

Financial Need

A student's financial need is determined through a process called "need analysis". Need analysis has two components – the student's cost of attendance at the institution attended and the student's Expected Family Contribution (EFC).

Cost of attendance (also referred to as COA or Student Budget)

- The Financial Aid Office will include the following in determining the student's annual cost of attendance at that school:
 - Tuition and Fees (this includes all institutional fees)
 - Room and Board (whether on-campus, off-campus, or living with parents)
 - Books and Supplies (typically an average allowance for the entire student body)
 - Transportation Expenses (even if the student is living on-campus)
 - Miscellaneous Personal Expenses (clothing, entertainment, toiletries, etc.)
- In addition to developing these standard budget figures, the school has the discretion to add other expenses such as child care and special equipment purchases, and to adjust other costs estimates on a case by case basis.
- Costs vary greatly from school to school. In evaluating college costs, students must be sure to compare similar expenses. They should not consider tuition and fees only at one school and all costs at another school.
- In preparing to meet the cost of attendance, families should distinguish between direct costs to be paid to the institution (tuition and fees, room and board, books and supplies) and those indirect costs over which they may have more control (transportation costs and personal expenses).

Expected Family Contribution (EFC)

- The EFC is a number derived from a federal formula which considers a family's income, assets, and other factors. Because this is a federally calculated number, the EFC is the same no matter which school the student attends.
- In theory, the EFC is the amount a family can reasonably be expected to pay toward college expenses each year. In reality, it is not the amount a student is required to pay and it rarely is the amount a family actually pays.
- The EFC formula is very much income driven. While assets must be reported in many cases, they often have no impact on the EFC.

- The major factors in determining the EFC for dependent students are:
 - Parental income and assets
 - Student income and assets
 - Family size and number of family members in college
 - Age of the older parent
- Income is treated as follows:
 - For parental income, the formula includes allowances for federal, state, and local taxes, Social Security taxes, and working parent households, and also includes a standard living allowance based on the size of family.
 - For student income, the formula includes allowances for federal, state, and local taxes and Social Security taxes. Then an income allowance (currently \$4,500) is applied. Any remaining amount is assessed at 50%. Prior year Federal Work Study earnings are not treated as income in determining the EFC.
- Assets are treated as follows:
 - Parents do NOT report the value of the primary residence, personal property, retirement accounts, or life insurance. Most other assets (cash, savings, CD's, mutual funds, 529 plans, stocks, rental properties, etc.) must be reported.
 - An Asset Protection Allowance (based on the age of the older parent) is then applied against the net worth of reported parental assets. Often this allowance exceeds reported assets, meaning no assets count in the EFC calculation.
 - Dependent students must report any assets in their name. They do not receive an Asset Protection Allowance. Their reported assets are assessed at 20% and factor into the calculation of the EFC.
 - Two special processing formulas (noted below) eliminate all assets from the EFC formula.
- The EFC formula does not include provisions for home mortgages, consumer debt, auto expenses, unusual medical or dental expenses, private elementary or secondary school tuition, or parents enrolled in college. However, schools are permitted to adjust various data elements that make up the EFC when awarding institutional aid.

SPECIAL PROCESSING FORMULAS - In addition to the standard formula, there are two special processing formulas that eliminate all assets from the EFC calculation. Both formulas consider the family's receipt of means-tested federal benefits (SSI, Food Stamps, Free and Reduced Price School Lunch, TANF, or WIC), the parents' or student's tax filing status, or the parent or student being a dislocated worker, along with annual income.

- The Simplified Formula applies when anyone in the parent(s) household received means-tested benefits, OR the parent(s) filed a Federal Form 1040A or

1040EZ in completing their taxes, OR a parent is a dislocated worker, AND the parents' prior year income is less than \$50,000. In this case, no student or parental assets count in the EFC calculation. This formula also applies to independent students (and their spouse if married).

- The Automatic Zero EFC Formula applies when the same conditions stated above for the parent(s) have been met, but the annual income is \$30,000 or less. In this case, no student or parental assets are counted, and the EFC is automatically zero. For independent students to be considered under this formula, they must have dependents other than a spouse. Single independent students and independent students with no dependents other than a spouse do not qualify the Automatic Zero EFC Formula.

Sample EFC Calculation - The following is a very basic, unofficial EFC for a family of four with one in college and no significant assets to report:

<u>Income:</u>	<u>EFC:</u>	<u>Income:</u>	<u>EFC:</u>
\$25,000	0	\$100,000	16,500
\$50,000	2,400	\$125,000	26,600
\$75,000	<u>8,400</u>	\$150,000	35,700

- If \$100,000 in parent assets, add \$3,000 to the EFC for those over \$50,000 income.
- If \$2,500 in student assets, add \$500 to the EFC for those over \$50,000 income.
- If \$7,500 in student income, add \$1,000 to the EFC for those over \$25,000 income.
- By understanding the ways in which income and assets are treated in the EFC formula, families can greatly expand their options for meeting college costs and minimize their debt burden. For example, parents should understand that saving for college is a GOOD thing since in most cases those assets will not affect the student's eligibility for need-based aid. And students should consider working to help pay for their own college expenses since student employment (particularly Federal Work Study) is heavily protected.

Calculation of Financial Need

The term "financial need" means different things to different people:

- To the Financial Aid Office, need is defined as the cost of education minus the EFC. The resulting figure – the student's financial need – is the student's eligibility for need-based financial aid (grants, work study, subsidized student loans).
- To the family, need is sometimes defined as the cost of attendance minus all financial aid they will receive, including student loans. The resulting figure – their "gap" – is the amount they must still cover through savings, income, or additional borrowing.

- The family can also define need as the cost of attendance minus gift aid – the free money. This can more accurately be referred to as their **ACTUAL** Family Contribution, as this is the amount they ultimately must cover through savings, income, and borrowing.

Defining financial need is further complicated by the fact that need does not determine the amount of financial aid which can be received. Students can receive aid (such as unsubsidized Stafford Loans or PLUS loans) to meet, or replace, their EFC. So in reality, students may receive aid up to the total cost of the school, not just the amount of their financial need.

Meeting Financial Need

- The process by which schools make financial aid awards and meet financial need is called **packaging**. Each school has its own philosophy on packaging and how it will use institutional funds to meet student need. These packaging strategies could revolve around need-based aid, merit-based aid, “need blind” admissions, early decision applications, honors programs, and other factors which they determine to be important to their mission.
- Schools can also set their own parameters, application processes, and application deadlines in awarding their own funds.
- Schools will typically utilize the following types of financial aid in the packaging process, though not necessarily in this order:
 - Federal and state grants
 - Employment (Federal Work Study and institutional employment)
 - Institutional grants and scholarships (need based and merit based)
 - Private scholarships of which they are aware
 - Perkins Loans
 - Subsidized and Unsubsidized Stafford Loans
 - PLUS Loans (as a means of meeting any remaining “gap”)
- The school determines eligibility for these types of aid and presents this “package” to the student in the form of a Financial Aid Award Letter which typically includes:
 - The cost of attendance
 - The types and amounts of financial aid being offered
 - The conditions that have been placed on any of the awards
 - The steps the student must take to accept the financial aid package
 - The student’s rights and responsibilities
 - The renewal, revision, and appeal processes
 - The Policy on Satisfactory Academic Progress for maintaining future eligibility