RFC shows an Adjusted Effective Income of $64,000 and the family lives in Miami, Florida, an area where the cost of living index is 1.171, or 17.1 percent higher than the national average, (see the Geographical Cost-of-Living Difference chart, page 45), a financial aid administrator might want to adjust the family's contribution according to the cost- of-living difference. To make this adjustment, the financial aid administrator should divide $64,000 by 1.171 to derive a new Adjusted Effective Income of $4,654, which more nearly reflects the family's real buying power in Miami. Because less AEI is available, the parent’s contribution will be lower than the initial SSS assessment.

If the family lived in Tampa, Florida, the $64,000 would be divided by the index factor of 0.935, which is 9.4 percent lower than the national average, changing the Adjusted Effective Income to $68,449. In this case, more AEI is available to meet household costs and the parent contribution will be higher than the initial SSS assessment. It is reasonable to propose that applying COLA as appropriate is a more accurate reflection of family expenses and, therefore, leads to a fairer distribution of financial aid funds.

It is important for the financial aid policy on this adjustment to be uniform. If this adjustment is made for one applicant, best practice is to make it for all families from the same locale.

F. Additional Family Financial Information

The PFS contains several questions that are not used in the Methodology but are provided to help financial aid administrators determine additional detail about the family, its standard of living, and its obligations for educational expenses. For example, the PFS asks parents to include an amount of tuition they feel they can pay to cover tuition costs. Parents who are filing a PFS for the first time sometimes include dollar amounts that might not be realistic – either overstated or understated. Parents may offer considerably more than SSS suggests they can afford. On the other hand, some families may believe that financial aid funds are designed to enable them to maintain their standard of living and are unwilling to contribute their fair share toward their children's education.

Also, families should not necessarily expect direct grants to offset such circumstances as parents' sabbatical leaves at reduced income or early retirement without physical cause. Loans might be better financing options in these circumstances.

11 Special Circumstances

G. Geographical Cost-of-Living Adjustment Indices

Source: C2ER Cost-of-Living Index, 1st Quarter Index, 2020.

The index measures relative price levels for consumer goods and services in participating areas. The average of all participating places equals 100 and each index is read as a percentage of the average for all places. The index does not measure inflation as the price index compares prices at a single point in time and because participating areas may change from one quarter to the next, index data from different quarters cannot be compared. Not all cities/locales participate in the ACCRA pricing surveys each quarter. If a locale's COLA value was not available for 2020, the most recently available value from past surveys is shown. State averages of reported COLAs reflect the average of all COLA values reported/displayed.

Alabama	
Anniston-Calhoun County	0.836
Auburn-Opelika	0,956
Birmingham	0.914
Decautur-Hartselle	0.855
Dothan	0.879
Florence	0.853
Gadsden	0.861
Huntsville	0.939
Mobile	0.908
Tuscaloosa	0.944
Avg. of Reported AL COLAs	*0.896*

Alaska	
Anchorage	1.244
Fairbanks	1.279
Juneau	1.329
Kodiak	1.318
Avg. of Reported AK COLAs	*1.293*

Arizona	
Bullhead City	0.924
Flagstaff	1.141
Lake Havasu City	1.016
Phoenix	1.009
Prescott-Prescott Valley	1.094
Scottsdale	1.135
Sierra Vista	0.922
Surprise	0.925
Tuscon	0.971
Yuma	0.979
Avg. of Reported AZ COLAs	*1.012*

Arkansas	
Conway	0.830
Fayetteville	0.831
Fort Smith	0.851
Hot Springs	0.914
Jonesboro	0.874
Little Rock-North Little Rock	0.963
Avg. of Reported AR COLAs	*0.877*

California	
Bakersfield	1.098
Fresno	1.058
Los Angeles-Long Beach	1.466
Modesto	1.089
Oakland	1.539
Orange County	1.502
Palm Springs	1.227
Riverside City	1.132
Sacramento	1.235
San Diego	1.411
San Francisco	1.947
San Jose	1.483
Stockton	1.220
Tracy	1.246
Truckee	1.349
Avg. of Reported CA COLAs	*1.349*

Colorado	
Boulder	1.247
Colorado Springs	1.029
Denver	1.111
Glenwood Springs	1.178
Grand Junction	0.990
Gunnison	1.021
Loveland	0.905
Pueblo	0.940
Westminster	1.090
Avg. of Reported CO COLAs	*1.057*

Connecticut	
Harford	1.158
New Haven	1.203
New London	1.164
Stamford	1.364
Avg. of Reported CT COLAs	*1.222*

Delaware	
Dover	1.048
Sussex County	1.063
Wilmington	1.121
Avg. of Reported DE COLAs	*1.077*

District of Columbia	
Washington-Arlington-Alexandria-DC-VA	1.607

11 Special Circumstances

Florida	
Bradenton	0.984
Cape Coral-Fort Myers	0.982
Daytona Beach	0.901
Fort Lauderdale	1.130
Gainesville	1.009
Jacksonville	0.911
Miami-Dade County	1.710
Orlando	0.913
Palm Coast-Flagler County	0.946
Panama City	0.995
Pensacola	0.970
Punta Gorda-Charlotte Co.	0.951
St. Petersburg-Clearwater	0.993
Sarasota	1.007
Tallahassee	0.973
Tampa	0.935
Vero Beach-Indian River	0.976
West Palm Beach	1.076
Avg. of Reported FL COLAs	*0.990*

Georgia	
Albany	0.900
Americus	0.808
Atlanta	0.999
Augusta-Aiken	0.896
Columbus	0.903
Dalton	0.870
Douglas	0.903
Dublin-Laurens County	0.896
Fayetteville-Fayette County	0.962
LaGrange-Troup County	0.835
Marietta	0.947
Savannah	0.889
Statesboro-Bulloch County	0.817
Valdosta	0.926
Avg. of Reported GA COLAs	*0.903*

Hawaii	
Hilo	1.512
Honolulu	1.976
Avg. of Reported HI COLAs	*1.744*

Idaho	
Boise	1.001
Idaho Falls	0.824
Twin Falls	0.884
Avg. of Reported ID COLAs	*0.903*

Illinois	
Bloomington-Normal	0.973
Carbondale	0.931
Champaign-Urbana	0.875
Chicago	1.200
Danville	0.869
Decatur	0.845
Galesburg	0.925
Joliet-Will County	0.987
Kankakee	0.921
Peoria	0.886
Quincy	0.933
Rockford	0.895
Springfield	0.934
Avg. of Reported IL COLAs	*0.937*

Indiana	
Bloomington	0.975
Elkhart-Goshen	0.884
Evansville	0.928
Fort Wayne-Allen County	0.858
Indianapolis	0.917
Indianapolis-Morgan County	0.851
Kokomo	0.857
Lafayette	0.883
Muncie	0.908
Richmond	0.802
South Bend	0.953
Terre Haute	0.880
Avg. of Reported IN COLAs	*0.891*

Iowa	
Ames	0.999
Burlington	0.854
Cedar Rapids	0.942
Davenport-Moline-Rock Is IA-IL	0.912
Des Moines	0.895
Dubuque	0.902
Iowa City	0.959
Mason City	0.888
Sioux City	0.888
Waterloo-Cedar Falls	0.880
Avg. of Reported IA COLAs	0.912

Kansas	
Dodge City	0.906
Garden City	0.913
Hays	0.893
Hutchinson	0.880
Lawrence	0.955
Manhattan	0.906
Pittsburg	0.806
Salina	0.825
Topeka	0.873
Witchita	0.900
Avg. of Reported KS COLAs	*0.888*

Kentucky	
Ashland	0.924
Bowling Green	0.887
Covington	0.877
Lexington	0.948
Louisville	0.935
Paducah	0.904
Avg. of Reported KY COLAs	*0.913*

Maine	
Portland	1.152
Avg. of Reported ME COLAs	*1.152*

11 **Special** Circumstances

Maryland	
Baltimore	1.105
Bethesda, Gaithersburg, Frederick	1.455
Avg. of Reported MD COLAs	*1.280*

Massachusetts	
Boston	1.488
Fitchburg-Leominster	1.151
Framingham-Natick	1.401
Pittsfield	1.106
Avg. of Reported MA COLAs	*1.287*

Michigan	
Ann Arbor	1.047
Benton Harbor	0.872
Detroit	1.006
Grand Rapids	0.941
Kalamazoo	0.784
Lansing	0.923
Avg. of Reported MI COLAs	*0.929*

Minnesota	
Mankato	0.900
Minneapolis	1.057
Rochester	1.015
St. Cloud	1.024
St. Paul	1.068
Avg. of Reported MN COLAs	*1.013*

Mississippi	
Gulport-Biloxi	0.898
Hattiesburg	0.866
Jackson	0.868
Meridian	0.860
Pascagoula	0.921
Tupelo	0.814
Avg. of Reported MS COLAs	*0.909*

Missouri	
Columbia	0.909
Jefferson City	0.875
Joplin	0.804
Kansas City	0.954
St. Joseph	0.931
St. Louis	0.879
Springfield	0.878
Avg. of Reported MO COLAs	*0.890*

Montana	
Bozeman	1.082
Kalispell	0.962
Missoula	1.002
Avg. of Reported MT COLAs	*1.015*

Nebraska	
Hastings	0.925
Lincoln	0.926
Omaha	0.933
Avg. of Reported NE COLAs	*0.928*

Nevada	
Las Vegas	1.048
Reno-Sparks	1.128
Avg. of Reported NV COLAs	*1.088*

New Hampshire	
Manchester	1.080
Avg. of Reported NH COLAs	*1.080*

New Jersey	
Bergen-Passaic	1.266
Middlesex-Monmouth	1.207
Morristown	1.198
Newark-Elizabeth	1.224
Avg. of Reported NJ COLAs	*1.224*

New Mexico	
Albuquerque	0.968
Carlsbad	0.939
Farmington	0.991
Las Cruces	0.870
Los Alamos	1.034
Roswell	0.979
Avg. of Reported NM COLAs	*0.951*

New York	
Albany	1.090
Binghamton	1.019
Buffalo	0.963
Dutchess County	1.217
Elmira	1.101
Glens Falls	1.100
Ithaca	1.032
Nassau County	1.282
New York (Brooklyn)	1.805
New York (Manhattan)	2.457
New York (Queens)	1.478
Rochester	0.970
Syracuse	1.016
Utica-Rome	0.936
Avg. of Reported NY COLAs	*1.248*

North Carolina	
Asheville	1.038
Burlington	0.911
Chapel Hill	0.917
Charlotte	0.982
Dare County	1.016
Fayetteville	0.957
Gastonia	0.920
Greenville	0.992
Hickory	0.938
Jacksonville	0.987
Kinston	0.942
Marlon-McDowell County	0.931
Raleigh	0.968
Salisbury	0.925
Thomasville-Lexington	0.898
Wilkesboro	0.945
Wilmington	0.962
Winston-Salem	0.962
Avg. of Reported NC COLAs	*0.951*

North Dakota	
Bismarck-Mandan	0.959
Fargo-Moorhead	0.977
Grand Forks	0.907
Minot	1.029
Avg. of Reported ND COLAs	*0.968*

11 Special Circumstances

Ohio	
Akron	0.979
Ashland	0.848
Cincinnati	0.943
Cleveland	0.959
Columbus	0.916
Dayton	0.918
Findlay	0.927
Lima	0.862
Troy-Miami County	0.938
Wooster	0.914
Avg. of Reported OH COLAs	*0.911*

Oklahoma	
Ardmore	0.895
Broken Arrow	0.855
Enid	0.863
Lawton	0.890
McAlester	0.912
Muskogee	0.800
Norman	0.893
Oklahoma City	0.858
Ponca City	0.879
Pryor Creek	0.852
Stillwater	0.919
Tulsa	0.844
Avg. of Reported OK COLAs	*0.873*

Pennsylvania	
Allentown	1.047
Erie	0.963
Harrisburg	0.986
Indiana County	0.951
Johnstown	0.942
Lancaster	1.059
Philadelphia	1.104
Pittsburgh	1.029
Scranton	0.981
Wilkes-Barre	1.000
Williamsport-Lycoming County	0.980
York County	0.948
Avg. of Reported PA COLAs	*0.999*

Puerto Rico	
San Juan	1.025
Avg. of Reported PR COLAs	*1.025*

Rhode Island	
Providence	1.186
Avg. of Reported RI COLAs	*1.186*

South Carolina	
Anderson	0.891
Beaufort	0.995
Camden	0.926
Charleston–N. Charleston	0.990
Columbia	0.893
Florence	0.903
Greenville	0.935
Hilton Head Island	1.108
Myrtle Beach	0.928
Spartanburg	0.913
Sumter	0.917
Avg. of Reported SC COLAs	*0.945*

South Dakota	
Pierre	0.997
Rapid City	0.951
Sioux Falls	0.928
Avg. of Reported SD COLAs	*0.959*

Tennessee	
Chattanooga	0.935
Clarksville	0.975
Cleveland	0.875
Columbia–Maury County	0.914
Cookeville	0.910
Dyersburg	0.910
Jackson–Madison County	0.914
Johnson City	0.999
Kingsport	0.941
Knoxville	0.832
Memphis	0.827
Morristown	0.871
Nashville–Murfreesboro	0.960
Avg. of Reported TN COLAs	*0.907*

Texas	
Abilene	0.868
Allen	0.925
Amarillo	0.814
Arlington	0.959
Athens–Henderson County	0.878
Austin	1.007
Beaumont	0.950
Brazoria County	0.901
Brownsville	0.861
Bryan–College Station	0.918
Cedar Park	0.948
Conroe	0.908
Coppell	0.997
Corpus Christi	0.953
Dallas	1.076
Denton	0.924
El Paso	0.894
Fort Worth	0.945
Harlingen	0.756
Houston	0.956
Longview	0.922
Lubbock	0.930
Lufkin	0.963
McAllen	0.752
Midland	0.989
Nacogdoches	0.884
Odessa	0.961
Palestine–Anderson County	0.877
Paris	0.910
Plano	1.102
Round Rock	0.903
San Angelo	0.897
San Antonio	0.872
San Marcos	0.924
Seguin	0.857
Sherman–Denison	0.922
Temple	0.877
Texarkana (TX-AR)	0.866
Tyler	0.914
Waco	0.913
Weatherford	0.880
Wichita Falls	0.868
Avg. of Reported TX COLAs	*0.915*

11 Special Circumstances

Utah	
Cedar City	0.936
Logan	0.963
Ogden	0.927
Provo–Orem	0.956
St. George	1.021
Salt Lake City	1.005
Avg. of Reported UT COLAs	*0.968*

Vermont	
Burlington–Chittenden County	1.167

Virginia	
Alexandria	1.400
Arlington	1.505
Blacksburg	0.940
Charlottesville	1.052
Danville	0.873
Hampton Roads–SE Virginia	0.932
Harrisonburg	0.958
Lexington–Buena Vista–Rockbridge	0.916
Lynchburg	0.886
Martinsville–Henry County	0.844
Richmond	0.949
Roanoke	0.896
Staunton–Augusta County	0.961
Winchester (VA-WV)	0.977
Avg. of Reported VA COLAs	*1.006*

Washington	
Bellingham	1.178
Everett	1.135
Kennewick–Richland–Pasco	1.007
Moses Lake	0.953
Mount Vernon–Skagit County	1.176
Olympia	1.102
Seattle	1.567
Spokane	1.049
Tacoma	1.116
Vancouver	1.013
Wenatchee	1.084
Yakima	0.980
Avg. of Reported WA COLAs	*1.113*

West Virginia	
Charleston	0.947
Clarksburg	0.951
Martinsburg–Berkeley County	0.951
Morgantown	0.924
Avg. of Reported WV COLAs	*0.934*

Wisconsin	
Appleton	0.939
Eau Claire	0.942
Fond du Lac	0.967
Green Bay	0.885
Janesville	0.979
Madison	1.067
Marshfield	0.926
Milwaukee–Waukesha	0.964
Sheboygan	0.991
Wausau	0.936
Avg. of Reported WI COLAs	*0.960*

Wyoming	
Cheyenne	0.985
Laramie	0.905
Avg. of Reported WY COLAs	*0.945*

12 Understanding the **Report of Family Contribution** (RFC)

A. Introduction

After you have familiarized yourself with the Parents' Financial Statement (PFS), the Family Contribution Worksheet (FCW), and the Report of Family Contribution (RFC), you are ready to begin the actual review of a financial aid case. While SSS strongly encourages schools to require parents to submit the IRS 1040 Form and all schedules as part of the review process, the following discussion will focus on the review of the PFS in conjunction with the School Report. It is important to note, however, that a comparison of the PFS with a family's tax return may yield some differences between the two. These differences may be substantial enough to cause a financial aid administrator to revise a calculation for a case using the figures on the tax return.

As always, professional judgment plays an important role in this process as there may be allowable IRS deductions you may not wish to support with your financial aid budget (depreciation on a rental home, as one example). To assist you in the review of the PFS with the 1040 Form, SSS can collect tax documents on your behalf, scan them for your review, and capture relevant data that corresponds to PFS entries and present additional data from them that are relevant to financial aid review (such as depreciation and some forms of untaxed income). The SSS website (solutionsbysss.com) also contains resources for financial aid administrators to increase expertise in evaluating tax forms in the aid process.

B. Reviewing the Unusual Condition (UC) Messages

In reviewing the RFC and the PFS, SSS recommends you first take advantage of the work that has been done for you, particularly through the editing process and document data capture/comparison features of the SSS School Portal. Be sure to review and consider any Unusual Condition messages flagged in the student record. Each of these messages is generated because of a comparison of information on the PFS, which you should review in accordance with your school's policies. In addition, with these messages, SSS recommends possible actions you may wish to take. In some cases, you may need to revise a case using more appropriate figures. In other cases, you may find an acceptable explanation for a condition provided by the family in the PFS that is in keeping with your school's policies. It is important to note that neither NAIS nor SSS makes decisions in these areas not only because schools should have this responsibility, but also because different schools may wish to handle them in ways NAIS or SSS does not presume to know. There may be a variety of ways to interpret the description/ rationale a family provides, and SSS does not want to determine specific decisions for schools on individual cases where professional judgment is required.

As you complete the review of these messages, you will be able to determine whether a revision of the case is necessary. Please keep in mind, however, that there may be other reasons why a financial aid administrator may want to recalculate a case given that school's policies (divorce or separation situations, differences with the tax return, different financial information being shared by the family, etc.). Whatever the case, a helpful hint to keep in mind in this process is that changes to the family's income will have a greater impact upon the parental contribution for education than will changes to the family's assets. Therefore, you may determine that spending time doing a revision is unnecessary given the dollar amount being changed and the number of cases you must review.

C. Possible Actions in Response to an Unusual Condition Message

Listed below are the Unusual Condition messages SSS provides and possible actions you may wish to take to resolve any questions raised by these prompts.

Unusual Conditions

Description	Possible Action
No income tax reported for the year and total taxable income exceed $20,000.	Verify the SSS-computed federal income tax allowance against the tax return and revise the parents' contribution based on actual taxes paid by the family.
Income tax reported for the year is less than 80% of standard tax.	If the tax return is unavailable, the financial aid administrator may wish to use the reported tax figure and recalculate the applicant's financial need with that figure (resulting in a higher parents' contribution) until the amount of tax paid can be verified.
Income tax reported for the year exceeds standard tax by 20% or more.	If the family appeals the decision before the tax return is available, look at the previous year's reported tax paid and the family's financial circumstances to determine if the higher reported tax figure is reasonable before agreeing to use it. Be sure the family knows that a copy of the actual tax return is required as soon as it is filed and that the parent's contribution could change.
Taxed income is zero.	Review the amount of nontaxable income. Is it sufficient to support the family? Review the family's listed expenses (mortgage, rent, etc.). If the sources of income do not appear sufficient to cover expenses, you may wish to call or write a follow-up email or letter to the family asking how it has met its basic living expenses. This may also be an indication that the family had other taxable income losses that canceled out the income on the tax return, in which case the complete return, including all schedules, should be reviewed carefully. It may also indicate the family is receiving support from friends or other family members that should be included as nontaxable income.
Salary/Wages for current year differs by 15% or more from projected year.	Review both years' incomes. Does the PFS include an explanation for the difference? Has one or the other parent changed jobs or become unemployed, or has the parents' marital status changed recently? If no explanation is discernible, you may wish to call or write a follow-up email or letter to the family asking for an explanation of the difference. The family's response may determine whether financial need should be revised on the basis of the estimated-year information.
Medical expenses exceed 5% of total income.	Ask for Schedule A (itemized deductions) of the family's federal income tax return and review the total medical expenses. If the family does not itemize or has not filed a return yet, ask for an itemization or explanation of the medical expenses if none is given on the PFS. You may also request copies of medical bills or receipts to substantiate the allowance. Review the expenditures to see if they are for allowable procedures.

12

Understanding the **Report of Family Contribution** (RFC)

Unusual Conditions

Description	Possible Action
Adjustments to income exceed 25%.	This condition indicates that income tax return "adjustments to income" have been listed by the family on the PFS and are high enough to potentially affect the parents' contribution. These adjustments, which should be verified from the tax return, may include employee business expenses, self-employed health insurance, withdrawal penalty on savings, or alimony paid. IRA and Keogh deductions should not be included here because they are listed separately on the PFS and are included (added back) in the need analysis as nontaxable income. If the tax return has not been filed, the family should provide an explanation, or these amounts should be disallowed (added back into the income side of the analysis) until the return is received.
Unusual expenses exceed 15% of income.	Although parents have been given instructions as to what is allowable in the directions to the PFS, there should be an explanation included. If no explanation is given and the amount is significant, ask for an explanation. Some schools disallow indebtedness or unusual expenses if they are not explained on the PFS. Review the listed expenses carefully and keep in mind what are and are not allowable expenses. See Section X in this Manual for a list of allowable and non-allowable expenses. If some or all of the expenses are non-allowable, recalculate the case by eliminating the non-allowable amount(s).
Indebtedness exceeds assets.	Although parents have been given instructions as to what is allowable in the PFS instructions, there should be an explanation provided. If no explanation is given and the amount is significant, ask for an explanation. Keeping in mind what are and what are not generally accepted allowable debts, (see Section X of this Manual), adjustments may need to be made to the amount used on the RFC and a revision done. If the family has recently experienced unemployment or underemployment, however, it may explain why credit cards were used for allowable expenses, not discretionary consumer purchases. If this is the case, the financial aid administrator may choose to allow these as legitimate debts against net worth in the calculation. SSS does not review the items entered here. They should be reviewed and/or adjusted according to the school's policies. For families enrolled over a period of years, this category should be reviewed each year. If a family's indebtedness increases substantially from year to year, that may indicate something about the family's life-style and/or the impact of the school's determination of the family's ability to pay. Conversely, if indebtedness is reduced substantially, that may also indicate something about the family's available funds.

12 Understanding the **Report of Family Contribution** (RFC)

Unusual Conditions

Description	Possible Action
Taxable dividend and/or interest income represents less than a 1.3% return on the total of bank accounts and investments when this total exceeds $5,000. **OR** Taxable dividend and/or interest income represents more than a 1.3% return on the total of bank accounts and investments when this total exceeds $250.	If the family has not provided an explanation on the PFS, the financial aid administrator may wish to call or write a follow-up email or letter asking why the reported interest or dividend income (after checking the tax return) does not reflect a reasonable (1.3%) rate of return on the total interest-bearing bank accounts and investments listed. Some schools decide to consider a rate of return other than 1.3% and impute an assumed value of assets in lieu of contacting the family for explanation, and revise the parent contribution accordingly. Even in these cases, the message will trigger the aid administrator to review the items.
Other Taxable Income is negative.	This may likely reflect losses from rental properties and/or other business ventures. You should review Schedule E of the federal income tax return and possibly disallow some or all of these write-offs based upon the parents' clarification and your school policy for allowing business losses and/or depreciation expenses. If the tax return is not yet available, you may wish to disallow the full amount.
Review per-student Family Contribution. The contribution may not be appropriate given varying school expenses for each student.	Compare the per-student Family Contribution(s) to each student's school expenses. If the other student's school expenses are lower than his/her per student Family Contribution, consider raising the applicant's Family Contribution by the difference between the other student's Family Contribution(s) and his/her expenses. On the other hand, if the applicant's Family Contribution exceeds the applicant's expenses, consider raising the other student's contribution(s).
More than $2,000 of student assets are listed for at least one of the children in the family; the Estimated Family Contribution for each child may differ.	It may be appropriate to apportion the student asset contributions among the children differently depending upon the cost of education at each of the schools to be attended by the children and the level of each child's asset contribution. For example, if the assets of one child are substantially greater than those of the other children and the costs of that child are more than covered by the family contribution, you may decide to apportion any excess student's asset contribution among the other children. To facilitate the comparison of the contributions for the children, SSS provides on the RFC the Estimated Family Contributions for each student applicant when student assets are listed for at least one of the children. Also, be advised that if the parents explain that the assets are not accessible for any reason, seek documentation before deciding to remove the assets from the calculation (e.g., copy of trust agreements).

12 Understanding the **Report of Family Contribution** (RFC)

Unusual Conditions

Description	Possible Action
The home equity used in the computation has been capped at three times the total income.	The actual home equity is greater than the amount being used in the calculation. You can decide to keep that cap in place or uncap the equity to use the full amount as a factor in revising the family contribution. There may be circumstances in which there are significant liquid assets when the aid administrator may wish to increase the home equity above the capped home equity value. It is also a good idea to double-check the relative accuracy of the reported value of the home. You can use the Housing Index Multiplier (HIM) value to estimate current market value. If so, note that the Housing Index Multiplier only reflects national change in home value. Therefore, an understanding of local real estate markets may appropriately suggest other adjustments to the home value used in the analysis.
Indebtedness exceeds assets.	SSS calculations do not allow negative equity, setting a floor on net worth at $0. While it is unusual, it is possible for a family to have a mortgage that exceeds the present market value of their home and other real estate. This circumstance may occur as the result of a second mortgage, a lien against the property, or a significant drop in property value. You will want to determine whether the family has provided sufficient information to explain the relatively high mortgage and/or low valuation, or you may wish to call or write the family asking why the mortgage exceeds the value of the property.
Business income/loss shown on 1040, but no business declared on PFS.	Business and farm situations can be extremely complex and can require more information than is provided on the PFS to discern the proper course of action in review. Thus, you may wish to collect additional information in each business/farm case. You should require that all families with business/farm income or assets submit appropriate tax forms (such as the Schedule C or Schedule E), and/or you may need to ask the family for further clarification of ownership, rental property, farm property used for the family residence, whether a business is the primary or secondary source of income, etc. If the parent(s) did not report owning a business on the PFS, instruct them to go back to their PFS and complete the Business/Farm section of the form and resubmit it for a recalculation. Based on that new information and your review of their business tax forms, recalculate the final family contribution.

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