

## Need Analysis: Understanding the EFC

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# Overview

- Definition of Need Analysis
- Factors that make up the EFC calculation and why they are important
- The various federal formulas
- Fundamentals of calculating an EFC



# What is Need Analysis?

- Definition:
  - The process of determining the student's Expected Family Contribution (EFC) based on the formula established by Congress. Also known as *Federal Need Analysis Methodology* and *Federal Methodology*, or *FM*.



6441	6455	6468	6481	6494	6508	6521	6534	6547	6561
6574	6587	6600	6613	6626	6639	6652	6665	6678	6691
6704	6717	6730	6743	6756	6769	7034	7047	6807	6820
6833	6845	6858	6871	6884	6897	6910	6923	6934	6947
6959	6972	6984	6997	7010	7023	7036	7049	7062	0.7071
						7145	7157	7169	
	7096	7108	7120			7266	7278	7290	7193
6	7218	7230	7242			7385	7396	7408	7314
						7501	7513	7524	7431
						7615	7627	7638	7547
									0.7660
	7570	7581	7593						
	7683	7694	7705						7771
	7793	7804	7815	7826	7727	7738	7749	7760	7880
7891	7902	7912	7923	7934	7945	7956	7967	7978	7986
7997	8007	8018	8028	8039	8050	8061	8072	8080	8090



# Guiding Principles

- Primary responsibility to pay for education rests with the student and parents/family
- Family is expected to contribute to the extent it is able
- Families must be evaluated in an equitable manner



# Expected Family Contribution (EFC)

- **Definition:**
  - Measure of how much the student and his or her family can be expected to contribute to the cost of the student's education for the year.
- The EFC is calculated according to a formula specified by law.



# What Comprises the EFC?

$$P_M(x) = \sum_{i=1}^{\infty} 2^{-|s_i(x)|}$$

## Basic EFC Formulas:

- Dependent
- Independent w/no dependent(s)
- Independent with dependent(s)

## Factors of EFC Calculations:

- AGI
- Eligible to file a 1040A or EZ
- Federal Means Test
- Dislocated Worker

## Income Protection:

- Taxes Paid
- Household Size
- Number in college
- State and other Tax allowance

## Total Income:

- AGI
- Wages Earned
- Untaxed Income
- Additional Financial Information

## Protection of Assets:

- Age of Student (if independent)
- Age of Older Parent



# EFC : used to Calculate Need

Cost of Attendance  
(minus) EFC  
Need

- The EFC determines:
  - Pell eligibility
  - Need versus non-need-based aid



# Basic EFC Formulas

- **Formula A**
  - For dependent students
- **Formula B**
  - For independent students without dependents (other than a spouse)
- **Formula C**
  - For independent students with dependents other than a spouse





# Test your knowledge



## True or False?

The same EFC calculation is used for all students

- False



# EFC Calculations

- There are 3 special EFC Calculations
  - Regular Formula: Takes BOTH income & assets into account
  - Simplified Needs Test (SNT): Takes only income into account
  - Auto-Zero EFC: Student's EFC is automatically zero



# Simplified Needs Test (SNT)

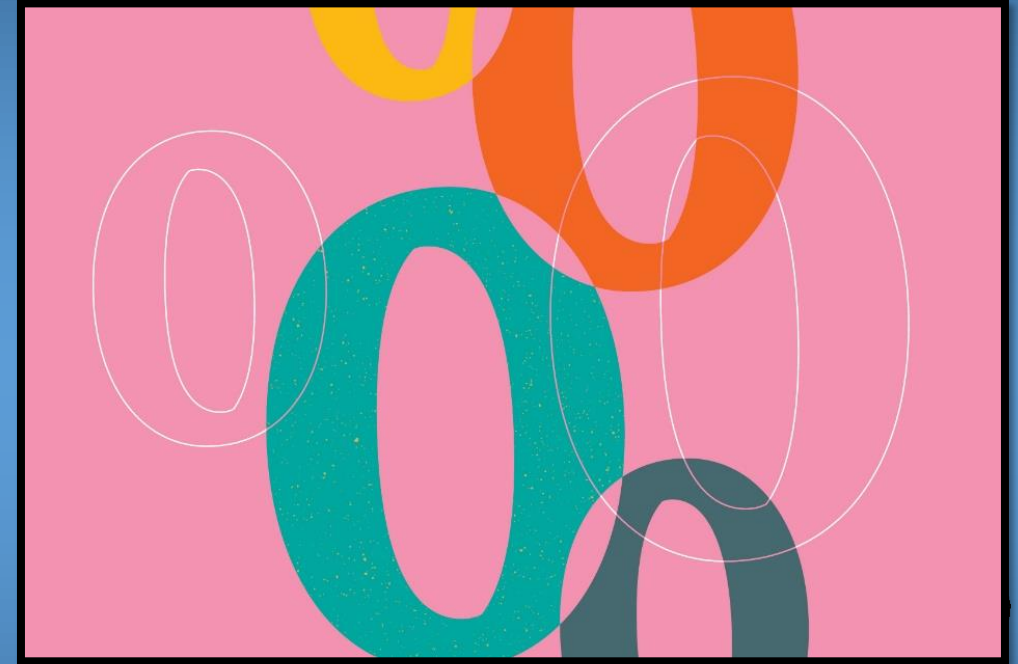
- How does a student qualify for SNT?
  - Must have income (AGI/wages) of \$49,999.00 or less
- AND**
  - Be eligible to file a 1040A or 1040EZ
- OR**
  - Qualify for a federal means test benefit program
- OR**
  - Be a dislocated worker



# Auto-Zero EFC

- How does a student qualify for Auto-Zero?
  - Must have income (AGI/wages) of \$26,000.00 or less
- AND**
  - Be eligible to file a 1040A or 1040EZ
- OR**
  - Qualify for a federal means test benefit during
- OR**
  - Be a dislocated worker

Only dependent students or independent students with dependents other than a spouse qualify for an auto-zero EFC.



# Federal Means Test Benefits

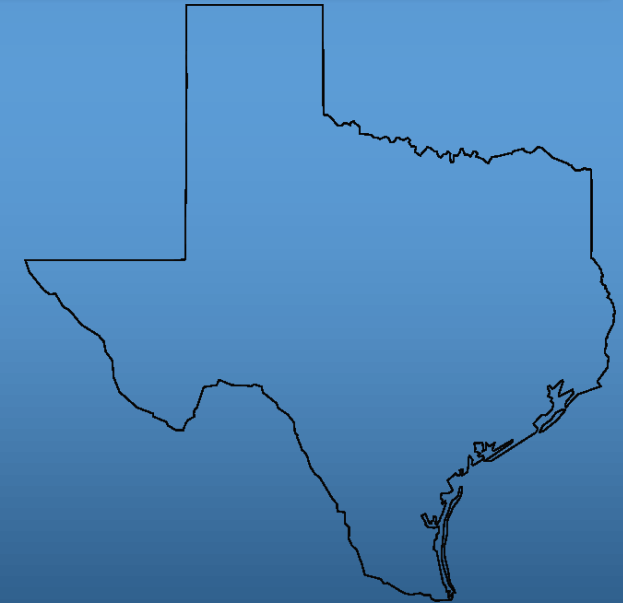
- Supplemental Security Income (SSI)
- Temporary Assistance for Needy Families (TANF)
- Special Supplemental Nutritional Program for Women, Infants & Children (WIC)
- Supplemental Nutrition Assistance Program (SNAP) aka Food Stamps
- Free Reduced-Priced School Lunches
- Medicaid



# What is a Dislocated Worker?

- He or she has been **laid off** or received a lay-off notice from his/her job.
- He or she is **receiving unemployment benefits** due to being laid off or losing a job and he or she is unlikely to return to a previous occupation.
- He or she is **self-employed but is unemployed** due to economic conditions or natural disaster.
- He or she is the **spouse of an active duty member** of the Armed Forces and has experienced a **loss of employment because of relocating** due to permanent change in duty station.
- He or she is the **spouse of an active duty member** of the Armed Forces and is **unemployed or underemployed, and is experiencing difficulty in obtaining or upgrading employment.**
- He or she is a **displaced homemaker**. A displaced homemaker is generally a person who previously provided unpaid services to the family (e.g., a stay-at-home mom or dad), **is no longer supported by the spouse**, is unemployed or underemployed, and is having trouble finding or upgrading employment.

\*Except for the spouse of an active duty member of the Armed Forces, if a person quits work, generally he or she is **not** considered a dislocated worker even if, for example, the person is receiving unemployment benefits.



# 1040, 1040A or 1040EZ?

- Required to file a long form (1040) if:
  - Your taxable income is greater than \$100,000
  - You itemize deductions
  - You receive income from the sale of property
  - You have certain types of income, including that from unreported tips, self-employment, certain non-taxable distributions, a partnership or [S corporation](#), or if you're a beneficiary of an estate or trust
  - You owe taxes for the use of a household employee



# 1040, 1040A or 1040EZ?

- You can use Form 1040A if all of the following apply:



- You are filing as single, married filing jointly or separately, qualifying widow or widower, or head of household
- Your taxable income is less than \$100,000
- Your income is only from wages, salaries, tips, taxable scholarships and fellowship grants, interest, ordinary dividends, capital gains distributions, pensions, annuities, IRAs, unemployment compensation, taxable Social Security or railroad retirement benefits and Alaska Permanent Fund dividends
- You don't itemize deductions
- You didn't have an [alternative minimum tax \(AMT\)](#) adjustment on stock you acquired by exercising a stock option
- Your only adjustments to income are deductions for an IRA, student loan interest, educator expenses and tuition and fees
- The only credits you claim are for child and dependent care expenses, EIC, the elderly or the disabled, education, child tax credit, premium tax credit (for insurance purchased on the health insurance marketplace) or the retirement savings contribution credit

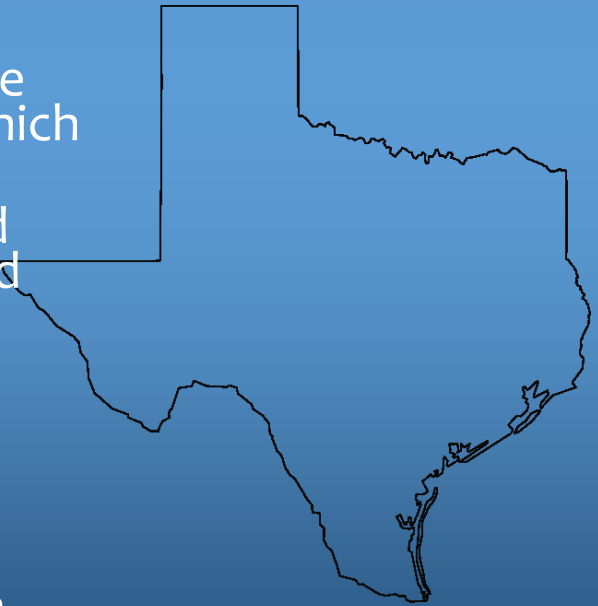




# 1040, 1040A or 1040EZ?

- You can use Form 1040EZ if all of the following apply:

- You are filing as single or married filing jointly
- Your taxable income is less than \$100,000
- You don't claim any dependents
- You don't itemize deductions
- You (and your spouse, if filing jointly) were under age 65 on January 1 of the year in which you file, and not legally blind at the end of the tax year for which you are filing
- Your income comes only from wages, salaries, tips, taxable scholarship and fellowship grants, unemployment compensation or Alaska Permanent Fund dividends
- Your taxable interest is \$1,500 or less
- Your earned tips (if any) are included in boxes 5 and 7 of your W-2
- You don't owe household employment taxes on wages you paid to a household employee
- You're not a debtor in a Chapter 11 bankruptcy case filed after Oct. 16, 2005



# APPLY YOUR KNOWLEDGE!

Which EFC calculation is used?



SNT?  
REGULAR?  
AUTO-ZERO?



# Test Your Federal Formula Knowledge

- Student is married with a child who they support more than 50%. Student and spouse AGI= \$47,000, they reported \$0.00 in assets, and marked yes to filling a 1040 however answered yes to being able to file a 1040 A or EZ, they answered no to all federal means test benefits, and no to being a dislocated worker – What is the correct formula?
- Simplified Needs Test (SNT)/Formula B



# Which EFC Calculation?

- The CPS will assign a \_\_\_\_\_ EFC to an independent student if:
  - The student's and spouse's combined AGI is \$26,000 AND
  - Anyone counted in the household sized received a means-tested federal benefit during 2017 or 2017 (18/19 FAFSA)

ZERO



# Income Protection Allowance

- FM automatically protects a set amount of income varied by household size and number in college (called IPA)

Number in parents' household, including student (FAFSA/SAR #73)	Number of college students in the household (FAFSA/SAR #74)				
	1	2	3	4	5
2	\$18,580	\$15,400	not applicable	not applicable	not applicable
3	\$23,140	\$19,980	\$16,800	not applicable	not applicable
4	\$28,580	\$25,400	\$22,240	\$19,060	not applicable
5	\$33,720	\$30,540	\$27,380	\$24,200	\$21,040
6	\$39,430	\$36,260	\$33,100	\$29,920	\$26,760

Note: For each additional household member, add \$4,450.  
For each additional college student (except parents), subtract \$3,160.

# Asset Protection Allowance

- Asset Protection: Dept of Ed automatically protects a set amount of assets based on the age of independent students or parents of dependent students
  - The older the student or parent, the greater the amount of assets protected – due to anticipated retirement

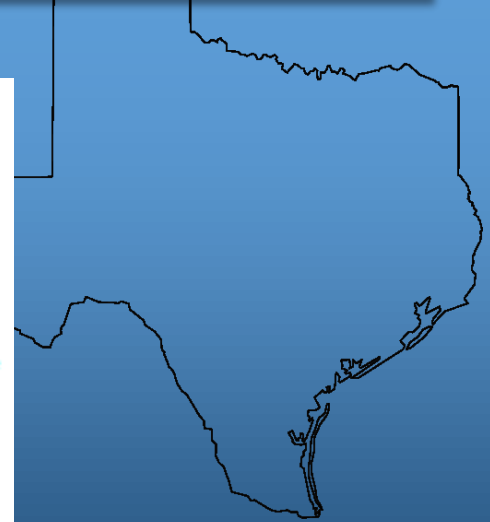


## Assets include:

- Money in cash, savings, and checking accounts
- Businesses
- Investment farms
- Other investments, such as real estate (other than the home in which you live), UGMA and UTMA accounts for which you are the owner, stocks, bonds, certificates of deposit, etc.

## Assets do not include:

- The home in which you live
- UGMA and UTMA accounts for which you are the custodian, but not the owner
- The value of life insurance
- Retirement plans (401[k] plans, pension funds, annuities, non-education IRAs, Keogh plans, etc.)



**Table A5: Parents' Education Savings and Asset Protection Allowance**  
for EFC Formula A Worksheet (parents only)

<i>Age of older parent as of 12/31/2019*</i>	<i>Allowance if there are two parents**</i>	<i>Allowance if there is only one parent</i>	<i>Age of older parent as of 12/31/2019*</i>	<i>Allowance if there are two parents**</i>	<i>Allowance if there is only one parent</i>
25 or less	\$0	\$0	46	\$11,400	\$6,000
26	700	300	47	11,600	6,100
27	1,300	700	48	11,900	6,200
28	2,000	1,000	49	12,200	6,400
29	2,600	1,400	50	12,500	6,500
30	3,300	1,700	51	12,900	6,700
31	4,000	2,100	52	13,200	6,800
32	4,600	2,400	53	13,500	7,000
33	5,300	2,800	54	13,900	7,200
34	5,900	3,100	55	14,300	7,300
35	6,600	3,500	56	14,700	7,500
36	7,300	3,800	57	15,100	7,700
37	7,900	4,200	58	15,500	7,900
38	8,600	4,500	59	15,900	8,100
39	9,200	4,900	60	16,400	8,300
40	9,900	5,200	61	16,800	8,500
41	10,100	5,300	62	17,300	8,800
42	10,400	5,500	63	17,800	9,000
43	10,600	5,600	64	18,300	9,200
44	10,900	5,700	65 or older	18,900	9,500
45	11,100	5,800			

\* Determine the age of the older parent listed in FAFSA/SAR #64 and #68 as of 12/31/2019. If no parent date of birth is provided, use age 45.

\*\* Use the two parent allowance when the parents' marital status listed in FAFSA/SAR #59 is "Married or remarried" or "Unmarried and both legal parents living together."

19/20 EFC Guide:  
Worksheet A  
(dependent students)



# Apply your knowledge!

- Prefilled 1920 FAFSA
- 2019-2020 EFC Formula Guide
- Hand Calculate the EFC for Mr. Rudder!

PARENTS' INCOME IN 2017	
1. Parents' adjusted gross income (FAFSA/SAR #85) If negative, enter zero.	
2. a. Parent 1 (father/mother/stepparent) income earned from work (FAFSA/SAR #88)	
2. b. Parent 2 (father/mother/stepparent) income earned from work (FAFSA/SAR #89)	
Total parents' income earned from work	=
3. Taxable income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Total untaxed income and benefits: (total of FAFSA/SAR #94a through 94i)	+
5. Taxable and untaxed income (sum of line 3 and line 4)	=
6. Total additional financial information (total of FAFSA/SAR #93a through 93f)	-
7. <b>TOTAL INCOME</b> (line 5 minus line 6) May be a negative number.	=

ALLOWANCES AGAINST PARENTS' INCOME	
8. 2017 U.S. income tax paid (FAFSA/SAR #86) (tax filers only) If negative, enter zero.	
9. State and other tax allowance (Table A1) If negative, enter zero.	+
10. Parent 1 (father/mother/stepparent) Social Security tax allowance (Table A2)	+
11. Parent 2 (father/mother/stepparent) Social Security tax allowance (Table A2)	+
12. Income protection allowance (Table A3)	+
13. Employment expense allowance: <ul style="list-style-type: none"> <li>• Two working parents (Parents' Marital Status is "married" or "unmarried and both parents living together"): 35% of the lesser of the earned incomes, or \$4,000, whichever is less</li> <li>• One-parent families: 35% of earned income, or \$4,000, whichever is less</li> <li>• Two-parent families, one working parent: enter zero</li> </ul>	+
14. <b>TOTAL ALLOWANCES</b>	=

\*STOP HERE (at line 3) if the following are true:  
Line 3 is \$26,000 or less **and**

- The parents are eligible to file a 2017 IRS Form 1040A or 1040EZ (that is, they are not required to file a 2017 Form 1040) or they are not required to file any income tax return **or**
- Anyone included in the parents' household size (as defined on the FAFSA) received benefits during 2017 or 2018 from any of the designated means-tested federal benefit programs **or**
- Either of the parents is a dislocated worker.

If these circumstances are true, the Expected Family Contribution is automatically zero.

AVAILABLE INCOME	
TOTAL INCOME (from line 7)	
TOTAL ALLOWANCES (from line 14)	-
15. <b>AVAILABLE INCOME (AI)</b> May be a negative number.	=

PARENTS' CONTRIBUTION FROM ASSETS	
16. Cash, savings, and checking (FAFSA/SAR #90)	
17. Net worth of investments** (FAFSA/SAR #91) If negative, enter zero.	+
18. Net worth of business and/or investment farm (FAFSA/SAR #92) If negative, enter zero.	+
19. Adjusted net worth of business/farm (Calculate using Table A4.)	+
20. Net worth (sum of lines 16, 17, and 19)	=
21. Education savings and asset protection allowance (Table A5)	-
22. Discretionary net worth (line 20 minus line 21)	=
23. Asset conversion rate	× .12
24. <b>CONTRIBUTION FROM ASSETS</b> If negative, enter zero.	=

PARENTS' CONTRIBUTION	
AVAILABLE INCOME (AI) (from line 15)	
CONTRIBUTION FROM ASSETS (from line 24)	+
25. Adjusted available income (AAI) May be a negative number.	=
26. Total parents' contribution from AAI (Calculate using Table A6.) If negative, enter zero.	
27. Number in college in 2019-2020 (Exclude parents.) (FAFSA/SAR #74)	+
28. <b>PARENTS' CONTRIBUTION</b> (standard contribution for nine-month enrollment)*** If negative, enter zero.	=

\*\*Do *not* include the family's home.

\*\*\*To calculate the parents' contribution for other than nine-month enrollment, see page 11.



# Why calculate an EFC?

- Students do not know how it is determined
- EFC perceived as the “gate keeper” for aid
- Ex: “What is the maximum amount my family can make and still get Pell?”
- Understanding how to calculate helps us explain how all pieces work together



# Final Thoughts on Need Analysis

- A myriad of elements go into the EFC! You can't "guesstimate" what someone's EFC would be just by asking income information
- Having a strong foundation of how the EFC works will help you know if a professional judgment will help a student



# Conclusion

- Definition of Need Analysis
- Factors that make up the EFC calculation and why they are important
- The various federal formulas
- Fundamentals of calculating an EFC



# Resources

- 2019-2020 EFC Formula Guide  
<https://ifap.ed.gov/efcformulaguide/attachments/071416EFCFormulaGuide1718.pdf>
- 2019-2020 FAFSA
- <https://studentaid.ed.gov/sa/sites/default/files/2019-20-fafsa.pdf>



# Thank you!



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