



# *Expected Family Contribution*

## *Instructor Notes*



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FEDERAL STUDENT AID

# Expected Family Contribution Overview

 **Time: 20 minutes**

## Host

**Open Slide Show: EFC\_Overview.ppt**

**Display Slides 1 and 2**



## Presenter

Briefly introduce Expected Family Contribution course and Overview lesson.

This lesson discusses Expected Family Contribution and selecting the appropriate formula to apply to a student's application. We review special EFC calculations and their qualifying criteria (including changes brought about by the Higher Education Reconciliation Act [HERA] of 2005). We briefly cover the contents of the EFC Formula Guide (that participants downloaded following the instructions in the course registration information). Finally, we touch on the concept of professional judgment.

The remainder of the course uses the worksheets and tables in the EFC Formula Guide to calculate EFCs by hand for a variety of scenarios and provides opportunities for applying professional judgment.

Learning Objectives:

After completing this lesson, you will be able to:

- Identify the correct Expected Family Contribution (EFC) formula to use for a student applicant
- Determine when a student qualifies for a simplified or automatic zero EFC calculation
- Identify the content of the EFC Formula Guide
- Identify professional judgment situations



Point out the Key Terms on Participant Workbook pages 1-1 and 1-2 (also found in Appendix A).

Refer participants to Appendix B for resources that support and provide additional information for this course.

## Host

**Display Slide 3: Need Analysis**



Refer to Participant Workbook (PW) page 1-3.



## Presenter

Financial aid administrators (FAAs) determine students' financial aid needs by performing need analyses for students.

Students and their families have primary responsibility to pay for educational costs, so they are expected to contribute to the extent that they are able.

Families' present financial conditions are evaluated to determine the amount they are expected to contribute. Need-based funds are available to assist with educational costs that exceed a family's ability to pay.

The familiar expression for determining need is:

$$\text{Need} = \text{Cost of Attendance (COA)} - \text{Expected Family Contribution (EFC)}$$

Cost of attendance is the total amount of allowable costs for a student to attend an institution. COA includes:

- Tuition and fees
- Room and Board allowance
- Allowances for books, supplies, transportation, loan fees, and, if applicable, dependent care
- Miscellaneous expenses, including an allowance for the rental or purchase of a personal computer
- Costs related to a disability
- Reasonable costs for eligible study-abroad programs
- Employment expenses for cooperative education study

HERA updated the cost of attendance components for students attending less than half time. Participants can find more information in the Dear Colleague Letter GEN-06-05 (link provided in PW).



Ask participants to answer the question on PW page 1-3: How does your institution determine COA? Where can you locate this information and/or whom could you ask?

Wait a short time while participants record their answers.

The second part of the expression above, and what is covered in the remainder of this course, is EFC. A student's EFC is calculated according to a formula specified by law (Part F of the Title IV Higher Education Act of 1965, as amended, Sections 474-479).

By performing need analysis (COA minus EFC), FAAs determine a student's need for assistance from federal programs like:

- Federal Pell Grants
- Academic Competitiveness Grants (ACGs)
- National Science and Mathematics Access to Retain Talent (National SMART) Grants
- Subsidized Stafford Loans (Direct Loan or Federal Family Education Loan)
- Campus-based programs (Federal Supplemental Educational Opportunity Grants, Federal Perkins Loans, Federal Work-Study)

Next, we will review the EFC calculation process.

**Host**

**Display Slide 4: Calculate EFC**



Refer to PW page 1-4.



**Presenter**

The Central Processing System (CPS) collects and processes the financial aid application data used to calculate EFCs. The CPS makes data assumptions where needed (for example, if a field needed for an EFC calculation was left blank).

The CPS then determines the appropriate federal methodology and EFC formula to calculate each student's EFC.

The CPS uses this basic process for calculating an EFC:

- Collects and processes application data
- Makes data assumptions for field values, as needed
- Determines dependency status (which determines the federal methodology to use)
- Determines the appropriate EFC formula
- Calculates EFCs
- Reports EFCs on output documents

**Host**

**Display Slide 5: EFC Federal Methodologies**



**Presenter**

Three federal methodologies are provided in the law for calculating EFCs, with one methodology for each group:

- Dependent students
- Independent students without dependents other than spouse (i.e., single or married)
- Independent students with dependents other than spouse

The EFC Formula Guide contains all the worksheets and supporting tables to hand-calculate EFCs.

**Host**

**Display Slide 6: EFC Formulas**

**Presenter**



The EFC calculations allowed by law are:

- Regular EFC
- Simplified EFC
- Automatic zero EFC

The law also provides for modifying the EFC for students enrolled for other than nine-month enrollment periods.

Many variables and factors affect the regular EFC calculation, like:

- Number of persons in the household
- Number attending college for the award year
- Income (taxed and untaxed)
- Taxes paid
- Assets
- Age of the older parent
- Number of wage earners

A basic premise of the EFC calculation is that family resources are devoted first to basic subsistence. In support of that subsistence, the EFC calculation utilizes allowances to protect family resources, particularly basic needs and noneducation-related discretionary costs.

We will discuss the regular EFC calculation in greater detail in upcoming lessons.

**Host**

**Display Slide 7: Dependent Simplified EFC**



Refer to PW page 1-5.

## Presenter



Point out the changes to the requirements for qualifying for a simplified calculation: HERA added an alternative for the tax form requirement and removed dependent students as part of that requirement.

A dependent student qualifies for a simplified EFC calculation when:

- The income of the student's parents from one of the two sources below is \$49,999 or less:
  - For tax filers, the parents' combined Adjusted Gross Income (AGI) from the 1040A or 1040EZ is \$49,999 or less, or
  - For non-tax filers, the income shown on the W-2 forms of both parents (plus any other earnings from work not included on the W-2s) is \$49,999 or less

AND

- Either the parents were not required to file an IRS Form 1040, or anyone counted in their household size received a means-tested federal benefit during the base year

Although the IRS changed the income limit for filing a 1040A or 1040EZ form from \$50,000 to \$100,000, this is unrelated to the income limit for qualifying for the simplified formula.

The dependent simplified EFC calculation uses Simplified Worksheet A in the EFC Formula Guide.

## Host

### **Display Slide 8: Means-Tested Federal Benefit**



## Presenter



Point out the notes in the middle of PW page 1-5. Note to instructor: Slide 8 and the accompanying instructor notes detail the information in these PW notes.

A means-tested federal benefit is a mandatory federal spending program in which eligibility for program benefits are determined on the basis of income or resources of the individual or family seeking the benefit.

HERA added the means-tested federal benefit alternative to the tax form requirement for both the simplified and automatic zero EFC calculations. This alternative checks whether any member counted in the household size received benefits in the base year under the following programs:

- Supplemental Security Income (SSI)
- Food Stamps
- Free and Reduced Price School Lunch Program
- Temporary Assistance for Needy Families (TANF)
- Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

A person need not have received a means-tested federal benefit for the entire base year to qualify; receiving it at any time in the year qualifies.

**Host**

**Display Slide 9: Independent Simplified EFC**

**Presenter**



An independent student qualifies for a simplified EFC calculation when:

- The student's (and spouse) income from one of the two sources below is \$49,999 or less:
  - For tax filers, the student's (and spouse's) combined AGI from the 1040A or 1040EZ is \$49,999 or less, or
  - For non-tax filers, the income shown on the student's (and spouse's) W-2 (plus any other earnings from work not included on the W-2s) is \$49,999 or less

AND

- Either the student and spouse were not required to file an IRS Form 1040, or anyone counted in their household size received a means-tested federal benefit during the base year

The independent simplified EFC calculation uses Simplified Worksheet B in the EFC Formula Guide.

**Host**

**Display Slide 10: Dependent Automatic Zero EFC**

**Presenter**



A dependent student qualifies for an automatic zero EFC when:

- The income of the student's parents from one of the two sources below is \$20,000 or less:
  - For tax filers, the parents' combined Adjusted Gross Income (AGI) from the 1040A or 1040EZ is \$20,000 or less, or
  - For non-tax filers, the income shown on the W-2 forms of both parents (plus any other earnings from work not included on the W-2s) is \$20,000 or less

AND

- Either the parents were not required to file an IRS Form 1040, or anyone counted in their household size received a means-tested federal benefit during the base year

In addition to the alternative to the tax form requirement and removal of dependents for that requirement, HERA raised the annual income maximum from \$15,000 to \$20,000.

The dependent automatic zero EFC calculation uses Regular Worksheet A in the EFC Formula Guide.

### **Host**

#### **Display Slide 11: Independent Automatic Zero EFC**



Refer to PW page 1-6.



### **Presenter**

An independent student with dependents other than a spouse qualifies for an automatic zero EFC when:

- The student's (and spouse) income from one of the two sources below is \$20,000 or less:
  - For tax filers, the student's (and spouse's) parents' combined AGI from the 1040A or 1040EZ is \$20,000 or less, or
  - For non-tax filers, the income shown on the student's (and spouse's) W-2 (plus any other earnings from work not included on the W-2s) is \$20,000 or less

AND

- Either the student and spouse were not required to file an IRS Form 1040, or anyone counted in their household size received a means-tested federal benefit during the base year

The independent automatic zero EFC calculation uses Regular Worksheet C in the EFC Formula Guide.

### **Host**

In this poll, we are reinforcing the concept of the qualification of the automatic zero EFC just discussed. Refer to the previous slide for qualification reference.

**Display Slide 12 Poll: Jamie, a senior at State University, just celebrated her first wedding anniversary. The couple has no dependents and her husband is a full-time architect. Can Jamie qualify for an Automatic Zero EFC?**

**Answer: No. Jamie is an independent student without dependents other than a spouse. Note that the automatic eligibility criteria for a zero EFC are not applicable to a single or married independent student without dependents other than a spouse. The other methodologies (dependent and independent with dependents other than spouse) do allow for an automatic zero EFC.**

Close the Poll.

**Host**  
**Display Slide 13: Other Than 9-Month Calculation**

**Presenter**



The standard EFC is calculated for a nine-month enrollment. If a student will enroll for other than a nine-month period, the law specifies how the EFC must be modified.

- If the student is enrolled for fewer than nine months, the EFC is prorated by dividing it by nine then multiplying the results by the number of months the student is enrolled.
- If the student is enrolled for more than nine months, then one of the following applies:
  - If the student is independent, the EFC remains at the nine-month amount.
  - If the student is dependent, the EFC is calculated using the appropriate worksheet in the EFC Formula Guide (i.e., EFC Formula Guide pages 11-12 or 15-16)

Other information about EFCs for other than nine-month enrollment period:

- The EFC found in the upper right corner of the first page of the output document (e.g., Institutional Student Information Record [ISIR]) should always be used for awarding a Pell grant, even if the student is attending for a longer or shorter period of time.
- The second section of the “FAA Information” area contains a table of alternate primary and secondary EFCs for periods of one to twelve months. These are alternate EFCs that FAAs must use to award aid (other than Pell grants) if the student is attending for other than nine months.

**Host**

**Display Slide 14: Question: EFC Calculated by Hand**



**Presenter**



Ask participants to answer the question on PW page 1-6 (and on the slide): Why would you need to understand the EFC formulas or calculate an applicant’s EFC by hand when the CPS provides a calculated EFC?

Wait a short time while participants record their answers.

Some reasons why an FAA calculates an EFC by hand are:

- FAAs may be asked by students and their families to explain how their EFCs were calculated
- FAAs need to know EFC formulas to apply professional judgment
- When it appears that an applicant has reported inconsistent data and the CPS made certain assumptions to resolve the inconsistencies.
  - These assumed values, which are reported on the student’s SAR, are used to calculate the student’s EFC
  - Therefore, in some cases, the EFC produced by these worksheets may differ from the EFC produced by the CPS if the assumed values are not used

When calculating an EFC by hand, refer to the *EFC Formula Guide* for worksheets, tables, and information about ensuring accurate calculations.

**Host**

**Display Slide 15: Review of EFC Formula Guide**



Refer to EFC Formula Guide page 2.



**Presenter**

Before we begin the first activity, let’s first review the location of the basic components of the EFC Formula Guide. Refer to page 2 for an index of the worksheets and tables included in the guide. Take a look at each section. Note the tax and other calculation tables included for each worksheet. For example Table A-2 located on page 18 provides the Social Security tax allowance calculation percentage for the father, mother and the student. The locations of all the worksheets and tables are provided below from page 2.

EFC Formula Worksheet A (dependent student).....pages 9-12

Simplified EFC Formula Worksheet A (dependent student) .....pages 13-16

Tables A1 through A7 (use with EFC Formula Worksheet A) .....pages 17-20

EFC Formula Worksheet B (independent student without dependents other than a spouse) .....pages 21-22

Simplified EFC Formula Worksheet B (independent student without dependents other than a spouse).....pages 23-24

Tables B1 through B4 (use with EFC Formula Worksheet B) .....pages 25-27

EFC Formula Worksheet C (independent student with dependents other than a spouse).....pages 29-30

Simplified EFC Formula Worksheet C (independent student with dependents other than a spouse) .....pages 31-32

Tables C1 through C6 (use with EFC Formula Worksheet C) .....pages 33-35

**Host**

**Display Slide 16: Activity**



**Presenter**

Ask participants to complete the activity on PW pages 1-7 to 1-9. The activity consists of three scenarios about which participants are asked a few questions:

- Which EFC calculation is used and why;
- Which pages of the EFC Formula Guide are referenced and completed for the calculation (this is to ensure familiarity with the EFC Formula Guide for upcoming lessons); and
- Where information is located in the EFC Formula Guide (again, for familiarity).

**Host**

**Display Slide 17: Debrief Scenario 1**



Participants can jot down additional notes for scenario 1 on PW page 1-7.



**Presenter**

Which EFC calculation/worksheet is used and why?

- **Simplified Worksheet B**

- **Qualifies for simplified needs**
  - **Adjusted Gross Income is \$40,000 (less than the \$50,000 limit)**
  - **Greg and Jane were not required to file a 1040 (they filed a 1040A)**

Which pages of the *EFC Formula Guide* are referenced and completed for this EFC calculation?

- **Simplified Worksheet B, pages 23-24**
- **Tables B1-B4, pages 25-27**

What is Greg and Jane's Social Security Tax percentage?

- **Use Table B2**
- **Social Security Tax percentage 7.65% (income earned from work falls between \$0 and \$94,200)**

### Host

#### **Display Slide 18: Debrief Scenario 2**



Participants can jot down additional notes for scenario 2 on PW page 1-8.

### Presenter



Which EFC calculation/worksheet is used and why?

- **Regular Worksheet A**
- **Lisa is a dependent student (does not meet criteria listed in EFC Formula Guide for independent student status)**
- **Regular EFC calculation – parents' combined AGI is \$56,000, which exceeds both income maximums for simplified (less than \$50,000) and automatic zero (\$20,000 or less)**

Which pages of the *EFC Formula Guide* are referenced and completed for this EFC calculation?

- **Regular Worksheet A, pages 9-12**
- **Tables A1-A7, pages 17-20**

What is Lisa's state tax allowance?

- **Use Table A7 for students (note that A1 is for parents).**
- **Lisa's state tax allowance is 3%.**

## Host

### Display Slide 19: Debrief Scenario 3



Participants can jot down additional notes for scenario 3 on PW page 1-9.



## Presenter

Which EFC calculation/worksheet is used and why?

- **Regular Worksheet C**
- **Qualifies for Automatic Zero**
- **Meets both requirements for an automatic zero EFC**
  - **Income earned from work is \$15,600 ( $\$1,300 \times 12$ ) which is less than the \$20,000 limit**
  - **Tina qualified for and received benefits from a means-tested federal benefit program (Free or Reduced Price Lunches)**

Which pages of the *EFC Formula Guide* are referenced and completed for this EFC calculation?

- **Regular Worksheet C, pages 29-30**
- **Tables C1-C6, pages 33-35**

What is Thomas's Income Protection Allowance?

- **Use Table C3**
- **Student's number in household, including student, is 2.**
- **Using Table C3, Income Protection Allowance is \$15,320.**

## Host

### Display Slide 20: Professional Judgment



Refer to PW pages 1-10.



## Presenter

Sometimes the CPS-calculated EFC does not fit a student's or family's real financial situation. In these cases, the law allows FAAs to account for a student's (or family's) special circumstances by using professional judgment (PJ).

Applying PJ occurs on a case-by-case basis, only one student at a time (not a whole class or group of students).

FAAs need to resolve any application data inconsistencies, inaccuracies, as well as conflicting information *before* applying any changes due to PJ.

Examples of special circumstances when PJ can be applied are listed on PW page 1-10 (and here for instructor's reference):

- Recent unemployment of the student, spouse, or contributing parent
- Medical or dental expenses not covered by insurance
- Unusually high child care costs
- Tuition expenses at an elementary school or secondary school
- A parent enrolled at least half time in a program leading to a degree or certificate at an eligible institution
- Other changes in the family's income or assets, or in the student's status



Point out the note in the middle of PW page 1-10.

*You must fully document all professional judgment decisions. Your decisions as an FAA should reflect the school's established policies. The school is held accountable for all PJ decisions made.*



Ask participants to answer the question posed on PW page 1-10: What are your institution's professional judgment policies? Where can you locate this information or whom could you ask?

Wait a short time while participants record their answers. Typically this information may be found in the school's policy and procedures manual.

Note to instructors: If time allows, use the Live Meeting Q&A tool to collect answers to this question or other questions that arise.

### **Host**

### **Display Slide 21: PJ Adjustments Allowed**



Refer to PW pages 1-11.

## Presenter



The law allows for professional judgment adjustments to:

- Values of specific data reported on the application and used in EFC calculation, like:
  - Number of family members
  - Number in college
  - AGI or income earned from work
  - Taxes paid
  - Assets
- Cost of attendance
- Dependency status

## Host

**Display Slide 22: PJ Adjustments Not Allowed**

## Presenter



By law, FAAs are not allowed to make PJ adjustments like:

- Modifying EFC formulas or tables
- Adjusting data just because you do not believe in the adequacy or appropriateness of the formulas or tables
- Waiving student eligibility requirements to circumvent the intent of the law or regulation

In the discussions in the remainder of this course, you can consider and apply professional judgment to various scenarios.

# *EFC: Dependent Regular Worksheet A*

 **Time: 20 minutes**

## **Host**

**Open Slide Show: EFC Dependent Regular.ppt**

**Display Slides 1 and 2**



## **Presenter**

Briefly introduce the EFC: Dependent Regular Worksheet A lesson.

In this lesson, we will review the components of both the parent and student portions of the Expected Family Contribution (EFC) calculation for a dependent student using the regular calculation. First, we will walk through a complete calculation, highlighting some of the values and steps, such as assets and untaxed income and how those affect the resulting EFC. Next, you will have an opportunity to complete a similar worksheet using a student case study. Finally, we will review and compare the exercise to the case demonstrated by the instructor. For each scenario, we will use the worksheets provided in the 2007-2008 EFC Formula Guide.

Learning Objectives:

After completing this lesson, you will be able to:

- Calculate the EFC using Worksheet A
- Identify allowances against student's and parent's income
- Evaluate impact of assets for both parents and students
- Evaluate inclusion of untaxed income from FAFSA worksheets A, B, and C

## **Host**

**Display Slide 3: Formula Review**



Refer to EFC Formula Guide pages 2-6.



## **Presenter**

Review briefly the three EFC formula types. The complete list is provided in the EFC Formula Guide beginning on page 2.

## **Host**

### **Display Slide 4: Scenario 1**



Refer to Participant Workbook (PW) page 2-2.

## **Presenter**



Our applicant has the following attributes:

- Dependent student
- Florida resident
- Age of older parent 52
- Parent's AGI \$78,000
- Filed 1040
- Student's income \$2,240
- Household size 5
- Number in college 2
- Investments of \$28,000
- Ownership of a small business with 105 full-time employees worth \$122,000

We will calculate an EFC for this applicant using one of the worksheets provided in the EFC Formula Guide. We will discuss each of the specific data items as they are encountered in the calculation process.

## **Host**

### **Display Slide 5 Poll: Formula Determination**



## **Presenter**

Open the poll.

Instruct participants to select an answer. Participants can capture their answers on PW page 2-2.

**Which formula should be applied using the information provided?**

- Regular
- Simplified
- Automatic Zero

Close the poll and display the results.

**Host**

**Display Slide 6: Scenario 1 - Poll Answer**

**Presenter**



The correct answer is **Regular**, since the parents filed a 1040 tax return and their income exceeded \$49,999 (reported at \$78,000). We do not state that they were required to file a 1040, but in this case they were because of itemized deductions (which we would see only if we reviewed the tax return).

**Host**

**Display Slide 7: Dependent Regular - Income**

Refer participants to the EFC Formula Guide pages 9-12 for a blank copy of Regular Worksheet A.

**Presenter**



We will review each section of the worksheet and show how each component is calculated to arrive at the EFC. For each scenario, we will review only the calculation for a standard contribution for a nine month enrollment period. Note that you can calculate EFC amounts for more or less than nine months using other worksheets provided in the EFC Formula Guide. When completing each item in the worksheet, thoroughly read the instructions to ensure that you enter the correct amount for the item.

Let's start at the top. The parents reported an AGI of 78,000, with the father earning 34,000 and the mother earning 44,000.

We first total income earned from work for line 2: 78,000.

Next, since the parents filed a tax return, we place the AGI value of 78,000 in the taxable income line 3.

**Host**

**Display Slide 8: Untaxed Income and Benefits**

**Presenter**



Next, we need to determine if the parents had any untaxed income that should be added to the taxable income. Untaxed income is reported on FAFSA Worksheets A and B The parents reported

tax-exempt interest from line 8b of the 1040 for 1,600. There is no value for FAFSA Worksheet A, so the total of untaxed income and benefits (line 4) is 1,600.

**Host**

**Display Slide 9: Taxable and Untaxed Income**



**Presenter**

Next, we simply add the taxable and untaxed income amounts (line 5). The total as displayed is 79,600.

**Host**

**Display Slide 10: FAFSA Worksheet C / Total Income**



**Presenter**

From FAFSA Worksheet C, one of the parents received an education credit for a Hope or Lifetime Learning tax credit. This amount of 52 (line 6) will be subtracted from taxable and untaxed income to arrive at the Total Income (line 7) for the parents of 79,548.

**Host**

**Display Slide 11: State and Other Tax Allowances**



**Presenter**

The next part of the calculation, Allowances Against Parents' Income, provides a calculation of the allowances to offset the Total Income that we just calculated. These are amounts that we know are not available for the family to use towards educational expenses, as they have been directly or indirectly deducted from the income or are provided as protected allowance for average living expenses for the family. A higher allowance percentage will result in a higher offset amount to the income, which in turn may lead to a lower EFC.

Line 8, income tax paid, is provided from the 1040. The state and other tax allowance is calculated based on the state of residence of the parent. Table A1 in the EFC Formula Guide provides percentages for each state. In our scenario, the parents reside in Florida, so the tax rate provided is 1%. Calculate the allowance by multiplying 1% by the total income of 79,548 and place the answer in line 9.

**Host**

**Display Slide 12: Social Security Tax Allowance**

**Presenter**



Next, we need to determine the Social Security allowance for parents (lines 10 and 11). In this scenario, both parents provided an amount of income from work, so we'll calculate an allowance for both. Table A2 provides the percentage to use. Since both parents had income less than 94,200, we'll simply multiply the indicated 7.65% by each of their reported income earned from work amounts. The values are 2,601 for the father and 3,366 for the mother.

**Host**

**Display Slide 13: Income Protection Allowance**

**Presenter**



Table A3 provides a look-up table for the income protection allowance based on the number of college students in the household and the total number in the household. Since we have 5 in the household and 2 reported in college, the amount for line 12 is 24,660.

**Host**

**Display Slide 14: Employment Expense Allowance**

**Presenter**



Employment expense allowance is determined by how many parents are in the family and how many of them are working. Since both parents work in this scenario, we'll multiply the lesser of the earned incomes (34,000) by the indicated 35%. The resultant 11,900 is greater than 3,200, so 3,200 is the number recorded in line 13.

**Host**

**Display Slide 15: Total Allowances**

**Presenter**



Finally, we sum the amounts provided in the column for the total allowances provided for the parents. The total for line 14 is 38,272.

**Host**  
**Display Slide 16: Available Income**

**Presenter**



Now we can subtract the calculated allowances from the total income to determine the income that is available to use (line 15) toward the EFC final calculation. In this case, we subtract 38,272 from 79,548 for an Available Income (AI) of 41,276.

**Host**  
**Display Slide 17: Income Calculation**

**Presenter**



Ask participants to review the question on the slide and raise their hands in Live Meeting to provide a response. An option to using the hand or other color signal is the chat or Q&A feature of Live Meeting.

**Host**  
**Display Slide 18: Income Calculation Answer**

**Presenter**



Select a participant with a raised hand to answer the question.

**If total income increases by \$20,000, will the Available Income also increase by \$20,000?**

**Not if the increase is due to earned income.**

**The increase in Available Income is proportional based on the state and Social Security allowance calculations.**

**Host**  
**Display Slide 19: State and Other Tax Allowance**

**Presenter**



Ask participants to review the question on the slide and raise their hands in Live Meeting to provide a response. An option to using the hand or other color signal is the chat or Q&A feature of Live Meeting.

## Host

### **Display Slide 20: State and Other Tax Allowance Answer**

## Presenter



Select a participant with a raised hand to answer the question.

**Would the EFC be higher or lower if the state of residence were New Jersey instead of Florida?**

**Refer participants to Table A1 for the state offset percentages.**

**The EFC would be lower.**

**Florida's allowance offset is 1% and New Jersey's is 7% for income over \$15,000.**

**A comparison of the two provide a difference of 4,773. The parent from New Jersey may have a lower EFC based on the higher offset amount.**

Remember, a higher allowance percentage will result in a higher offset amount to the income, which in turn may lead to a lower EFC.

## Host

### **Display Slide 21: Parents' Contribution from Assets**

## Presenter



This calculation determines the portion of the parent's assets that are considered in the EFC calculation. Line 16 is provided by the applicant as the amount of cash that is available to the family. In this case it is 3,200.

Line 17 is also provided by the applicant as the net worth (current market value less any debt obligation) of the parents' investments.

- These may include real estate, trust funds, Uniform Gifts to Minors Act (UGMA) and Uniform Trust Minors Account (UTMA) accounts, money market funds, mutual funds, certificates of deposit, stocks, stock options, bonds, other securities, Coverdell savings accounts, 529 college savings plans, the refund value of 529 state prepaid tuition plans, installment and land sale contracts (including mortgages held), commodities, etc.
- They do not include the family home, the value of life insurance, retirement plans (pension funds, annuities, non-education IRAs, Keogh plans, etc.) or cash, savings, and checking accounts already reported above.

The amount reported is 28,000.

The family owns a small business and has provided a net worth of the business of 122,000 in line 18. The value would not be reported if the value of a small business that the student (the student's spouse and/or parents) owns and controls has 100 or fewer full-time or full-time equivalent employees.

Again, this is derived by subtracting the debt from the market value of the business. Business or investment farm value includes the market value of land, buildings, machinery, equipment, inventory, etc. Business or investment farm debt means only those debts for which the business or investment farm was used as collateral.

Next, an adjustment is calculated to include only a portion of the business value as a part of the family's ability to pay for college. Table A4 provides the adjustment calculation formula. Since 122,000 falls between 105,000 and 320,000, the adjustment is 42,000 plus 50% of the remaining net worth exceeding 105,000.

First, we subtract 105,000 from 122,000 to determine the value to assess at 50%. In this case, the amount is 17,000. Fifty percent of 17,000 is 8,500. Finally, we add the 8,500 to 42,000 to determine the total adjustment of 50,500 (line 19).

### **Host**

#### **Display Slide 22: Parents' Contribution from Assets**

### **Presenter**



The asset protection allowance (line 21) is a built in factor that protects a portion of the parent's assets for retirement. It is based on the age of the older parent which, in this scenario, is 52. Table A5 provides a look-up amount based on the age of the parent. Since there are two parents, the protected amount is 51,500.

### **Host**

#### **Display Slide 23: Parents' Contribution from Assets**

### **Presenter**



The total net worth is calculated by adding the cash, net worth of investments, and the adjusted net worth of the business. In this example, the total is 81,700.

From that we will subtract the asset protection allowance to determine the discretionary net worth. Finally, we multiply the discretionary net worth (30,200) by the asset conversion rate of 0.12 to determine the parents' contribution from assets of 3,624 (line 24).

**Host**  
**Display Slide 24: Parents' Contribution**

**Presenter**



To complete the calculation of the parents' contribution to the EFC, we must now assemble the parts that we have completed. First, we add the Available Income to the contribution from assets (41,276 + 3,624) for the Adjusted Available Income (AAI) of 44,900 (line 25).

Next, we calculate the total parents' contribution by using a combination look-up and calculation chart provided in Table A6. Ranges are provided for the AAI. Since our amount is greater than 27,101, we will calculate the total contribution using the formula provided for that value.

The amount is 47% of the AAI that exceeds 27,100. First we subtract 27,100 from the AAI of 44,900 for a value of 17,800. Next, we multiply that value by 0.47. The resultant 8,366 is added to the table value of 7,334 for a total parents' contribution of 15,700 (line 26).

**Host**  
**Display Slide 25: Parents' Contribution**

**Presenter**



The parents' contribution from AAI is divided by the number of members of the household attending college (excluding the parents). From our family of five, two are currently attending college, so the parents' contribution for each is 7,850 (line 28).

**Host**  
**Display Slide 26: Student's Income**

**Presenter**



Next we tackle the student's portion of the EFC. We begin the same as the parent calculation with an assessment of the income. Our student did have income earned from work for the year, but did not file a tax return, so 2,240 is the amount entered for line 30. The student did not have any untaxed income or benefits for the year, so the total income is 2,240 (line 35).

**Host**

**Display Slide 27: Allowances Against Student Income**

**Presenter**



Just as for the parents, allowances are subtracted from the total income to determine an amount that is available to use to pay for school-related expenses. These are the same basic items. First is the amount of income tax paid. Our student did not file nor owe any income tax for the year.

Table A7 provides the state tax allowance percentage for the student. Florida's percentage is 0, so our student receives no state allowance (line 37).

Next, we need to calculate the Social Security tax allowance. This is the same percentage amount that was used for the parent, 7.65%. When multiplied by the student's income earned from work, the result is 171 (line 38).

**Host**

**Display Slide 28: Allowances Against Student Income**

**Presenter**



The standard income protection allowance for all dependent students is 3,000. A sum of all the allowances provides for total allowances of 3,171 for this student (line 41).

**Host**

**Display Slide 29: Student's Contribution from Income**

**Presenter**



Next, we need to put together the two previous calculations to determine the student's contribution from income. The total allowances (3,171) [line 41 from the allowances against student income section] are subtracted from the total income (2,240) [line 35 from the student's income section]. The result in this case is a negative number (-931). If this were a positive number, we would multiply by the assessment value of .50 to determine the student's contribution from available income. In this case, the contribution is 0 (the worksheet instructions for line 44 indicate to enter zero if the number is negative).

## Host

### Display Slide 30: Student's Contribution from Assets

## Presenter



The last component to determine for the student is the contribution from assets. The components are similar to those used for the parent calculation. The student has no cash or savings, but a school savings plan in the amount of 12,800 is in the student's name. The total net worth of the student is 12,800 (line 48). This amount is multiplied by the assessment rate to determine the student's contribution from assets. Note that this rate is much higher than the rate for the parents: 20% compared to 12%. The resulting amount is 2,560 (line 50). In a moment, we will assess the impact of having those assets in the student's name versus the parents.

Ask participants to answer the next question on PW page 2-2: An asset of \$10,000 would likely result in a higher EFC for a dependent student

- If reported as a parent's asset
- If reported as a student's asset

Wait a short time, and then provide the answer. The correct answer is **if reported as a student's asset, because the asset conversion rate is higher for the student.**

## Host

### Display Slide 31: Expected Family Contribution

## Presenter



Finally, we can assemble all the parts to determine the EFC. Remember, we calculated the parents' contribution as 7,850, the student's contribution from available income as 0, and the student's contribution from assets as 2,560. The sum of these three components (line 51) is 10,410; the EFC for this student.

**Host**  
**Display Slide 32 Poll: Asset Conversion Rate**

**Presenter**



Now let's think about that asset assessment and the impact on the EFC for this student.

Open the poll.

Instruct participants to select an answer.

Close the poll and display the results.

**Answer: The asset would likely result in a higher EFC if it is listed as a student's asset. Remember, the assessment rate was 12% for the parent and 20% for the student. To illustrate, an example is provided on the next slide.**

**Host**  
**Display Slide 33: Effect of Change in Student Assets**

**Presenter**



Let's compare a set of contribution calculations using the same numbers but allocated a little differently. On the left side of the screen, the student's contribution from assets and the final EFC are presented for the scenario that we just completed. Note that the student had 12,800 in investments that resulted in a contribution from assets of 2,560.

The right side of the screen provides the same data, but now the 12,800 has been added into the parents' investment total and has become part of the parents' contribution. The net result is a reduction of the overall EFC by 2,199.

This calculation is for illustrative purposes to demonstrate how values can affect the bottom line EFC. Obviously, you cannot simply move an asset from the student to parent on the FAFSA. But, for family financial planning purposes and advising, knowing how data items affect the overall EFC calculation is helpful.

**Host**

**Display Slide 34: Scenario 2 - Activity**



Refer participants to PW page 2-3.

**Presenter**



Instruct participants to complete the Worksheet A for the student applicant described on PW page 2-3. The worksheet, found on PW pages 2-4 and 2-5, is partially completed to aid in locating information and completing the task in a timely manner. In addition to the worksheet and information provided, participants will need the calculation tables for Worksheet A found in the EFC Formula Guide on pages 17-20. They should have acquired this document in the Overview lesson or prior to class.

Allow participants 10 minutes to complete the worksheet.

Following completion of the activity, we will debrief completion of the worksheet.

**Host**

**Display Slide 35: Scenario 2 – Activity Debrief**

**Presenter**



Now that you have had a chance to calculate an EFC for Brenda, we'll see how your results compare to ours. Some of the basic information used in the calculation is provided on this slide.

**Host**

**Display Slide 36: Total Income**

**Presenter**



In the parents' income box, you were required to complete lines 3, 5, and 7. For line 3, the taxable income should be entered from line 1 above for the amount 100,800. Line 5 is a sum of lines 3 and 4, which totaled 100,800. Since line 6 was 0, the total income in line 7 is 100,800.

## Host

### **Display Slide 37: Total Allowances**

## Presenter



Next, we need to complete the allowances against the parents' income box. The first line you needed to complete was 9. This required a look-up of the tax rate for Ohio in Table A1, since Brenda and her parents reside in Ohio. The rate was 5% multiplied by the total income 100,800 for the amount 5,040. The father's Social Security allowance was a provided for you. To calculate the mother's, you needed to locate the percentage provided in Table A2. Multiplying 7.65% with mother's earned income of 50,000 resulted in the amount for line 11 of 3,825.

Line 12 required a look-up in Table A3. A match of 5 in the family and 2 in college identified the amount 24,660. Line 13 required you to multiply 35% by the lesser of the earned incomes since both parents work. The lesser amount was 50,000, resulting in a product of 17,500, which is greater than 3,200. So, line 13 is 3,200. Finally, you add all the allowance amounts for a total allowance amount of 47,668.

## Host

### **Display Slide 38: Available Income**

## Presenter



The available income table is a computation of the two amounts that you just calculated, subtracting the total allowances from the total income. The available income in line 15 is 53,132.

## Host

### **Display Slide 39: Parents' Contribution from Assets**

## Presenter



Next, you needed to compute the contribution of assets for the parents. Line 16 was completed for you. The description indicated that the parents had no other assets, so the net worth is 3,200. Table A5 provides a look-up based on the age of the older parent to determine the asset protection allowance. The older parent is 52, and, since there are two parents, the amount is 51,500. Subtraction of this amount from the net worth yields -48,300 as the discretionary net worth. Since the resulting asset conversion calculation is a negative number, the contribution from assets is 0.

**Host**  
**Display Slide 40: Parents' Contribution**

**Presenter**



The final table computes the parents' contribution based on the previous calculations. The available income and contribution from assets are completed from the previous tables. A sum of the two yields the adjusted available income of 53,132.

The total parents' contribution from AAI requires a calculation from Table A6. Ranges are provided for the AAI. Since our amount is greater than 27,101, we will calculate the total contribution using the formula provided for that value.

The amount is 47% of the AAI that exceeds 27,100. First we subtract 27,100 from the AAI of 53,132 for value of 26,032. Next, we multiply that value by .47. The resultant 12,235 is added to the table value of 7,334 for a total parents' contribution of 19,569.

The parents' contribution from AAI is divided by the number of members of the household attending college (excluding the parents). From our family of five, two are currently attending college, so the parents' contribution for each is 9,785.

**Host**  
**Display Slide 41: Student's Income**

**Presenter**



Line 33 was the first line you needed to complete by adding lines 31 and 32 for a value of 3,290. The scenario description indicated that an amount of 1,050 was reported from FAFSA Worksheet C for line 34. Subtract this amount from 3,290 for the total income of 2,240.

**Host**  
**Display Slide 42: Allowances Against Student Income**

**Presenter**



The income tax paid was provided for you. Next, you needed to calculate the state tax allowance. Table A7 provides the state tax allowance percentage for the student. Ohio's percentage is 4% for the student, so the calculated amount is 90.

Next, we need to calculate the Social Security tax allowance. This is the same percentage amount that was used for the parent, 7.65%. When multiplied by the student's income earned from work of 3,290, the result is 252.

The standard income protection allowance for all dependent students is 3,000. A sum of all the allowances provides for total allowances of 3,670 for this student.

**Host**

**Display Slide 43: Student's Contribution from Income**

**Presenter**



Next, we need to put together the two previous calculations to determine the student's contribution from income. The total allowances (3,670) are subtracted from the total income (2,240). The result in this case is a negative number (-1,430). If this were a positive number, we would multiply by the assessment value of .50 to determine the student's contribution from available income. In this case, the contribution is 0.

**Host**

**Display Slide 44: Student's Contribution from Assets**

**Presenter**



The last component to determine for the student is the contribution from assets. The student's cash or savings was entered for you. The description indicated that Brenda had an investment of 3,075. The total net worth of the student is 3,125. This amount is multiplied by the assessment rate to determine the student's contribution from assets. The resulting amount is 625.

**Host**

**Display Slide 45: Expected Family Contribution**

**Presenter**



Finally, we can assemble all the parts to determine the EFC. Remember, we calculated the parents' contribution as 9,785, the student's contribution from available income as 0, and the student's contribution from assets as 625. The sum of these three components is 10,410, the EFC for this student.

**Host**

**Display Slide 46: Compare EFC Between Scenarios**

**Presenter**



Did you notice a similarity in the EFC for the two scenarios? It's exactly the same. The point here is that variations in income and assets can produce the same results. The first scenario included lower income amounts for the parents and the student, but higher assets for both. The second scenario had much higher income for the parents, but almost no assets.

# *EFC: Dependent Simplified Worksheet A*

 **Time: 20 minutes**

## **Host**

**Open Slide Show: EFC Dependent Simplified.ppt**

**Display Slides 1 and 2**



## **Presenter**

Briefly introduce the EFC: Dependent Simplified Worksheet A lesson.

In this lesson, we will review the components of both the parent and student portions of the EFC calculation for a dependent student using the simplified calculation. First, we will walk through a complete calculation, highlighting some of the values and steps, such as untaxed income and how those affect the resulting EFC. Next, you will be provided an opportunity to complete a similar worksheet using a student case study. Finally, we will review and compare the exercise to the case demonstrated by the instructor. For each case, we will be using the worksheets provided in the 2007-2008 EFC Formula Guide.

Learning Objectives:

After completing this lesson, you will be able to:

- Calculate the EFC using Simplified Worksheet A
- Identify allowances against student's and parent's income
- Evaluate inclusion of untaxed income from FAFSA worksheets A, B, and C

## **Host**

**Display Slide 3: Scenario 1**



Refer to PW page 3-2.



## **Presenter**

Our applicant has the following attributes:

- Dependent student
- Arkansas resident
- Single parent (mother) is 49

- Parent's AGI \$38,340
- Filed 1040A
- Student's income \$4,200
- Household size 3
- Number in college 1

We will calculate an EFC for this applicant using one of the worksheets provided in the EFC Formula Guide. We will discuss each of the specific data items as they are encountered in the calculation process.

### Host

#### Display Slide 4 Poll: Formula Determination



### Presenter

Open the poll.

Instruct participants to select an answer.

#### **Which formula should be applied using the information provided?**

- Regular
- Simplified
- Automatic Zero

Close the poll and display the results.

### Host

#### Display Slide 5: Scenario 1 Poll Answer



### Presenter

The correct answer is **Simplified**, since the parent filed a 1040A tax return and her income was less than \$49,999 (reported at \$38,340).

## **Host**

### **Display Slide 6: Dependent Simplified - Income**

Refer to participants to the EFC Formula Guide pages 13-16 to view a blank copy of Simplified Worksheet A.

## **Presenter**



We will review each section of the worksheet and show how each component is calculated to arrive at the EFC. For each scenario, we will review only the calculation for a standard contribution for a nine month enrollment period. Note that you can calculate EFC amounts for more or less than nine months using the other worksheets provided.

Let's start at the top. The parents reported an AGI of \$38,340 with the mother earning 42,600.

We first total income earned from work. Next, since the parent filed a tax return, we place the AGI value of 38,340 in the taxable income line 3.

Next, we need to determine if the parent had any untaxed income that should be added to the taxable income. There is no value for FAFSA Worksheets A, B, or C for this parent.

Finally, we simply add the taxable and untaxed income amounts. The total as displayed is 38,340 (line 7).

## **Host**

### **Display Slide 7: State and Other Tax Allowances**

## **Presenter**



This table provides a calculation of the allowances to offset the total income that we just calculated. These are amounts that we know are not available for the family to use towards educational expenses, as they have been directly or indirectly deducted from the income or are provided as protected allowance for average living expenses for the family.

The first item, income tax paid, is provided from the 1040A. The state and other tax allowance is calculated based on the state of residence of the parent. Table A1 provides percentages for each state. In our scenario, the parent resides in Arkansas, so the tax rate provided is 3%. Calculate the allowance by multiplying 3% by the total income of 38,340.

**Host**  
**Display Slide 8: Social Security Tax Allowance**

**Presenter**



Next, we need to determine the Social Security allowance for the parent. Table A2 provides the percentage to use. Since the parent had income less than 94,200, we'll multiply the indicated 7.65% by the reported income earned from work. The value is 3,259 for the mother.

**Host**  
**Display Slide 9: Income Protection Allowance**

**Presenter**



Table A3 provides a look-up table for the income protection allowance based on the number of college students in the household and the total number in the household. Since we have 3 in the household and 1 reported in college, the amount is 18,680.

**Host**  
**Display Slide 10: Employment Expense Allowance**

**Presenter**



This calculation is determined by how many parents are in the family and how many of them are working. Since this is a one-parent family and she works, we'll multiply her earned income (42,600) by the indicated 35%. The resultant 14,910 is greater than 3,200, so 3,200 is the number recorded, as indicated by the instructions on the worksheet.

**Host**  
**Display Slide 11: Total Allowances**

**Presenter**



Finally, we sum the amounts provided in the column for the total allowances provided for the parents. The total is 32,440 (line 14).

**Host**

**Display Slide 12: Available Income**

**Presenter**



Now we can subtract the calculated allowances from the total income to determine the income that is available to use toward the EFC final calculation. In this case, we subtract 32,440 from 38,340 for an available income of 5,900 (line 15).

**Host**

**Display Slide 13: Parents' Contribution**

**Presenter**



To complete the calculation of the parents' contribution to the EFC, we must now assemble the parts that we have completed. First, since simplified formulas do not include assets as part of the calculation, the available income is the adjusted available income (AAI) of 5,900.

Next, we calculate the total parents' contribution by using a combination look-up and calculation chart provided in Table A6. Ranges are provided for the AAI. Since our amount is between -3,409 and 13,400, we will calculate the total contribution using the formula provided for that value.

The amount is 22% of the AAI or 1,298 (line 26).

**Host**

**Display Slide 14: Parents' Contribution**

**Presenter**



The parents' contribution from AAI is divided by the number of members of the household attending college (excluding the parents). From our family of three, one is currently attending college, so the parent's contribution for the student is 1,298 (line 28).

**Host**

**Display Slide 15: Student's Income**

**Presenter**



Next, we tackle the student's portion of the EFC. We begin the same as the parent calculation with an assessment of the income. Our student did have income earned from work for the year and filed a 1040EZ tax return with an AGI of 4,200. The student received a scholarship of 625 that is an amount from FAFSA Worksheet C. Subtracting the 625 from 4,200 leaves a total income of 3,575 (line 35).

**Host**

**Display Slide 16: Allowances Against Student Income**

**Presenter**



Just as for the parents, allowances are subtracted from the total income to determine an amount that is available to use to pay for school related expenses. These are the same basic items. First is the amount of income tax paid. Our student paid 418 in income tax for the year.

Table A7 provides the state tax allowance percentage for the student. Arkansas's percentage is 3%, so we multiply 0.03 times the total income of 3,575 for a result of 107.

Next, we need to calculate the Social Security tax allowance. This is the same percentage amount that was used for the parent, 7.65%. When multiplied by the student's income earned from work the result is 321.

**Host**

**Display Slide 17: Allowances Against Student Income**

**Presenter**



The standard income protection allowance for all dependent students is 3,000. A sum of all the allowances provides for total allowances of 3,846 for this student (line 41).

**Host**

**Display Slide 18: Student's Contribution from Income**

**Presenter**



Next, we need to put together the two previous calculations to determine the student's contribution from income. The total allowances (3,846) are subtracted from the total income (3,575). The result in this case is a negative number (-271). If this were a positive number, we would multiply by the assessment value of .50 to determine the student's contribution from available income. In this case, the contribution is 0, as the EFC worksheet instructions on line 44 shows.

**Host**

**Display Slide 19: Expected Family Contribution**

**Presenter**



Finally, we can assemble all the parts to determine the EFC. Remember, we calculated the parent's contribution as 1,298 and the student's contribution from available income as 0. The sum of these two components is 1,298; the EFC for this student (line 51).

**Host**

**Display Slide 20: Scenario 2 - Activity**



Refer participants to PW page 3-3.

**Presenter**



Instruct participants to complete the Worksheet A for the student applicant described on PW page 3-3. The worksheet, found on PW pages 3-4 and 3-5, is partially completed to aid in locating information and completing the task in a timely manner. In addition to the worksheet and information provided, participants will need the calculation tables for Worksheet A found in the EFC Formula Guide on pages 17-20. They should have acquired this document in the Overview lesson or prior to class.

Allow participants 10 minutes to complete the worksheet.

Following completion of the activity, we will debrief completion of the worksheet.

**Host**

**Display Slide 21: Scenario 2 – Activity Debrief**

**Presenter**



Now that you have had a chance to calculate an EFC for Justin, we'll see how your results compare to ours. Some of the basic information used in the calculation is provided on this slide.

**Host**

**Display Slide 22: Total Income**

**Presenter**



The parents' income box was completed for you. Note the total income in item 7 is 28,600.

**Host**

**Display Slide 23: Total Allowances**

**Presenter**



Next, we need to complete the allowances against the parents' income box. The first item you needed to complete was line 9. This required a look-up of the tax rate for Kentucky in Table A1 since Justin and his father reside in Kentucky. The rate was 4% multiplied by the total income 28,600 for the amount 1,144.

**Host**

**Display Slide 24: Social Security Tax Allowance**

**Presenter**



To calculate the father's Social Security allowance you needed to locate the percentage provided in Table A2. Multiplying 7.65% with the father's earned income of 28,600 resulted in the amount for line 10 of 2,188.

**Host**

**Display Slide 25: Income Protection Allowance**

**Presenter**



Line 12 required a look-up in Table A3. A match of 3 in the family and 1 in college identified the amount 18,680.

**Host**

**Display Slide 26: Employment Expense & Total Allowances**

**Presenter**



Line 13 required you to multiply 35% by the earned income of the one parent. This amount was 28,600 resulting in a product of 10,010 which is greater than 3,200. So, line 13 is 3,200.

Finally, you add all the allowance amounts for a total allowance amount of 29,128 (line 14).

**Host**

**Display Slide 27: Available Income**

**Presenter**



The available income table is a computation of the two amounts that you just calculated, subtracting the total allowances from the total income. The available income in line 15 is -528.

**Host**

**Display Slide 28: Parents' Contribution**

**Presenter**



The final table computes the parents' contribution based on the previous calculations. The available income was completed from the previous tables. Since the parents have no assets, the adjusted available income is -528.

The total parents' contribution from AAI requires a calculation from Table A6. Ranges are provided for the AAI. Since our amount is between -3,409 and 13,400, the contribution from AAI is calculated by multiplying the AAI by 22%. The result is a negative number, so value for line 26 is 0.

**Host**

**Display Slide 29: Parents' Contribution**

**Presenter**



The parents' contribution from AAI is divided by the number of members of the household attending college (excluding the parents). From our family of three, one is currently attending college, but the numerator is 0, so the parents' contribution is 0 (line 28).

## Host

### **Display Slide 30: Student's Income**

## Presenter



Item 33 was the first item you needed to complete by adding lines 31 and 32 for a value of 7,680. The scenario description indicated that an amount of 800 was reported from FAFSA Worksheet C for line 34. Subtract this amount from 7,680 for the total income of 6,880 (line 35).

## Host

### **Display Slide 31: Allowances against Student Income**

## Presenter



The income tax paid was provided for you. Next, you needed to calculate the state tax allowance. Table A7 provides the state tax allowance percentage for the student. Kentucky's percentage is 4% for the student, so the calculated amount is 275.

Next, we need to calculate the Social Security tax allowance. This is the same percentage amount that was used for the parent, 7.65%. When multiplied by the student's income earned from work of 6,880 the result is 526.

## Host

### **Display Slide 32: Allowances Against Student Income**

## Presenter



The standard income protection allowance for all dependent students is 3,000. Since the parents' AAI was a negative amount, it is added here as a reduction to the student's contribution from income. A sum of all the allowances provides for total allowances of 5,103 for this student (line 41).

## Host

### **Display Slide 33: Student's Contribution from Income**

## Presenter



Next, we need to put together the two previous calculations to determine the student's contribution from income. The total allowances (5,103) are subtracted from the total income (6,880). The result is

1,777. Next, we multiply by the assessment value of 0.50 to determine the student's contribution from available income. In this case, the contribution is 889 (line 44).

**Host**

**Display Slide 34: Expected Family Contribution**

**Presenter**



Finally, we can assemble all the parts to determine the EFC. Remember, we calculated the parents' contribution as 0 and the student's contribution from available income as 889. The sum of these two components is 889; the EFC for this student (line 51).

**Host**

**Display Slide 35: Compare EFC between Scenarios**

**Presenter**



Did you notice a similarity in the EFC for the two scenarios? Both are simplified calculations with no assets included. Both scenarios have family sizes of three with one in college. The difference in parental income was only \$10,000. With just the difference in income, the parent contribution for the second scenario was 0.

The EFC is lower despite the fact that the student's income was nearly double that of the student in the first case.

**Host**

**Display Slide 36: Impact of Parents' Income**

**Presenter**



The parents' negative AAI made an impact on the student's contribution from income by reducing the net amount by 263. Without the negative income amount the student's total allowances would have been only 4,575. Subtracting this amount from the total income results in an available income of 2,305 and a student's contribution from AI of 1,153 when compared to the shown amount of 889 provides the 263 difference.

# *EFC: Independent Regular Worksheets B and C*

 **Time: 20 minutes**

## **Host**

**Open Slide Show: EFC Independent Worksheets B and C.ppt**

**Display Slides 1 and 2**



## **Presenter**

Briefly introduce the EFC: Independent Regular Worksheets B and C lesson.

In this lesson, we will review the components of the independent student EFC calculation using the regular calculation for independent students with dependents and without. First, we will walk through a complete calculation, highlighting some of the values and steps, such as assets and untaxed income and how those affect the resulting EFC for Worksheet B. Next, you will be provided an opportunity to complete Worksheet C using a student case study. Finally, we will review and compare the exercise to the case demonstrated by the instructor. For each case, we will be using the worksheets provided in the 2007-2008 EFC Formula Guide.

Learning Objectives:

After completing this lesson, you will be able to:

- Calculate the EFC using Worksheets B and C
- Identify allowances against a student's and spouse's income
- Evaluate impact of assets
- Evaluate inclusion of untaxed income from FAFSA worksheets A, B, and C

## **Host**

**Display Slide 3: Scenario 1**



Refer to Participant Workbook (PW) page 4-2.



## **Presenter**

Our applicant has the following attributes:

- Independent student without dependents
- Tennessee resident
- Student's AGI \$16,500

- Owns a small business with 112 full-time equivalent employees and a net worth of 27,000
- Student's age 29
- Required to file 1040
- Household size 1
- Number in college 1

We will calculate an EFC for this applicant using one of the worksheets provided in the EFC Formula Guide. We will discuss each of the specific data items as they are encountered in the calculation process.

### Host

#### **Display Slide 4 Poll: Formula Determination**

### Presenter



Open the poll.

Instruct participants to select an answer.

#### **Which formula should be applied using the information provided?**

- Regular
- Simplified
- Automatic Zero

Close the poll and display the results.

### Host

#### **Display Slide 5: Scenario 1 Poll Answer**

### Presenter



The correct answer is **Regular**, since the student filed a 1040 tax return. We state that the student was required to file a 1040, and in this case he did because of business income and deductions (which we would only see if we reviewed the tax return).

The criteria presented lead us to use worksheet B, which is for an Independent Student without dependent(s) other than a spouse.

**Host**

**Display Slide 6: Student's Income**

**Presenter**



Since we only need the student's (and spouse's) information to use for this worksheet, fewer steps are required than with the dependent formulas. Our student did have income earned from work for the year, and filed a tax return, so 16,500 is the amount entered for lines 1-3. The student did not have any untaxed income or benefits for the year, so the total income is 16,500 (line 7).

**Host**

**Display Slide 7: Tax Allowances**

**Presenter**



These are the same allowances that we calculated for the dependent model. Follow the instructions for each line to determine the value required. First is the amount of income tax paid. Our student paid 2,094 in income tax for the year.

Table B1 provides the state tax allowance percentage for the student. Tennessee's percentage is 0%, so there is no state allowance for our student.

Next, we need to calculate the Social Security tax allowance. The percentage amount is 7.65%. When multiplied by the student's income earned from work the result is 1,262.

**Host**

**Display Slide 8: Allowances Against Student Income**

**Presenter**



The income protection allowance is 6,050 for unmarried students. Our student is not married, so his employment expense allowance is 0. A sum of all the allowances provides for total allowances of 9,406 for this student (line 14).

## **Host**

### **Display Slide 9: Contribution from Available Income**

## **Presenter**



Next, we need to put together the two previous calculations to determine the student's contribution from income. The total allowances (9,406) are subtracted from the total income (16,500). The resulting available income is 7,094. Next, we multiply by the assessment value of 0.50 to determine the student's contribution from available income. In this case the contribution is 3,547 (line 17).

## **Host**

### **Display Slide 10: Contribution from Assets**

## **Presenter**



The student has a checking account available balance of 1,300.

He owns a small business with 112 full-time equivalent employees and has provided a net worth of the business of 27,000. Remember, the value would not be reported if the value of a small business that the student (the student's spouse and/or parents) owns and controls has 100 or fewer full-time or full-time equivalent employees.

Next, an adjustment is calculated to only include a portion of the business value as a part of the student's ability to pay for college. Table B3 provides the adjustment calculation formula. Since 27,000 falls between 1 and 105,000 the adjustment is 40% of the net worth or 10,800.

The net worth is calculated by adding the cash, net worth of investments, and the adjusted net worth of the business. In this example, the amount totals to 12,100.

## **Host**

### **Display Slide 11: Contribution from Assets**

## **Presenter**



The asset protection allowance is a built in factor that protects a portion of the assets based on the age of the student who is 29. Table B4 provides a look-up amount based on the age of the student. The protected amount is 4,200.

**Host**

**Display Slide 12: Contribution from Assets**

**Presenter**



The asset protection allowance is subtracted from the net worth to determine the discretionary net worth (7,900). Finally, we multiply the discretionary net worth by the asset conversion rate of .20 to determine the student's contribution from assets of 1,580 (line 26). The asset protection allowance is built into each worksheet to protect a portion of the family's assets.

**Host**

**Display Slide 13: Expected Family Contribution**

**Presenter**



Finally, we can assemble all the parts to determine the EFC by adding the student's contribution from available income and the student's contribution from assets. The sum of these two components (5,127) is divided by the number in college to determine the EFC for each. Since the student is single with no dependents, there is only one in college, so the EFC is 5,127 (line 29).

**Host**

**Display Slide 14: Scenario 2 - Activity**



Refer participants to PW page 4-3.

**Presenter**



Instruct participants to complete the Worksheet C for the student applicant described on PW page 4-3. The worksheet, found on PW page 4-4, is partially completed to aid in locating information and completing the task in a timely manner. In addition to the worksheet and information provided, participants will need the calculation tables for Worksheet C found in the EFC Formula Guide on pages 33-35. They should have acquired this document in the Overview lesson or prior to class.

Allow participants 10 minutes to complete the worksheet.

Following completion of the activity, we will debrief completion of the worksheet.

**Host**

**Display Slide 15: Scenario 2 – Activity Debrief**

**Presenter**



Now that you have had a chance to calculate an EFC for Will, we'll see how your results compare to ours. Some of the basic information used in the calculation is provided on this slide.

**Host**

**Display Slide 16: Student's Income**

**Presenter**



In the student/spouse income table, you needed to complete items 4, 5, and 7 which included the untaxed income information from FAFSA Worksheet B. This amount, 1,240, completed line 4 and when combined with line 3 is the sum of 37,440 for line 5. The student did not have any FAFSA Worksheet C amounts, so the total income is 37,440 (line 7).

**Host**

**Display Slide 17: Allowances Against Income**

**Presenter**



The amount of income tax paid was supplied for you. Table C1 provides the state tax allowance percentage for the student. Virginia's percentage is 4%, so the state allowance for our student is 1,498.

Next, we need to calculate the Social Security tax allowance. The percentage amount is 7.65%. When multiplied by the student's income earned from work the result is 673. The spouse's amount was provided for you.

The income protection allowance, provided in Table C3, for three in the family and one is college is 19,070.

The worksheet's instructions for line 13 provide the calculation for the amount based on the employment status of the student and the spouse. Our student is married and both are working so his

employment expense allowance is 35% of the lesser income from work (8,800) or 3,080. A sum of all the allowances provides for total allowances of 31,245 for this student (line 14).

### **Host**

#### **Display Slide 18: Available Income**

### **Presenter**



Next, we need to put together the two previous calculations to determine the student's contribution from income. The total allowances (31,245) are subtracted from the total income (37,440). The resulting available income is 6,195 (line 15).

### **Host**

#### **Display Slide 19: Contribution from Assets**

### **Presenter**



The student has a checking account available balance of 1,300.

He owns a small business and has provided a net worth of the business of 27,000.

Next, an adjustment is calculated to include only a portion of the business value as a part of the student's ability to pay for college. Table C4 provides the adjustment calculation formula. Since 27,000 falls between 1 and 105,000, the adjustment is 40% of the net worth or 10,800.

The net worth is calculated by adding the cash, net worth of investments, and the adjusted net worth of the business. In this example, the amount totals to 12,100.

The asset protection allowance is a built in factor that protects a portion of the assets based on the age of the student who is 29. Table C5 provides a look-up amount based on the age of the student. The protected amount is 10,200.

The asset protection allowance is subtracted from the net worth to determine the discretionary net worth of 1,900. Finally, we multiply the discretionary net worth by the asset conversion rate of 0.07 to determine the student's contribution from assets of 133 (line 24). Remember that the asset conversion rate for the Independent Student Without Dependents was 0.20, a much higher percentage.

**Host**  
**Display Slide 20: Expected Family Contribution**

**Presenter**



Finally, we can assemble all the parts to determine the EFC by adding the student's contribution from available income and the student's contribution from assets. The sum of these two components (6,328) is then multiplied by a conversion factor for the AAI found in Table C6. Since the AAI falls between -\$3,409 and \$13,400, the AAI is multiplied by 22%. The result (1,392) is divided by the number in college to determine the EFC of 1,392 (line 28).

**Host**  
**Display Slide 21 Poll: Asset Conversion Rate**

**Presenter**



Open the poll.

Instruct participants to select an answer.

**An asset of \$10,000 would likely result in a higher EFC for an**

- Independent student without dependents other than a spouse
- Independent student with dependents other than a spouse

Close the poll and display the results.

**Host**  
**Display Slide 22: Asset Conversion Rate Poll Answer**

**Presenter**



The correct answer is **independent student without dependents**, since the asset conversion rate is higher at 20% vs. 7% for the independent student with dependents. The asset protection allowance is built into each worksheet to protect a portion of the family's assets. The higher assessment would increase the amount of contribution from assets which directly increases the total EFC. This is illustrated in comparing the two scenarios reviewed.

**Host**

**Display Slide 23: Compare Asset Contribution**

**Presenter**



The assets provided for both students were identical and discounting the difference in the asset protection allowance, the second student had a lower contribution from assets using the lower conversion rate.

**Host**

**Display Slide 24: Compare Income Protection Allowance**

**Presenter**



Another difference in the formulas for independent students is the treatment of the income protection allowance. Independents with dependents are granted much more to set aside for living expenses and not allocate toward the EFC or college expenses.

**Host**

**Display Slide 25: Closing**

**Presenter**



Provide any closing comments or answer remaining questions.