

Federal Methodology—Part F

Need Analysis Issue 1: Optional Professional Credential Allowance [Section 472(11) & new (13)]

Recommendation: At the institution's option, permit the inclusion of an allowance in the cost of attendance for obtaining professional credentials, including professional certification or licensure, national or state examinations, if these costs are incurred during the academic period. The exam must be taken and be paid for while the student is in school (not post graduation) and must be directly related to the student's program.

Rationale: The suggested amendment would permit schools to include the cost of obtaining professional credentials in a student's cost of attendance. In certain professions, students incur significant expenses for professional certification and licensure-including cost of national or state examinations-in order to enter their chosen profession or continue their education. NASFAA recommends that such costs incurred prior to graduation or completion of program of study be included at the institution's option as a standard part of the cost of attendance or on a case-by-case basis.

Current Law	Proposed Statutory Language
Section 472(11) for a student engaged in a work experience under a cooperative education program, an allowance for reasonable costs associated with such employment (as determined by the institution); and (12) for a student who receives a loan under this or any other Federal law, or, at the option of the institution, a conventional student loan incurred by the student to cover a student's cost of attendance at the institution, an allowance for the actual cost of any loan fee, origination fee, or insurance premium charged to such student or such parent on such loan, or the average cost of any such fee or premium charged by the Secretary, lender, or guaranty agency making or insuring such loan, as the case may be.	Section 472(11) for a student engaged in a work experience under a cooperative education program, an allowance for reasonable costs associated with such employment (as determined by the institution); and (12) for a student who receives a loan under this or any other Federal law, or, at the option of the institution, a conventional student loan incurred by the student to cover a student's cost of attendance at the institution, an allowance for the actual cost of any loan fee, origination fee, or insurance premium charged to such student or such parent on such loan, or the average cost of any such fee or premium charged by the Secretary, lender, or guaranty agency making or insuring such loan, as the case may be- ; and (13) at the institution's option, for a student in a program

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	requiring professional licensure or certification, the cost of obtaining professional credentials (as determined by the institution).
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Need Analysis Issue 2: Expected Family Contribution (EFC) [Section 473]

Recommendation: Rename the Expected Family Contribution (EFC) the Federal Eligibility Index (FEI).

Rationale: This change in terminology would recognize that the federal analysis of income and assets is an eligibility index for distribution of federal aid rather than an actual family contribution calculation.

Current Law	Proposed Statutory Language
Section 473—For the purpose of this title, except subpart 2 of part A, the term “family contribution” with respect to any student means the amount which the student and the student’s family may be reasonably expected to contribute toward the student’s postsecondary education for the academic year for which the determination is made, as determined in accordance with this part.	Section 473—For the purpose of this title, except subpart 2 of part A, the term “ family contribution federal eligibility index ” with respect to any student means the amount which the student and the student’s family may be reasonably expected to contribute toward the student’s postsecondary education for the academic year for which the determination is made, as determined in accordance with this part.

Need Analysis Issue 3: Treatment of Student Assets [Section 475(h), 476(c)(3), 477(c)(3)]

Recommendation: Add a \$1,000 asset protection allowance (APA) for dependent students and single independent students under the age of 26. For married students 26 or older, continue to use an APA based on the age of the older spouse. The minimum allowance for students under the age of 26 will be \$1,000.

Rationale: The suggested amendment would protect students who have been prudent and saved for their education and not disadvantage these students when compared to the student who couldn't save, or chose not to save. Using a minimum APA will ensure that low-income students continue to qualify for maximum Pell Grant eligibility.

Current Law	Proposed Statutory Language																								
<p>Section 475(h) STUDENT CONTRIBUTION FROM ASSETS.—The student contribution from assets is determined by calculating the net assets of the student and multiplying such amount by 35 percent, except that the result shall not be less than zero. *****</p> <p>Section 476(c)(3) ASSET PROTECTION ALLOWANCE.—The asset protection allowance is calculated according to the following table (or a successor table prescribed by the Secretary under section 478):</p> <table border="0" data-bbox="176 1039 1045 1193"> <tr> <td colspan="3">Asset Protection Allowances for Families and Students</td> </tr> <tr> <td>If the age of the student is—</td> <td>And the student is married / single</td> <td>then the allowance is—</td> </tr> <tr> <td>25 or less</td> <td>\$ 0 \$0</td> <td></td> </tr> <tr> <td>26</td> <td>2,200 1,600</td> <td></td> </tr> </table> <p>*****</p> <p>Section 477(c)(3) ASSET PROTECTION ALLOWANCE.—The asset protection allowance is calculated according to the</p>	Asset Protection Allowances for Families and Students			If the age of the student is—	And the student is married / single	then the allowance is—	25 or less	\$ 0 \$0		26	2,200 1,600		<p>Section 475(h) STUDENT CONTRIBUTION FROM ASSETS.—The student contribution from assets is determined by calculating the net assets of the student, subtracting any asset protection allowance, and multiplying such amount by 35 percent, except that the result shall not be less than zero. *****</p> <p>Section 476(c)(3) ASSET PROTECTION ALLOWANCE.—The asset protection allowance is calculated according to the following table (or a successor table prescribed by the Secretary under section 478):</p> <table border="0" data-bbox="1054 1006 1906 1161"> <tr> <td colspan="3">Asset Protection Allowances for Families and Students</td> </tr> <tr> <td>If the age of the student is—</td> <td>And the student is married / single</td> <td>then the allowance is—</td> </tr> <tr> <td>25 or less</td> <td>\$0 \$1,000 \$0 \$1,000</td> <td></td> </tr> <tr> <td>26</td> <td>2,200 1,600</td> <td></td> </tr> </table> <p>*****</p> <p>Section 477(c)(3) ASSET PROTECTION ALLOWANCE.—The asset protection allowance is calculated according to the</p>	Asset Protection Allowances for Families and Students			If the age of the student is—	And the student is married / single	then the allowance is—	25 or less	\$0 \$1,000 \$0 \$1,000		26	2,200 1,600	
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following table (or a successor table prescribed by the Secretary under section 478):

Asset Protection Allowances for Families and Students

If the age of the student is—	And the student is married single then the allowance is—	
25 or less.....	\$ 0	\$ 0
26.....	2,200	1,600

following table (or a successor table prescribed by the Secretary under section 478):

Asset Protection Allowances for Families and Students

If the age of the student is—	And the student is married single then the allowance is—	
25 or less.....	\$ 0 \$1,000	\$ 0 \$1,000
26.....	2,200	1,600

Need Analysis Issue 4: Income Protection Allowance [Section 478(b)]

Recommendation: Use the Consumer Expenditure Survey (lowest 20% table), to develop the IPA tables instead of updated BLS data.

Rationale: The Federal Methodology Income Protection Allowance (IPA) has been updated by the change in the consumer price index from year to year. The problems with the current table are that (1) the market basket of goods and services that underlies the IPA was established by the Bureau of Labor Statistics in the 1960s, and (2) the family equivalency tables (i.e., coefficients that are used to adjust the family of four, with children aged 8 and 13 to other family sizes with children of college age) were also established in the 1960s. It would be reasonable to use the government-sponsored Consumer Expenditure Survey (lowest 20% table) to update the IPA tables.

Current Law	Proposed Statutory Language
<p>Section 478(b) INCOME PROTECTION ALLOWANCE.— (1) REVISED TABLES.—For each academic year after academic year 1993–1994, the Secretary shall publish in the Federal Register a revised table of income protection allowances for the purpose of sections 475(c)(4) and 477(b)(4). Such revised table shall be developed by increasing each of the dollar amounts contained in the table in each such section by a percentage equal to the estimated percentage increase in the Consumer Price Index (as determined by the Secretary) between December 1992 and the December next preceding the beginning of such academic year, and rounding the result to the nearest \$10.</p> <p>(2) REVISED AMOUNTS.—For each academic year after academic year 2000–2001, the Secretary shall publish in the Federal Register revised income protection allowances for the</p>	<p>Section 478(b) INCOME PROTECTION ALLOWANCE.— (1) REVISED TABLES.—For each academic year after academic year 1993–1994, the Secretary shall publish in the Federal Register a revised table of income protection allowances for the purpose of sections 475(c)(4) and 477(b)(4). Such revised table shall be developed by increasing each of the dollar amounts contained in the table in each such section by a percentage equal to the estimated percentage increase in the Consumer Price Index (as determined by the Secretary) between December 1992 and the December next preceding the beginning of such academic year, using a three year average of the median expenses for a family of four based on the Consumer Expenditure Survey data, adjusted for current dollars, calculated for the lower living level, and rounding the result to the nearest \$10.</p> <p>(2) REVISED AMOUNTS.—For each academic year after academic year 2000–2001 2005-2006, the Secretary shall publish in the Federal Register revised income protection</p>

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<p>purpose of sections 475(g)(2)(D) and 476(b)(1)(A)(iv). Such revised allowances shall be developed by increasing each of the dollar amounts contained in such section by a percentage equal to the estimated percentage increase in the Consumer Price Index (as determined by the Secretary) between December 1999 and the December next preceding the beginning of such academic year, and rounding the result to the nearest \$10.</p>	<p>allowances for the purpose of sections 475(g)(2)(D) and 476(b)(1)(A)(iv). Such revised allowances shall be developed by increasing each of the dollar amounts contained in such section by a percentage equal to the estimated percentage increase in the Consumer Price Index Consumer Expenditure Survey (as determined by the Secretary) between December 1999 [fill in] and the December next preceding the beginning of such academic year, and rounding the result to the nearest \$10.</p>
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Need Analysis Issue 5: Updating State/Local Tax Tables [Section 478(g)]

Recommendation: Replace the Treasury Statistics of Income file with the data and tax model used by the Institute of Taxation and Economic Policy for the updating process.

Rationale: The suggested amendment requires the Secretary to use a different model to develop the state and local tax tables and to more sensitively recognize the variance in state tax structures by increasing the number of income bands in these tables.

The Treasury Statistics of Income (SOI) file is currently used to calculate the state and local tax table rates. This data inadequately assesses the full effect of state and local taxes because it includes only people who itemize their deductions. Since people with higher incomes tend to pay a lower percentage of their income in taxes, the calculated state and local tax rates understate the effective tax rate. The rates calculated using Treasury’s Statistics of Income file are lower than the typical family pays. The Department’s use of only two income bands (0-\$15,000 and \$15,001 and above) does not adequately reflect families’ tax burden at different income levels.

NASFAA believes that using the Institute of Taxation and Economic Policy’s (ITEP) data and tax model to update the tax tables will improve them for all families and protect the working poor in particular. The ITEP uses a range of data sources to model family structures and current family incomes. The data more accurately represents the taxes that real families pay based on the current tax code and includes people who itemize, people who do not itemize, and non-tax filers, all of which will help more accurately represent Pell Grant recipients. ITEP publishes reports roughly every five years. We suggest that data from the most current report be used for the initial table in the statute and that the Department update the tables as ITEP issues new reports. Doing so has the dual benefit of using the most complete and accurate data as well as minimizing year-to-year changes for families.

The current state and other tax rates do not include sales or excise taxes. We suggest that sales tax (in addition to income and property taxes) be used to calculate the rates.

Current Law	Proposed Statutory Language
Section 478(g) STATE AND OTHER TAX ALLOWANCE.— For each award year after award year 1993–1994, the Secretary shall publish in the Federal Register a revised table of State and other tax allowances for the purpose of sections 475(c)(2),	Section 478(g) STATE AND OTHER TAX ALLOWANCE.— For each award year after award year 1993–1994 , 2005-06 , the Secretary shall publish in the Federal Register a revised table of State and other tax allowances for the purpose of sections

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<p>475(g)(3), 476(b)(2), and 477(b)(2). The Secretary shall develop such revised table after review of the Department of the Treasury's Statistics of Income file and determination of the percentage of income that each State's taxes represent.</p>	<p>475(c)(2), 475(g)(3), 476(b)(2), and 477(b)(2). The Secretary shall develop such revised table after review of the Department of the Treasury's Statistics of Income file data of the Institute of Taxation & Economic Policy and determination of the percentage of income that each State's taxes including income, sales, and property taxes, represent. In developing the table, the Secretary shall expand the number of income bands to more appropriately approximate the tax burden among different income levels within the population.</p>
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Need Analysis Issue 6: FAFSA Simplification [Sections 475 & 477]

Recommendation: For parents of dependent students and for independent students with dependents, develop a check-off box on the Free Application for Federal Student Aid (FAFSA) for TANF [Temporary Assistance for Needy Families] and General Relief recipients that would allow them to bypass all income and asset questions. These students would automatically qualify for the maximum Pell Grant (plus the additional \$750 designated for maximum negative EFC families) and would have a zero EFC for determination of financial need for all other federal student aid programs.

Rationale: These families have already passed a needs test certifying their eligibility for federal, state and local subsistence programs. Evidence indicates that the complexity of the FAFSA may discourage these families from applying for financial aid. A simple check-off on the FAFSA would mitigate this problem.

Current Law	Proposed Statutory Language
<p>Section 475. FAMILY CONTRIBUTION FOR DEPENDENT STUDENTS. (a) COMPUTATION OF EXPECTED FAMILY CONTRIBUTION.—For each dependent student, the expected family contribution is equal to the sum of— (1) the parents’ contribution from adjusted available income (determined in accordance with subsection (b)); (2) the student contribution from available income (determined in accordance with subsection (g)); and (3) the student contribution from assets (determined in accordance with subsection (h))</p>	<p>Section 475. FAMILY CONTRIBUTION FOR DEPENDENT STUDENTS. (a) COMPUTATION OF EXPECTED FAMILY CONTRIBUTION.—For each dependent student, the expected family contribution is equal to the sum of— (1) the parents’ contribution from adjusted available income (determined in accordance with subsection (b)); (2) the student contribution from available income (determined in accordance with subsection (g)); and (3) the student contribution from assets (determined in accordance with subsection (h)) except that a family receiving public assistance (as defined under section 480 (b)(2)) at the time of application shall be considered to have a zero family contribution.</p>
<p>Section 477 FAMILY CONTRIBUTION FOR INDEPENDENT STUDENTS WITH DEPENDENTS OTHER THAN A</p>	<p>Section 477 FAMILY CONTRIBUTION FOR INDEPENDENT STUDENTS WITH DEPENDENTS OTHER</p>

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SPOUSE. (a) COMPUTATION OF EXPECTED FAMILY CONTRIBUTION.—For each independent student with dependents other than a spouse, the expected family contribution is equal to the amount determined by—

(1) computing adjusted available income by adding—

(A) the family’s available income (determined in accordance with subsection (b)); and

(B) the family’s contribution from assets (determined in accordance with subsection (c));

(2) assessing such adjusted available income in accordance with an assessment schedule set forth in subsection (d);

(3) dividing the assessment resulting under paragraph (2) by the number of family members who are enrolled or accepted for enrollment, on at least a half-time basis, in a degree, certificate, or other program leading to a recognized educational credential at an institution of higher education that is an eligible institution in accordance with the provisions of section 487 during the award period for which assistance under this title is requested; and

(4) for periods of enrollment of less than 9 months, for purposes other than subpart 2 of part A—

(A) dividing the quotient resulting under paragraph (3) by 9; and

(B) multiplying the result by the number of months in the period of enrollment;

except that the amount determined under this subsection shall not be less than zero.

(b) UNTAXED INCOME AND BENEFITS.—The term “untaxed income

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(1) computing adjusted available income by adding—

(A) the family’s available income (determined in accordance with subsection (b)); and

(B) the family’s contribution from assets (determined in accordance with subsection (c));

(2) assessing such adjusted available income in accordance with an assessment schedule set forth in subsection (d)

except that a family receiving public assistance (as defined under section 480(b)(2)) at the time of application shall be considered to have a zero family contribution and;

(3) dividing the assessment resulting under paragraph (2) by the number of family members who are enrolled or accepted for enrollment, on at least a half-time basis, in a degree, certificate, or other program leading to a recognized educational credential at an institution of higher education that is an eligible institution in accordance with the provisions of section 487 during the award period for which assistance under this title is requested; and

(4) for periods of enrollment of less than 9 months, for purposes other than subpart 2 of part A—

(A) dividing the quotient resulting under paragraph (3) by 9; and

(B) multiplying the result by the number of months in the period of enrollment;

except that the amount determined under this subsection shall not be less than zero.

(b) UNTAXED INCOME AND BENEFITS.—The term “untaxed income

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<p>and benefits'' means— (1) child support received; (2) welfare benefits, including assistance under a State program funded under part A of title IV of the Social Security Act and aid to dependent children;</p>	<p>and benefits'' means— (1) child support received; (2) welfare benefits, including assistance under a State program funded under part A of title IV of the Social Security Act or state-sponsored General Relief program and aid to dependent children;</p>
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Need Analysis Issue 7: Simplified Needs Test [Section 479(b)]

Recommendation: Eliminate this formula treatment.

Rationale: The linkage with tax filing status significantly complicates the identification of eligible families. As an added benefit of eliminating this formula, availability of the asset information will provide a more accurate assessment of eligibility for those families with assets. The SNT does not make the process simple and is not achieving its stated goal.

Current Law	Proposed Statutory Language
<p>Section 479(b) SIMPLIFIED NEEDS TEST.— (1) ELIGIBILITY.—An applicant is eligible to file a simplified form containing the elements required by paragraph (2) if— (A) in the case of an applicant who is a dependent student— (i) the student’s parents file or are eligible to file a form described in paragraph (3) or certify that they are not required to file an income tax return and the student files or is eligible to file such a form or certifies that the student is not required to file an income tax return; and (ii) the total adjusted gross income of the parents (excluding any income of the dependent student) is less than \$50,000; or (B) in the case of an applicant who is an independent student— (i) the student (and the student’s spouse, if any) files or is eligible to file a form described in paragraph (3) or certifies that the student (and the student’s spouse, if any) is not required to file an income tax return; and (ii) the adjusted gross income of the student (and the student’s spouse, if any) is less than \$50,000.</p>	<p>Section 479(b) SIMPLIFIED NEEDS TEST.— (1) ELIGIBILITY.—An applicant is eligible to file a simplified form containing the elements required by paragraph (2) if— (A) in the case of an applicant who is a dependent student— (i) the student’s parents file or are eligible to file a form described in paragraph (3) or certify that they are not required to file an income tax return and the student files or is eligible to file such a form or certifies that the student is not required to file an income tax return; and (ii) the total adjusted gross income of the parents (excluding any income of the dependent student) is less than \$50,000; or (B) in the case of an applicant who is an independent student— (i) the student (and the student’s spouse, if any) files or is eligible to file a form described in paragraph (3) or certifies that the student (and the student’s spouse, if any) is not required to file an income tax return; and (ii) the adjusted gross income of the student (and the student’s spouse, if any) is less than \$50,000.</p>

Need Analysis Issue 8: Automatic Zero EFC [Section 479(c)]

Recommendation: Eliminate this formula treatment.

Rationale: The suggested amendment would eliminate this formula treatment. NASFAA is concerned about whether the current automatic zero approach identifies and serves its intended audience. The tax form a family is "eligible to file" is a central eligibility criterion for the formula. Many low-income families go to tax preparers who generally use the long form. These families are often not knowledgeable enough about the tax system to understand that they could have filed a simpler form thus making them eligible for this formula. NASFAA does not anticipate a negative impact on the FAFSA. Families will complete all data items just as they currently do. If there is any negative formulaic impact resulting from this change, NASFAA believes that the current formula offsetting dependent student income in the amount of the negative adjusted parental available income mitigates the impact.

Current Law	Proposed Statutory Language
<p>Section 479 (c) ZERO EXPECTED FAMILY CONTRIBUTION.—The Secretary shall consider an applicant to have an expected family contribution equal to zero if—</p> <p>(1) in the case of a dependent student—</p> <p>(A) the student’s parents file, or are eligible to file, a form described in subsection (b)(3), or certify that the parents are not required to file an income tax return and the student files, or is eligible to file, such a form, or certifies that the student is not required to file an income tax return; and</p> <p>(B) the sum of the adjusted gross income of the parents is less than or equal to the maximum amount of income (rounded annually to the nearest thousand dollars) that may be earned in 1992 or the current year, whichever is higher, in order to claim the maximum Federal earned income credit; or</p> <p>(2) in the case of an independent student with dependents other than a spouse—</p> <p>(A) the student (and the student’s spouse, if any) files, or is</p>	<p>Section 479 (c) ZERO EXPECTED FAMILY CONTRIBUTION.—The Secretary shall consider an applicant to</p> <p>have an expected family contribution equal to zero if—</p> <p>(1) in the case of a dependent student—</p> <p>(A) the student’s parents file, or are eligible to file, a form described in subsection (b)(3), or certify that the parents are not required to file an income tax return and the student files, or is eligible to file, such a form, or certifies that the student is not required to file an income tax return; and</p> <p>(B) the sum of the adjusted gross income of the parents is less than or equal to the maximum amount of income (rounded annually to the nearest thousand dollars) that may be earned in 1992 or the current year, whichever is higher, in order to claim the maximum Federal earned income credit; or</p> <p>(2) in the case of an independent student with dependents other than a spouse—</p>

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<p>eligible to file, a form described in subsection (b)(3), or certifies that the student (and the student's spouse, if any) an income tax return; and is not required to file</p> <p>(B) the sum of the adjusted gross income of the student and spouse (if appropriate) is less than or equal to the maximum amount of income (rounded annually to the nearest thousand dollars) that may be earned in 1992 or the current year, whichever is higher, in order to claim the maximum Federal earned income credit. An individual is not required to qualify or file for the earned income credit in order to be eligible under this subsection.</p>	<p>(A) the student (and the student's spouse, if any) files, or is eligible to file, a form described in subsection (b)(3), or certifies that the student (and the student's spouse, if any) an income tax return; and is not required to file</p> <p>(B) the sum of the adjusted gross income of the student and spouse (if appropriate) is less than or equal to the maximum amount of income (rounded annually to the nearest thousand dollars) that may be earned in 1992 or the current year, whichever is higher, in order to claim the maximum Federal earned income credit. An individual is not required to qualify or file for the earned income credit in order to be eligible under this subsection.</p>
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Need Analysis Issue 9: Treatment of Paper Tax Losses [Section 480(b)]

Recommendation: Exclude net operating losses carried-forward and Schedule E losses as offsets against Adjusted Gross Income.

Rationale: NASFAA is concerned that "paper losses" unfairly allow some families to qualify for Pell Grants and other need based programs. We recommend excluding Schedule E and prior year carry-forward losses because they are artificial losses. We do not recommend changing the current treatment of losses from Schedules C, D, or F as they are actual losses.

Current Law	Proposed Statutory Language
<p>(b) UNTAXED INCOME AND BENEFITS.—The term “untaxed income and benefits” means—</p> <ul style="list-style-type: none"> (1) child support received; (2) welfare benefits, including assistance under a State program funded under part A of title IV of the Social Security Act and aid to dependent children; (3) workman’s compensation; (4) veterans’ benefits such as death pension, dependency, and indemnity compensation, but excluding veterans’ education benefits as defined in subsection (c); (5) interest on tax-free bonds; (6) housing, food, and other allowances (excluding rent subsidies for low-income housing) for military, clergy, and others (including cash payments and cash value of benefits); (7) cash support or any money paid on the student’s behalf, except, for dependent students, funds provided by the student’s parents; (8) the amount of earned income credit claimed for Federal income tax purposes; (9) untaxed portion of pensions; (10) credit for Federal tax on special fuels; 	<p>(b) UNTAXED INCOME AND BENEFITS.—The term “untaxed income and benefits” means—</p> <ul style="list-style-type: none"> (1) child support received; (2) welfare benefits, including assistance under a State program funded under part A of title IV of the Social Security Act and aid to dependent children; (3) workman’s compensation; (4) veterans’ benefits such as death pension, dependency, and indemnity compensation, but excluding veterans’ education benefits as defined in subsection (c); (5) interest on tax-free bonds; (6) housing, food, and other allowances (excluding rent subsidies for low-income housing) for military, clergy, and others (including cash payments and cash value of benefits); (7) cash support or any money paid on the student’s behalf, except, for dependent students, funds provided by the student’s parents; (8) the amount of earned income credit claimed for Federal income tax purposes; (9) untaxed portion of pensions; (10) credit for Federal tax on special fuels;

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<p>(11) the amount of foreign income excluded for purposes of Federal income taxes;</p> <p>(12) untaxed social security benefits;</p> <p>(13) payments to individual retirement accounts and Keogh accounts excluded from income for Federal income tax purposes; and</p> <p>(14) any other untaxed income and benefits, such as Black Lung Benefits, Refugee Assistance, railroad retirement benefits, or Job Training Partnership Act noneducational benefits or benefits received through participation in employment and training activities under title I of the Workforce Investment Act of 1998.</p>	<p>(11) the amount of foreign income excluded for purposes of Federal income taxes;</p> <p>(12) untaxed social security benefits;</p> <p>(13) payments to individual retirement accounts and Keogh accounts excluded from income for Federal income tax purposes; and</p> <p>(14) losses under “supplemental income and loss” from the IRS Schedule E, which shall be reported as a positive amount;</p> <p>(15) net operating losses which are carried forward from a prior year, which shall be reported as a positive amount; and</p> <p>(16) any other untaxed income and benefits, such as Black Lung Benefits, Refugee Assistance, railroad retirement benefits, or Job Training Partnership Act noneducational benefits or benefits received through participation in employment and training activities under title I of the Workforce Investment Act of 1998.</p>
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Need Analysis Issue 10: Earned Income Credit (EIC) [Section 480(b)]

Recommendation: Exclude the earned income credit from untaxed income.

Rationale: The EIC is a tax benefit provided by the IRS to aid the "working poor." NASFAA supports providing the true benefit to low-income families and not adding it back to the formula analysis.

Current Law	Proposed Statutory Language
<p>Section 480(b) UNTAXED INCOME AND BENEFITS.—The term “untaxed income and benefits” means—</p> <ul style="list-style-type: none"> (1) child support received; (2) welfare benefits, including assistance under a State program funded under part A of title IV of the Social Security Act and aid to dependent children; (3) workman’s compensation; (4) veterans’ benefits such as death pension, dependency, and indemnity compensation, but excluding veterans’ education benefits as defined in subsection (c); (5) interest on tax-free bonds; (6) housing, food, and other allowances (excluding rent subsidies for low-income housing) for military, clergy, and others (including cash payments and cash value of benefits); (7) cash support or any money paid on the student’s behalf, except, for dependent students, funds provided by the student’s parents; (8) the amount of earned income credit claimed for Federal income tax purposes; (9) untaxed portion of pensions; (10) credit for Federal tax on special fuels; (11) the amount of foreign income excluded for purposes of 	<p>Section 480(b) UNTAXED INCOME AND BENEFITS.—The term “untaxed income and benefits” means—</p> <ul style="list-style-type: none"> (1) child support received; (2) welfare benefits, including assistance under a State program funded under part A of title IV of the Social Security Act and aid to dependent children; (3) workman’s compensation; (4) veterans’ benefits such as death pension, dependency, and indemnity compensation, but excluding veterans’ education benefits as defined in subsection (c); (5) interest on tax-free bonds; (6) housing, food, and other allowances (excluding rent subsidies for low-income housing) for military, clergy, and others (including cash payments and cash value of benefits); (7) cash support or any money paid on the student’s behalf, except, for dependent students, funds provided by the student’s parents; (8) the amount of earned income credit claimed for Federal income tax purposes; (9) (8) untaxed portion of pensions; (10) (9) credit for Federal tax on special fuels; (11) (10) the amount of foreign income excluded for purposes

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<p>Federal income taxes; (12) untaxed social security benefits; (13) payments to individual retirement accounts and Keogh accounts excluded from income for Federal income tax purposes; and (14) any other untaxed income and benefits, such as Black Lung Benefits, Refugee Assistance, railroad retirement benefits, or Job Training Partnership Act non-educational benefits or benefits received through participation in employment and training activities under title I of the Workforce Investment Act of 1998.</p>	<p>of Federal income taxes; (12) (11) untaxed social security benefits; (13) (12) payments to individual retirement accounts and Keogh accounts excluded from income for Federal income tax purposes; and (14) (13) any other untaxed income and benefits, such as Black Lung Benefits, Refugee Assistance, railroad retirement benefits, or Job Training Partnership Act non-educational benefits or benefits received through participation in employment and training activities under title I of the Workforce Investment Act of 1998.</p>
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Need Analysis Issue 11: Veterans' and AmeriCorps Benefits [Section 480(c), (j), & conforming amendment to 428(a)(2)(B)]

Recommendation: Establish consistent treatment of VA monthly educational benefits for all financial aid programs regardless of the chapter. Selected benefits should be assessed at 50% of the award amount for both the campus-based programs (as a resource) and the loan programs under parts B & D (as estimated financial assistance).

The treatment of the AmeriCorps benefits should also be made consistent for all Title IV Programs.

Rationale: NASFAA believes that veteran's educational benefits should continue to be treated as a resource and not as a part of the income component in the formula in determining a student's eligibility for financial aid awards. Our members believe that this treatment should be the same for all Title IV programs other than Pell Grants. The current exclusion for Chapter 30 benefits from estimated financial assistance for purposes of subsidized Stafford loans significantly increases the complexity of overall aid administration. However, since these men and women have contributed in a unique way to their country, we suggest that these benefits should be assessed at 50% of the total benefit for all Title IV programs other than Pell Grants. Affected veterans educational benefits include those paid under Chapters 30, 31, 32, and 35 of title 38 of the United States Code. The current treatment of other VA benefits should continue with no change.

Current treatment of AmeriCorps benefits parallels VA benefits. We therefore recommend that treatment of these benefits also be standardized at 50%.

Current Law	Proposed Statutory Language
Section 480(c) VETERAN AND VETERANS' EDUCATION BENEFITS.—(1) The term “veteran” means any individual who— (A) has engaged in the active duty in the United States Army, Navy, Air Force, Marines, or Coast Guard; and (B) was released under a condition other than dishonorable. (2) The term “veterans’ education benefits” means veterans’ benefits the student will receive during the award year, including	Section 480(c) VETERAN AND VETERANS' EDUCATION BENEFITS.—(1) The term “veteran” means any individual who— (A) has engaged in the active duty in the United States Army, Navy, Air Force, Marines, or Coast Guard; and (B) was released under a condition other than dishonorable. (2) The term “veterans’ education benefits” means veterans’ benefits the student will receive during the award year, including

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but not limited to the following:

- (A) United States Code, title 10, chapter 2: Reserve Officer Training Corps scholarship.
- (B) United States Code, title 10, chapter 106: Selective Reserve.
- (C) United States Code, title 10, chapter 107: Selective Reserve Educational Assistance Program.
- (D) United States Code, title 37, chapter 2: Reserve Officer Training Corps Program.
- (E) United States Code, title 38, chapter 30: Montgomery GI Bill—active duty.
- (F) United States Code, title 38, chapter 31: vocational rehabilitation.
- (G) United States Code, title 38, chapter 32: Post-Vietnam Era Veterans' Educational Assistance Program.
- (H) United States Code, title 38, chapter 35: Dependents Educational Assistance Program.
- (I) Public Law 97–376, section 156: Restored Entitlement Program for Survivors (or Quayle benefits).
- (J) Public Law 96–342, section 903: Educational Assistance Pilot Program.

(j) OTHER FINANCIAL ASSISTANCE; TUITION PREPAYMENT PLANS.—(1) For purposes of determining a student's eligibility for funds under this title, estimated financial assistance not received under this title shall include all scholarships, grants, loans, or other assistance known to the institution at the time the determination of the student's need is made, including veterans' education benefits as defined in subsection (c), and national service educational awards or post-service benefits under title I of the National and Community Service Act of 1990 (42 U.S.C. 12571

but not limited to the following:

- (A) United States Code, title 10, chapter 2: Reserve Officer Training Corps scholarship.
- (B) United States Code, title 10, chapter 106: Selective Reserve.
- (C) United States Code, title 10, chapter 107: Selective Reserve Educational Assistance Program.
- (D) United States Code, title 37, chapter 2: Reserve Officer Training Corps Program.
- (E) United States Code, title 38, chapter 30: Montgomery GI Bill—active duty.
- (F) United States Code, title 38, chapter 31: vocational rehabilitation.
- (G) United States Code, title 38, chapter 32: Post-Vietnam Era Veterans' Educational Assistance Program.
- (H) United States Code, title 38, chapter 35: Dependents Educational Assistance Program.
- (I) Public Law 97–376, section 156: Restored Entitlement Program for Survivors (or Quayle benefits).
- (J) Public Law 96–342, section 903: Educational Assistance Pilot Program.

(j) OTHER FINANCIAL ASSISTANCE; TUITION PREPAYMENT PLANS.—(1) For purposes of determining a student's eligibility for funds under this title, estimated financial assistance not received under this title shall include all scholarships, grants, loans, or other assistance known to the institution at the time the determination of the student's need is made, including **one half of the** veterans' education benefits as defined in subsection (c), and **one-half of** national service educational awards or post-service benefits under title I of the National and Community Service Act of 1990 (42 U.S.C. 12571

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et seq.).

Conforming Amendment:

Section 428(a)(2)(B) For the purpose of clause (ii) of subparagraph (A), a student shall qualify for a portion of an interest payment under paragraph (1) if the eligible institution has determined and documented the student's amount of need for a loan based on the student's estimated cost of attendance, estimated financial assistance, and, for the purpose of an interest payment pursuant to this section, expected family contribution (as determined under part F), subject to the provisions of subparagraph (D).

(C) For the purpose of subparagraph (B) and this paragraph—

(i) a student's cost of attendance shall be determined under section 472;

(ii) a student's estimated financial assistance means, for the period for which the loan is sought—

(I) the amount of assistance such student will receive under subpart 1 of part A (as determined in accordance with section 484(b)), subpart 3 of part A, and parts C and E;

(II) any veterans' education benefits paid because of enrollment in a postsecondary education institution, including veterans' education benefits (as defined in section 480(c), but excluding benefits described in paragraph (2)(E) of such section); plus

(III) other scholarship, grant, or loan assistance, but excluding any national service education award or post-service benefit under title I of the National and Community Service Act of 1990; and

et seq.).

Conforming Amendment:

Section 428(a)(2)(B) For the purpose of clause (ii) of subparagraph (A), a student shall qualify for a portion of an interest payment under paragraph (1) if the eligible institution has determined and documented the student's amount of need for a loan based on the student's estimated cost of attendance, estimated financial assistance, and, for the purpose of an interest payment pursuant to this section, expected family contribution (as determined under part F), subject to the provisions of subparagraph (D).

(C) For the purpose of subparagraph (B) and this paragraph—

(i) a student's cost of attendance shall be determined under section 472;

(ii) a student's estimated financial assistance means, for the period for which the loan is sought—

(I) the amount of assistance such student will receive under subpart 1 of part A (as determined in accordance with section 484(b)), subpart 3 of part A, and parts C and E;

(II) **one-half of** any veterans' education benefits paid because of enrollment in a postsecondary education institution, including veterans' education benefits (as defined in section 480(c), ~~but excluding benefits described in paragraph (2)(E) of such section~~); plus

(III) other scholarship, grant, or loan assistance, ~~but excluding~~ **including one half of** any national service education award or post-service benefit under title I of the National and Community Service Act of 1990; and

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<p>(iii) the determination of need and of the amount of a loan by an eligible institution under subparagraph (B) with respect to a student shall be calculated in accordance with part F.</p>	<p>(iii) the determination of need and of the amount of a loan by an eligible institution under subparagraph (B) with respect to a student shall be calculated in accordance with part F.</p>
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Need Analysis Issue 12: Independent Student Definition [Section 480(d) & conforming amendment to 480(c)]

Recommendation: Retain current definition; clarify that to qualify for independent status as a veteran, the student must have served in the military for the required number of days that would qualify the student as a veteran as defined by the Veterans Administration.

Rationale: NASFAA believes that the current definition targets the appropriate population and should be retained with one modification. The current definition for veteran status in the Title IV programs does not correspond with the certifying federal agency, the Veterans Administration. Strengthening this definition will curb perceived abuses in the current law and make confirmation by data base match simpler and more reliable. All students who meet the VA definition and serve the required number of days with a discharge other than dishonorable would qualify as independent. All students currently in the military on active duty would qualify for independent status, regardless of days served. National Guard and Reserve training (including the initial active duty training period) would not count as active duty service.

Current Law	Proposed Statutory Language
<p>Section 480(d) INDEPENDENT STUDENT.—The term “independent”, when used with respect to a student, means any individual who—</p> <ul style="list-style-type: none"> (1) is 24 years of age or older by December 31 of the award year; (2) is an orphan or ward of the court or was a ward of the court until the individual reached the age of 18; (3) is a veteran of the Armed Forces of the United States (as defined in subsection (c)(1)); (4) is a graduate or professional student; (5) is a married individual; (6) has legal dependents other than a spouse; or (7) is a student for whom a financial aid administrator makes a documented determination of independence by reason of other unusual circumstances. 	<p>Section 480(d) INDEPENDENT STUDENT.—The term “independent”, when used with respect to a student, means any individual who—</p> <ul style="list-style-type: none"> (1) is 24 years of age or older by December 31 of the award year; (2) is an orphan or ward of the court or was a ward of the court until the individual reached the age of 18; (3) is a veteran of the Armed Forces of the United States (as defined in subsection (c)(1)) or is currently serving on active duty for other than training purposes under the National Guard or Reserves; (4) is a graduate or professional student; (5) is a married individual; (6) has legal dependents other than a spouse; or (7) is a student for whom a financial aid administrator makes a documented determination of independence by reason of other

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<p>Section 480(c) VETERAN AND VETERANS' EDUCATION BENEFITS.—(1) The term “veteran” means any individual who— (A) has engaged in the active duty in the United States Army, Navy, Air Force, Marines, or Coast Guard; and (B) was released under a condition other than dishonorable.</p>	<p>unusual circumstances.</p> <p>Section 480(c) VETERAN AND VETERANS' EDUCATION BENEFITS.—(1) The term “veteran” means any individual who— (A) has engaged in the active duty in the United States Army, Navy, Air Force, Marines, or Coast Guard; and meets the definition established by the Veterans Administration under section [insert appropriate section under VA law] and (B) was released under a condition other than dishonorable.</p>
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Need Analysis Issue 13: Tuition Prepayment Plans, Including "529" Plans [Section 480(j) & conforming amendment to 480(f)]

Recommendation: For purposes of determining a dependent student's eligibility for funds under this title, all "529" plans, including prepaid tuition and savings plans, as well as Educational Savings Accounts (ESAs), and other similar educational financial savings plans will be counted as a parental asset, regardless of whether it is owned by the student or the parent. For purposes of determining an independent student's eligibility, all "529" plans, including prepaid tuition and savings plans, as well as Educational Savings Accounts (ESAs), and other similar educational financial savings plans will be counted as the student's asset.

Rationale: This recommendation is a simple approach to the treatment of these assets that encourages families to save for college. This approach continues to include such assets in the EFC calculation, but moderates their impact significantly.

Current Law	Proposed Statutory Language
<p>Sec.480(j) OTHER FINANCIAL ASSISTANCE; TUITION PREPAYMENT PLANS.—(1) For purposes of determining a student’s eligibility for funds under this title, estimated financial assistance not received under this title shall include all scholarships, grants, loans, or other assistance known to the institution at the time the determination of the student’s need is made, including veterans’ education benefits as defined in subsection (c), and national service educational awards or post-service benefits under title I of the National and Community Service Act of 1990 (42 U.S.C. 12571 et seq.).</p> <p>(2)(A) Except as provided in subparagraph (B), for purposes of determining a student’s eligibility for funds under this title, tuition prepayment plans shall reduce the cost of attendance (as determined under section 472) by the amount of the prepayment, and shall not be considered estimated financial assistance.</p> <p>(B) If the institutional expense covered by the prepayment must</p>	<p>(j) OTHER FINANCIAL ASSISTANCE; TUITION PREPAYMENT PLANS.—(1) For purposes of determining a student’s eligibility for funds under this title, estimated financial assistance not received under this title shall include all scholarships, grants, loans, or other assistance known to the institution at the time the determination of the student’s need is made, including veterans’ education benefits as defined in subsection (c), and national service educational awards or post-service benefits under title I of the National and Community Service Act of 1990 (42 U.S.C. 12571 et seq.).</p> <p>(2)(A) Except as provided in subparagraph (B), for purposes of determining a student’s eligibility for funds under this title, tuition prepayment plans shall reduce the cost of attendance (as determined under section 472) by the amount of the prepayment, and shall not be considered estimated financial assistance.</p> <p>(B) If the institutional expense covered by the prepayment must</p>

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be part of the student's cost of attendance for accounting purposes, the prepayment shall be considered estimated financial assistance.

Sec. 480(f) ASSETS.—(1) The term “assets” means cash on hand, including the amount in checking and savings accounts, time deposits, money market funds, trusts, stocks, bonds, other securities, mutual funds, tax shelters, and the net value of real estate, income producing property, and business and farm assets.

(2) With respect to determinations of need under this title, other than for subpart 4 of part A, the term “assets” shall not include the net value of—

- (A) the family's principal place of residence; or
- (B) a family farm on which the family resides.

~~be part of the student's cost of attendance for accounting purposes, the prepayment shall be considered estimated financial assistance.~~

Sec. 480(f) ASSETS.—(1) The term “assets” means cash on hand, including the amount in checking and savings accounts, time deposits, money market funds, trusts, stocks, bonds, other securities, mutual funds, tax shelters, **qualified tuition programs (except as provided in subparagraph (2))** and the net value of real estate, income producing property, and business and farm assets.

(2) The qualified tuition program shall not be considered an asset of the student under section 475 of this part.

~~(2)~~ **(3)** With respect to determinations of need under this title, other than for subpart 4 of part A, the term “assets” shall not include the net value of—

- (A) the family's principal place of residence; or
- (B) a family farm on which the family resides.

Need Analysis Issue 14: Inclusion of Siblings in the Family Size [Section 480(k)]

Recommendation: Exclude all children aged 24 years and older from household size and number in college for dependent student families and independent student families.

Rationale: The suggested amendment recognizes the complexity of the variety of family situations in our world today and asserts that young adults who qualify as independent students for Title IV aid should be responsible for their own maintenance. The amendment also clarifies that these older children may not be included in the “other persons” category. NASFAA believes that financial aid administrators can address the care of older children who are disabled or otherwise constitute a special circumstance using the authority under Section 479A.

Current Law	Proposed Statutory Language
<p>Section 480(k) DEPENDENTS.—(1) Except as otherwise provided, the term “dependent of the parent” means the student, dependent children of the student’s parents, including those children who are deemed to be dependent students when applying for aid under this title, and other persons who live with and receive more than one-half of their support from the parent and will continue to receive more than half of their support from the parent during the award year.</p> <p>(2) Except as otherwise provided, the term “dependent of the student” means the student’s dependent children and other persons (except the student’s spouse) who live with and receive more than one-half of their support from the student and will continue to receive more than half of their support from the student during the award year.</p>	<p>Section 480(k) DEPENDENTS.—(1) Except as otherwise provided, the term “dependent of the parent” means the student, dependent children of the student’s parents, excluding children aged 24 years and older and including those children who are deemed to be dependent students when applying for aid under this title, and other persons other than the parents’ children who live with and receive more than one-half of their support from the parent and will continue to receive more than half of their support from the parent during the award year.</p> <p>(2) Except as otherwise provided, the term “dependent of the student” means the student’s dependent children excluding children aged 24 years and older and other persons other than the student’s children (except the student’s spouse) who live with and receive more than one-half of their support from the student and will continue to receive more than half of their support from the student during the award year.</p>