

DOCUMENT RESUME

ED 403 797

HE 029 805

TITLE Bulding for Reauthorization--Need Analysis.  
Rethinking Federal Student Aid Delivery: A Concept  
Paper and Issues for Comment.

INSTITUTION National Association of Student Financial Aid  
Administrators, Washington, D.C.

PUB DATE Dec 96

NOTE 16p.

PUB TYPE Viewpoints (Opinion/Position Papers, Essays, etc.)  
(120)

EDRS PRICE MF01/PC01 Plus Postage.

DESCRIPTORS College Students; Educational Legislation;  
\*Eligibility; Federal Aid; Federal Legislation;  
Federal Programs; Higher Education; \*Need Analysis  
(Student Financial Aid); Paying for College; Policy  
Formation; \*Student Financial Aid

IDENTIFIERS \*Higher Education Act 1965; \*Reauthorization  
Legislation

ABSTRACT

This paper requests comments by January 21, 1997 concerning a new application process for students applying for federal financial aid and a listing of need analysis issues concerning student aid to be considered as part of the reauthorization process for the Higher Education Act. Several possible viewpoints concerning need analysis and delivery system changes are presented, including the view that federal methodology should be brought in line with traditional need analysis used by institutions for their own funds, and another view that the federal system should determine eligibility apart from need analysis. A student application process is proposed which would allow students to apply for federal student aid by supplying releases and minimal information to allow determination of federal aid eligibility using data retrieved from various agencies. Such a process is seen as increasing credibility, improving access, speeding application processing, and reducing verification efforts. Concerns of such a process regarding stability, availability, and ownership of data; as well as the impact of simplification are noted. Issues in the need analysis of students applying for financial aid are listed and briefly explained including: definition of "independent student," types of formulas for determining need, cost of attendance, demographics, income/income allowances, assets, other resources, professional judgment, and family savings effort. (DB)

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# Building for Reauthorization

## Need Analysis

### Rethinking Federal Student Aid Delivery: A Concept Paper

and

### Issues for Comment

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**December 1996**



# N • A • S • F • A • A

National Association of Student Financial Aid Administrators



December 1996

Dear NASFAA Member:

*Building for Reauthorization: Need Analysis*, prepared by the NASFAA Need Analysis Standards Committee, is another in the series of NASFAA documents to assist you with your reauthorization efforts.

This publication has two separate components: a concept paper titled "Rethinking Federal Student Aid Delivery" and a section listing a number of need analysis issues on which the Committee specifically requests comments. The 1995 NASFAA Forums "Need Analysis: Does It Still Work?" provided the basis for this issues list.

Your comments on both of these pieces are critical. With your help, NASFAA can prepare a comprehensive body of need analysis recommendations for the upcoming reauthorization. We encourage you to send feedback to NASFAA at the e-mail address at the bottom of each page of this document by January 21, 1997. For the concept paper, use the subject line "RETHINKING" and for the issues piece, use the subject line "NEEDISSUES."

If you have questions on the material in this publication, please contact any member of the Need Analysis Standards Committee listed at the end of the document, or Marty Guthrie in the NASFAA office.

Sincerely,

Dallas Martin  
President

# **RETHINKING THE FEDERAL STUDENT AID DELIVERY SYSTEM: A CONCEPT PAPER**

As the reauthorization of the Higher Education Act approaches, the range of thought for need analysis and delivery system changes spans two very different views. One view would modify the federal methodology to align it with that of schools using the traditional need analysis practices of institutional methodology to award their own funds. The second view would accept the federal system as one of determining eligibility and separate that practice from traditional need analysis.

The NASFAA Need Analysis Standards Committee (NASC) is exploring a new delivery process based on the second approach, which would use prior-year data from the IRS and data contained in other governmental databases. If the proposal is feasible and viewed favorably by the membership, the Committee will recommend that NASFAA advance it in the upcoming reauthorization. Your input is critical to moving forward with this initiative. Please send your comments to the address listed at the bottom of the page with subject line "RETHINKING."

The Committee's proposed process will allow students to apply for federal student aid by supplying releases and minimal information to permit determination of federal aid eligibility using data retrieved from various agencies. There are concerns about the stability of data, availability of data, ownership of data, and the impact of simplification. However, these concerns may be offset by the benefits of this process which include increased credibility, improved access, earlier application processing, and reduced verification.

To accept this alternate delivery approach, the Committee recognized certain realities, including:

- the current federal system fails to recognize all economic indicators of ability to pay, and
- the current political environment will not support making the system more elaborate and complex.

And, the Committee focused on current desires to simplify the eligibility process using advances in technology that permit more sophisticated data exchanges and transfers.

## **THE STUDENT APPLICATION PROCESS**

Under the Committee's delivery proposal, a student files an application which gives the Department of Education the identifiers necessary to access other federal databases. The identifiers relate to the student's dependency status, and student and parent marital status, and would probably include the following:

- name(s),
- relevant social security number(s),
- date of birth, and
- address.

Some combination of these identifiers would likely be necessary for record matches in the various Internal Revenue Service (IRS), Social Security Administration, Veteran's Administration, and other governmental agency databases.

Other questions may be needed to gather information not available on government databases, such as:

- family size;
- number in postsecondary education;
- untaxed income such as child support and housing allowances for military and clergy, and
- assets.

After processing, the student (and family) will receive an acknowledgment form identifying the information used to determine the student's eligibility. To address the potential for significant income variation, the acknowledgment could include a specific set of conditions relating to changes in circumstances. The student could use the acknowledgment to determine if submitting more information is necessary to document a substantial family change.

## OBTAINING DATA

Gathering a family's financial information directly from IRS is critical. More specifically, this approach will use a prior-prior-year set of income data since IRS will not have a completely processed set of income tax-related data available for filers for the base year. This means that, for example, 1995 income information would be used for the 1997-98 award year.

The information gathered from IRS includes data from W-2's, 1099's, and income tax returns. Clearly the viability of this proposal depends on the extent and timing of available and sharable information.

Certain untaxed income data, such as social security or veteran's benefits would not be available from the IRS database and would require other linkages. Information on untaxed income such as child support payments, Aid to Families With Dependent Children (AFDC), other welfare benefits, and housing allowances for military and clergy are unlikely to be included in any database and may need to be collected in another way. Such information may be collected through the initial application instrument or as a part of the student acknowledgment document.

Collection of asset information could occur in one of two different ways. One approach could impute asset values for a limited number of items, based on IRS data. Another approach could require applicants to report values for a limited number of asset items directly on the application form.

See the Appendix for further discussion on formula components.

## CONCERNS

Significant issues that demand further exploration before this proposal can be finalized include:

- **stability of data:** The frequency of income shifts is unknown. A mechanism will be needed to address significant changes in circumstances. Options to address this might include the use of professional judgment and/or a special condition process.
- **availability of data:** There are a number of complexities involved in obtaining data from multiple government sources.
- **ownership of data:** Tying the student aid application process to the use of external databases relinquishes control of the process. Relying on agencies whose priorities and control points are different than those held by the student aid community may be a problem, e.g., the IRS has no reason to distinguish between need-based and non-need-based student earnings.
- **impact of simplification:** Will this new process be more simple or more complicated to explain?

## BENEFITS

The Committee has identified the following important benefits in its discussions of this proposal:

- **increased public credibility:** Direct linkages with primary data sources offer less opportunity for the perceived manipulation of data and a higher degree of data accuracy.
- **improved access:** A simplified form structure will diminish application anxiety and confusion. Families will be less inclined to hire preparers.

-- **earlier application processing:** The processing system can begin operations earlier with a firm start date, dependent on IRS data availability. Schools may be able to send earlier award notifications to admitted students, permitting more time for long range planning to work out educational financing options.

-- **reduced verification:** Direct receipt of data from primary government sources will eliminate the need for the financial aid office to separately affirm that data.

### **SUMMARY**

Keep in mind that it is possible to create formulas using data available from the IRS to produce an expected family contribution (EFC) which is similar to the output from the current formulas. However, the new formulas may involve variables or modeling which are less easily explained to the public. Therefore, it is still preferable to use the available data in a way that relates logically to the use of the income.

In this respect, the EFC formulas would still follow a process of determining discretionary income through the use of income offsets and income to determine federal eligibility. As the research and development of this application and delivery approach progresses, the delivery issues must be considered distinctly from formula development issues, recognizing that the formula development effort will result in a different discussion about impact on eligibility.

The Committee strongly supports this concept. NASFAA will continue to research the administrative feasibility and projected outcomes of the process, however we need your comments to determine the viability of this concept as a recommendation.

Please consider and respond to the following questions:

- can this approach work for students as a process,
- can schools manage the change in the process, and
- can the various providers of data cooperate to permit this data transfer?

Your comments are essential. Send them to "poll@smtp.nasfaa.org" and use "RETHINKING" as your subject line. Please submit your comments by January 21, 1997.

## **APPENDIX**

Explanations follow on how this approach impacts EFC formula components.

**TAXABLE INCOME** Receiving adjusted gross income (AGI) and wage information directly from the IRS database would increase accuracy and reduce verification. Depending on the specific items keyed and saved, other detailed data such as interest and dividend income, business losses, and other miscellaneous income could be retrieved and used in the computation.

**UNTAXED INCOME** Data on contributions to individual retirement accounts (IRAs), and tax deferred retirement payments could be more accurate if W-2 data could be retrieved. These items, currently derived from worksheets in the Free Application for Federal Student Aid (FAFSA) instructions, are often misreported or under reported. The direct retrieval of this information can result in both greater accuracy and less verification activity.

As indicated in the paper, data on social security and veteran's benefits may not be retrieved from the IRS database and would require other linkages. Also, child support payments, AFDC, other welfare benefits, and housing allowances for military and clergy may not relate to any database and may need to be reported separately.

NASFAA believes it is essential to determine whether data from untaxed income sources has any significant impact on EFCs, and if so, at what income levels. Depending on the outcome, it may not be necessary to collect the data at certain income levels or a separate follow up or supplemental process may be needed to collect the data for those groups where it has a significant effect.

**TAXES PAID** Retrieving this data from the IRS database would increase accuracy for this element and eliminate erroneous reporting for filers who currently report the amounts withheld or the net tax payment.

**ALLOWANCES** The wage related income allowances, such as those for FICA and employment expenses, can be calculated on W-2 data, if available.

**ASSETS** Measuring the effect by various income groups will help determine if asset data is needed for certain parts of the applicant population. Specifically, the impact of assets on family contributions must be assessed in light of the Simplified Needs Test and the exclusion of home equity in the current federal methodology. If asset data is needed for computational purposes, it may be possible to derive asset levels from IRS data such as interest and dividend income, capital gains, and data from various business related schedules.

**HOUSEHOLD INFORMATION** Family size and number of family members attending postsecondary institutions are significant factors in the computation of the EFC. These data elements will likely need to be collected directly from the applicant, as a number or a listing, unless a strong correlation between tax exemptions and household size can be made.

## NEED ANALYSIS ISSUES FOR COMMENT

The Need Analysis Standards Committee has identified the following need analysis items to review with the NASFAA membership. After a brief description of each issue, we pose questions or options for your consideration. Where necessary, we give additional discussion points.

Your comments on these items are critical. Send them to the address at the bottom of the page and use "NEEDISSUES" as your subject line. Please submit your comments by January 21, 1997.

### A. DEFINITION OF INDEPENDENT STUDENT

**Independent student definition.** The independent student definition currently considers six conditions as criteria for determining a student's dependency status.

**Questions:** Do you believe these six conditions are sufficient as currently defined, or would changes be appropriate? Should students living at home be considered independent? Should the age criterion be higher or lower? Should mid-year updates to marital status be permitted? Should the veteran's definition be more restrictive? Is marriage itself an appropriate indicator? Should financial aid administrators be permitted to use professional judgment to make a student dependent who meets the independent student criteria?

### B. FORMULA TYPE

**Simplified Needs Test (SNT).** Current law eligibility for the SNT, which excludes any consideration of assets is as follows:

-- dependent students whose parents file (or are eligible to file) a 1040A, 1040EZ, or are not required to file a tax return and whose income is \$49,999 or less and the student files (or are eligible to file) a 1040A, 1040EZ, or is not required to file a tax return, and

-- independent students (and spouse) who file (or are eligible to file) a 1040A, 1040EZ, or are not required to file a tax return and whose income is \$49,999 or less.

**Questions:** Do you think the income level should be increased, reduced, or remain the same? Do you think this formula should continue or should all formulas consider assets as part of the family's financial strength? Is the SNT formula too complicated for families to determine eligibility particularly since more families are using tax preparers who always complete the 1040 form rather than the more simple tax returns?

**Automatic Zero EFC.** Current law allows dependent students whose parents file (or are eligible to file) a 1040A, 1040EZ, or are not required to file a tax return and whose total income is \$12,000 or less and independent students who file (or are eligible to file) a 1040A, 1040EZ, or were not required to file a tax return and whose total income is \$12,000 or less to automatically have a zero expected family contribution (EFC).

**Questions:** Should these criteria continue to be used for the automatic zero EFC calculation? Are other criteria which might better define a population which automatically has a zero EFC? For example, should all independent students and parents of dependent students who are welfare recipients qualify? How about recipients of Supplemental Security Income (SSI), or recipients of other social security benefits? If you agree these groups should qualify, can the application be designed with a check-off box which would allow them to skip the rest of the income and asset questions? Should an automatic zero EFC calculation continue for persons who have work earnings? How should, if at all, dependent student earnings be treated when evaluating overall family financial strength?



**Independent student without dependents other than a spouse.** This formula currently protects \$3,000 of income for the student and \$3,000 of income for the spouse (if the spouse is not enrolled in school at least half time) as an allowance toward expenses for the period of non-enrollment (typically summer) and expects 50% of income (after taxes and allowances) to be put toward educational expenses. In some cases, married students who are both enrolled in college may each be eligible for less financial aid than if only one were enrolled (even though the total financial aid award may be greater). Students with very modest incomes (in some cases working full-time for the full year at minimum wage) may not be eligible for Pell Grants (and thus other campus based grants) even though they may have significant financial need.

**Questions:** Do you think this treatment is fair? Is the allowance for the non-enrollment period reasonable? Would it be appropriate to increase the income protection allowance to sufficiently cover the non-enrollment period and spouse living expenses or is it more appropriate to reflect spouse living expenses in the cost of attendance? Should these students be directed (based on the formula and the exceptional need requirements for grants) to only the self-help programs? Should working married students who are both enrolled be less eligible for Pell Grants than if they were not married?

**Independent student with dependents other than a spouse.** This formula currently parallels the treatment of the parent of a dependent student and provides significant income and asset protection for the independent student who has dependents.

**Questions:** Should all students who have a dependent other than a spouse (even if these dependents are not children) receive the benefits of this formula or should they be treated more like the independent student who has no dependents other than a spouse? Do you think the income of other adults in the household should be included in the calculation and evaluation of overall family financial strength?

### C. COST OF ATTENDANCE

**Cost of attendance.** Cost of attendance is a co-equal part of the need equation and therefore deserves equally careful review to insure that student costs are accurately and adequately reflected.

**Questions:** Under the current EFC formulas for independent students with either a spouse or dependents, are living expenses of the family unit adequately reflected in the IPAs or is it better to account for them in the student's cost of attendance? Should the treatment be different for married students without dependents other than a spouse, or for married students whose spouse is also a student?

**Discussion:** Students with dependents other than a spouse who have low incomes may have an income insufficient to cover the expenses reflected in the IPA. Schools are permitted to use the negative amount as an adjustment to the currently defined cost of attendance. However, because this is an institutional option, students may not be uniformly treated. For married students without other dependents, the current \$3000/\$6000 IPA allowances may be insufficient to account for living costs during periods of non-enrollment. In addition, there is a perception that halving the IPA when the spouse is also a student results in inequitable Pell Grant awards.

**Other cost of attendance items.** Should other costs such as computer purchases, loan fees, and career certifications costs such as bar review preparation or licensure fees be included as standard cost of attendance components? Additionally, should reasonable car acquisition costs be included as standard cost of attendance components for students who are required to travel significant distances as part of their educational programs such as for student teaching or internships?

## D. DEMOGRAPHICS

**Definition of responsible parent.** For dependent students from traditional families, most agree that both parents are responsible for assisting with the student's educational costs. However, many dependent students now come from single parent families, from families with a stepparent, from blended families (where two divorced parents, each with children, remarry), and from alternative families (where a parent and dependent children live with an unrelated adult).

**Questions:** Which parent(s) in nontraditional families is responsible for the student's educational costs? Should it be only the custodial parent? Should it be the custodial parent and the stepparent, if the custodial parent is remarried, as the current formula requires? Should the non-custodial parent be responsible as well? What if there is a court order stating that the non-custodial parent is responsible for a portion of the educational expenses? If both natural parents are custodial parents, should both be responsible? If the custodial parents are remarried to others, should the stepparents be responsible as well? Should the resources of an unrelated adult living with the custodial parent be included in the need analysis?

**Definition of family.** Independent students' households may also have varied compositions. An independent student with a child may still be living in his/her own parent's household. An independent student may be living with an unrelated adult who is providing support for the student.

**Questions:** Should income and assets from other members in the student's household (other than a spouse) be included as resources in the need analysis? Many aid administrators believe that all resources available to the student should be tapped before using limited federal financial assistance. Should the demands of the application process be reconciled with the desire to tap all resources available to the student? If so, how?

**Updating household size and number in college.** These data elements constitute part of the "snapshot" of the family composition required by the Department of Education. These items must be updated upon submission of the ISIR, but is not permitted at any other time.

**Question:** Should the updating reflect the actual number of members of the household in attendance in postsecondary education, the number of members in the household rather than the best estimate provided at the time the ISIR is submitted?

**Discussion:** The provision of accurate data reflecting the actual family composition and educational participation should be preferable to consistency of procedure.

**Parents in college.** Currently, the federal rules require the parents to be included as part of the number in college if they meet the appropriate projected enrollment criteria.

**Questions:** Should parents be excluded from the number in college? If not, should there be more rigorous enrollment criteria or should the parents' direct educational costs be treated as an offset against income?

**Discussion:** There is some community concern that parents may be enrolling as part-time students in low cost programs to reduce the EFC.

**Number in household.** Current federal policy requires the inclusion of individuals who receive more than one half of their support from the family and who reside at home to be included in the number in household.

**Question:** Since students who are 24 or older are considered to be independent students, should any children age 24 or older be excluded from the household size?

## E. INCOME/INCOME ALLOWANCES

**Adjusted Gross Income.** The basis for determining the contribution from income has historically been Adjusted Gross Income (AGI) as reported on a family's IRS tax return. While AGI seems to be a simple, straightforward data element, some have questioned its reliability and fairness.

**Question:** Should the total income be used rather than AGI?

**Discussion:** The IRS allows a number of adjustments to reduce the family's income, including those for the IRA deduction, moving expenses, self-employed health insurance, Keoghs and self-employed SEP plans, alimony paid, early savings withdrawal penalties, and one-half of self-employment tax. Families with some of these deductions are instructed to report them as untaxed income on the Free Application for Federal Student Aid (FAFSA). Since these adjustments benefit some and not all families and since the applicant must add back many of these adjustments, maybe it's time to move to use of total income.

**Parent/student income as family income.** Federal Methodology (FM) treats income from parents and students separately. FM calculates the parent contribution from parental income and assets; the student contribution is based on the student's income and assets.

**Questions:** Since many families incur additional expense as a result of adolescent children and require them to work to offset those expenses, should parent and student income be combined as family income? Since the parents' Income Protection Allowance (IPA) is based on the total number in the household, should any sibling income be included in the family's total income?

**Discussion:** In certain economic situations, the student's income is in fact used to support the family. Further, in today's society, many families ask their sons and daughters to work to offset expenses such as higher auto insurance premiums, clothing, and other miscellaneous required high school expenses. The family incurs these non-discretionary expenses as a result of the student being an adolescent.

**Minimum student contribution.** FM does not require a minimum contribution from a dependent student. The methodology protects the first \$1,750 of earnings when calculating a dependent student's income contribution.

**Questions:** Should there be a standard minimum dependent student contribution in the FM? Would including a minimum contribution encourage or discourage students from working during non-enrollment periods? Would a minimum contribution be a disadvantage to individuals who live in high unemployment/underemployment areas?

**Discussion:** Traditional need analysis principles suggest that since a student directly benefits from his/her postsecondary education, the student should contribute a minimum portion of his/her income and assets to educational costs.

**Dependent student contribution.** The FM calculates a dependent student's contribution without regard for the number of months a student is enrolled in postsecondary education. The student contribution remains the same whether the student is enrolled for one month or nine months. Parent contributions are prorated on a monthly basis.

**Question:** Should the dependent student's contribution be prorated based on the number of months of attendance?

**Discussion:** Some feel this practice adds complexity to the eligibility determination when a student enrolls in a program of less than nine months, e.g., summer sessions. Some feel this practice does not accurately represent the student's true eligibility for Title IV funds.

**State and local tax allowance.** An allowance, based on the parents's state of residence and total income, is subtracted from parents' total income.

**Question:** Should the current state and local tax table be replaced with a more sensitive table, such as that developed by the College Scholarship Service (CSS)?

**Discussion:** The CSS tax table, introduced into the CSS Institutional methodology (IM) several years ago, includes tax percentages from smaller income bands. Rather than the two bands reflected in the current FM, the CSS IM gives tax allowance percentages for four income bands. The CSS approach reflects the significant differences in taxation rates for higher- and lower-income residents that prevail in many states.

**FICA.** FICA allowances are currently computed from the wages earned lines of the FAFSA. This does not permit the higher FICA payments by the self employed to be considered.

**Question:** Should earned income be identified separately from self employed income?

**Discussion:** The self-employed pay a higher FICA tax.

## F. ASSETS

**Parent/student assets as family assets.** The current FM taxes parent assets at a lower rate than student assets.

**Option:** Eliminate the separate treatment for parents and children; treat all as family assets.

**Discussion:** This change removes incentives to shift assets between family members merely to avoid higher assessment rates upon students. Assuming that most students accumulate a small share of assets relative to their parents', the loss in contributions from student assets is probably minimal.

**Retirement assets.** Current FM treatment protects a percentage of a family's assets based on the age of the older parent.

**Option:** Make the Asset Protection Allowance (APA) earnings-sensitive.

**Discussion:** This change recognizes that Social Security benefits are linked to earning levels and compensates for the current situation in which high earners get an inequitably high APA and low earners get an inequitably low APA.

**Non-home equity assets.** Current FM taxes cash, savings, and checking accounts, investments, real estate (other than the family's principal place of residence), and a percentage of business and farm equity.

**Option:** Eliminate asset categories to remove incentives for asset shifting.

**Discussion:** Since home equity was removed from FM, the major asset of most families is off-limits. For all other assets, the question might be: why bother? Assets relate to income, so if income is assessed adequately then 'taxing' assets is perceived by families as 'double-counting.' Alternatively, asset levels could be imputed from income and assessed accordingly without the difficulty of data collection and verification from the family.

**Educational savings (accumulation).** Not included in the current FM.

**Option:** Add an offset against income for the accumulation of college savings for students' younger siblings.

**Discussion:** The multiple student adjustment technique provides no real recognition or incentive for parents to save for younger college-bound children, which this proposal would do. An obvious implication here is that the multiple student adjustment has less necessity behind it when that happens.

**Educational savings (liquidation).** Not included in the current FM.

**Option:** Permit families to specify the expected period for liquidating college savings.

**Discussion:** The question is how to apportion savings over the period of time they are needed. One approach is an educational savings asset protection allowance (for years beyond the freshman level).

Current formulae treat similarly-situated families the same regardless of whether their children pursue 1-year vs. 2-year vs. 4-year credentials. Ironically, this similarity of treatment results in inequities. An adjustment for expected length of enrollment creates a mechanism for rational liquidation.

**Family farm/family business assets.** Current law excludes the asset value of a family farm from the calculation of the EFC.

**Questions:** Should similar treatment be extended to a family business? Should the preferential treatment of family farm assets be removed?

**Discussion:** If both a family farm and a family business are the primary sources of family income yet represent significant asset holdings, to what extent does the assets involved in a family farm or business need to be sheltered from the calculation in order to protect the ability of the asset to continue to produce income.

**Estimated assets.** The current application process gathers information about assets. The information is self reported and includes a limited subset of the net worth of the family.

**Questions:** Is it worthwhile to continue to collect asset information? As an alternative, should an estimate of the assets be calculated based on interest and dividend income to be used in the formulas? Should an expected level of contribution from assets be calculated based on current levels?

## G. OTHER RESOURCES

**Military tuition aid.** Active duty military may receive a percentage of their tuition from the military to attend college.

**Option:** Used as a resource for the student, it is very hard to track. It could be used in the formula if it was reported as income.

**Discussion:** Since it is a percentage of the tuition and fees, an automated system would be needed to keep track of the actual dollar figures. Many schools may not have that capability.

**Tuition reimbursement.** Many employers offer reimbursement of college tuition to their employees for taking job related classes.

**Option:** Use the reimbursement amount as a resource against the student's cost or include it as income in the formula on the next year's application, similar to Earned Income Credit (EIC).

**Discussion:** Reimbursement comes only after the student has completed the class with a passing grade, therefore, it would be difficult to rely on it as an initial resource. Using it in the formula would also be hard; since it is self-reported, most don't include on a 1040.

**Veterans benefits.** Individuals who have left military service are often eligible for one of the VA educational programs which provide a monthly check while the student is attending college to help with education and living expenses. Previously, VA benefits were included in the formula; now they are added in as a student resource which offsets the student's remaining need for other types of aid.

**Question:** Should the benefits be included as income in the formula?

**Discussion:** An issue with using these benefits as a resource is the discrepancy between the period for which benefits are received and the period analyzed in the need analysis computation. The benefits reported could either be prior year amounts (corresponding with the income tax year for which income information is reported) or projected amounts (representing the amount expected to be received during the school year. The analysis could consider either a self-reported amount or the full-time amount of the benefit for the student, without knowing their rate of attendance.

**Tuition prepayment plans.** The Federal Methodology (FM) in current law provides a disincentive to parents who might otherwise participate in tuition prepayment plans. Amounts from these plans are treated as resources or direct reductions to the student's demonstrated need unlike other forms of family savings, which are counted as either student or parental assets.

**Options:**

1. **Count prepaid tuition amounts as a parental asset.** One advantage is that treatment would be consistent with treatment of other parental assets in regular savings accounts. A disadvantage is that counting the tuition prepayment as a parental asset would only apply to dependent students.
2. **Count prepaid tuition amounts as a student asset.** Advantages of this option are twofold: the treatment would be consistent with that of other student-derived assets, and the prepaid distributions will be collected and taxed regardless of the student's dependency status. It might be difficult for the student to know the current value of the asset, particularly if the student's family had made contributions over time and if contributions were made for other family members in addition to the student.
3. **Treat prepaid tuition amounts as student income.** The majority of tuition prepayment plans are state-sponsored and thus the amounts set aside are not taxed until the time of distribution. An advantage is that the prepaid distribution amount would be treated consistently with IRS policy, which considers it as the student's taxable income to the student. The disadvantage of this option is that it ignores that the tuition prepayment distribution was specifically targeted for the student's current year education. Since the FM uses the student's base year income, the distribution only impacts the student's EFC in the year following the tuition prepayment distribution. Thus, the final year's distribution would remain uncounted since the student would no longer be in school.
4. **Treat the tuition prepayment distribution as a dollar for dollar deduction against the student's need, but only to the extent that the distribution exceeds the family's expected contribution.** The advantage of this option is that it recognizes that the prepaid tuition plan was intended by the family as a means of meeting their anticipated contribution under the need analysis formulas. One disadvantage is that it does not provide for equitable treatment of family assets since these savings would be treated differently than other family assets under current need analysis formulas. In addition, this option may be more favorable to a dependent student where the distribution is primarily serving as a substitute for parental EFC. There is no parental EFC to substitute for in the case of an independent student, thus more often the tuition prepayment distribution would serve to directly lower the student's need.

One additional thing to keep in mind with options 1, 2, and 4 is that the tuition prepayment distributions should be counted as income exclusions under need analysis so that these educational savings will not be assessed twice (once as part of base year income and once as either an asset or a student aid resource).

## **H. PROFESSIONAL JUDGMENT**

**Professional judgment.** Professional judgment (PJ) is the ability of the financial aid administrator to make cost of attendance or data element changes, with appropriate documentation, to reflect a particular student's special circumstances.

**Options:**

1. **Encourage the use of professional judgment.** Some administrators fear the "government is looking over my shoulder" when considering professional judgment decisions. Language encouraging aid administrators to use this authority may help. Campus issues include: data elements manipulation is

cumbersome and inhibits the proper use of PJ; at some campuses view these decisions as a luxury due to staffing and training limitations; and in some regions ED program reviewers are questioning professional judgment decisions using the "adequate documentation" requirement as a pretext.

2. Lift the restriction that professional judgment adjustments be limited to data items only. Many cases require a bottom-line adjustment. These include situations where the families' resources are eliminated such as serious personal tragedies or natural disasters (flood, fire, etc.).

3. Clearly separate the documentation requirement from the authority to make a professional judgment decision. Using the documentation requirement gives ED a subtle way to question the appropriateness of the decision.

4. Lift the restriction of excluding a "class" of students where a whole class IS in need of special adjustments. Many times, a circumstance impacts more than one student (e.g., a group of students affected by the same natural disaster). The current process for dealing with this situation is cumbersome and restrictive.

5. Restrict the use of professional judgment to pre-defined "special conditions" situations. There are some who believe that professional judgment offers opportunities for inconsistent treatment of students between different institutions.

## I. FAMILY EDUCATIONAL SAVINGS EFFORT

**Discussion:** As costs of attendance increase, it becomes more important for families to accrue savings to be used to help pay for those costs. Various efforts have been made to encourage family savings as well as proposals to modify the EFC formulas to remove elements of "savings disincentives." The Need Analysis Standards Committee is interested in receiving your ideas about how to encourage families to save for college expenses. The Committee is particularly interested in whether you believe formula changes such as lowering the EFC or protecting assets would influence to save or whether the availability of the accumulated assets is sufficient as the outcome of the family efforts.

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Contact any of the following Need Analysis Standards Committee members for additional clarification:

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SEND YOUR COMMENTS TO: [poll@smtp.nasfaa.org](mailto:poll@smtp.nasfaa.org)



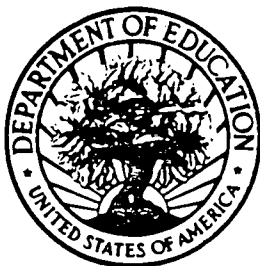
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