NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS


# FAFSA SIMPLIFICATION CASE STUDIES

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# Introduction

Significant changes to the Pell Grant eligibility criteria and federal methodology (FM) formula are coming for the 2024-25 award year as a result of the FAFSA Simplification Act.

Beginning in the 2024-25 award year, the FM formula will see several significant changes, including a new name for the expected family contribution (EFC), which will become the Student Aid Index (SAI). The revamped formula includes higher income protection allowances (IPA), elimination of the state and other tax allowance against income, elimination of many forms of untaxed income and excludable income, addition of small businesses and family farms as assets, elimination of consideration of more than one family member in college, and more.

Eligibility for Pell Grants will change as well, with most Pell Grants determined based on whether a parent or independent student's income is below a multiplier of the federal poverty guidelines, which would result in an automatic maximum or minimum Pell Grant. Students who do not qualify for the automatic maximum or minimum Pell award would continue to qualify based on their SAI calculated using the new FM formula.

Using NASFAA's Student Aid Index Modeling Tool, NASFAA has developed the following case studies to demonstrate how changes resulting from the FAFSA Simplification Act will cause students to gain or lose Pell Grant eligibility and/or have a higher or lower SAI than their current EFC.

All examples assume full-time enrollment for Pell Grant amounts, use the 2018 federal poverty guidelines, the EFC from the 2020-21 FM formula, and Pell Grant amount based on the 2020-21 Pell Grant tables.

Readers may find NASFAA's flowchart of the Pell Grant eligibility and FM formula changes helpful as they consider the following case studies.

# Acknowledgements

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# FAFSA Simplification Case Studies

## Example 1: Minimal Change from EFC to SAI

Alex is a married, independent student with four children. Their combined total income with their spouse is $92,000 and they have $145,000 in assets.

| | EFC formula | SAI formula |
|---|---|---|
| **Applicant Dependency status** | Independent | |
| **Student marital status** | Married | |
| **Student Household/Family Size/# in College** | 6 in household/1 in college | |
| **Student Total Income** | $92,000 | |
| **Student Assets** | $145,000 | |
| **EFC/SAI: calculated** | 5,450 | 3,675 |
| **Pell Grant** | $895 | $2,695 |

Alex does not qualify for the automatic maximum Pell Grant because their income is not below 175% of the federal poverty guideline (FPG) for a family of six (FPG= $33,740 x 175%= $59,045 vs. total income of $92,000).

Alex's Pell Grant eligibility will instead be determined using the FM formula and the Pell Grant tables, similar to how all Pell Grants are currently determined. Alex does not qualify to have their assets excluded from consideration in the FM formula because their income is above $60,000.

Alex still, however, has a low enough SAI to qualify for a Pell Grant and, in fact, will receive a higher Pell Grant award under the new FM formula than they would under the current formula. This is primarily due to a higher income protection allowance, which is partially offset by the elimination of the state and other tax allowance.

Note that if Alex's calculated SAI fell outside of Pell Grant eligibility range on the Pell Grant tables, they would still qualify for an automatic minimum Pell Grant based on the new Pell Grant eligibility criteria, because their income falls below 350% of the FPG ($33,740 x 350%= $118,090 vs. total income of $92,000). Their other aid eligibility would be determined based on the calculated SAI.

## Example 2: Applicant Loses Pell Grant Eligibility Due to Change in Treatment of Multiple Family Members in College

Brooklyn is a dependent student. Brookyn's parents have four children, three of whom are enrolled in college. Brooklyn's parents earn $110,500 and have $104,000 in investments.

| | EFC formula | SAI formula |
|---|---|---|
| **Applicant Dependency status** | Dependent | |
| **Parent marital status** | Married | |
| **Parent Household/Family Size/# in College** | 6 in household<br>3 in college | 6 in household<br># in college n/a |
| **Parent Total Income** | $110,500 | |
| **Parent Assets** | $104,000 | |
| **Student Total Income** | $3,700 | |
| **Student Assets** | $400 | |
| **EFC/SAI: calculated** | 5,600 | 18,400 |
| **Pell Grant** | $695 | $0 |

Brooklyn's SAI is about three times the EFC. This is primarily due to the elimination of consideration for multiple family members enrolled in college by splitting the EFC by the number enrolled. The full SAI will now apply to each family member enrolled in college.

## Example 3: Applicant Gains Pell Grant Eligibility Due to FM Formula Changes

Addison is a dependent student with married parents who have four children. Addison is the only child in college. Addison's parents earn $73,500 and have $13,200 in assets. Addison does not work, but has $3,300 in assets.

| | EFC formula | SAI formula |
|---|---|---|
| Applicant Dependency status | Dependent | |
| Parent marital status | Married | |
| Parent Household/Family Size/# in College | 6 in household/1 in college | |
| Parent Total Income | $73,500 | |
| Parent Assets | $13,200 | |
| Student Total Income | $0 | |
| Student Assets | $3,300 | |
| EFC/SAI: calculated | 660 | -1500 |
| Pell Grant | $5,695 | $6,495 |

Addison goes from receiving no Pell Grant under current eligibility rules to receiving close to the maximum Pell Grant under the new eligibility rules.

Addison does not qualify for an automatic maximum Pell Grant because their parents' income is not less than 175% of the FPG (FPG= $33,740 x 175%= $59,045 vs. parent total income of $73,500). They also do not qualify for the simplified needs test (SNT) because their parents' income is more than $60,000.

In this instance, the FM formula changes alone resulted in the student gaining Pell Grant eligibility. This is likely due to the following factors:

**Higher Income Protection Allowance:**
For a family of six, the 2020-21 IPA is $40,490, whereas in the SAI formula it is $49,500.

**Negative Student Contribution from Available Income Permitted:**
Another change to the SAI formula allows a dependent student's contribution from available income to be negative (as low as -1,500), which, in cases such as this one where the student has $0 earnings, decreases the student contribution by $1,500.

## Example 4: Applicant Gains Pell Grant Eligibility Due to Pell Grant Eligibility Criteria Changes (Automatic Maximum Pell Grant)

Cole is a dependent student of a single parent. Their parent earns $27,000, has no assets, and no other children. Cole earns $196,000 and has $6,000 in savings.

| | EFC formula | SAI formula |
|---|---|---|
| **Applicant Dependency status** | Dependent | |
| **Parent marital status** | Unmarried | |
| **Parent Household/Family Size/# in College** | 2 in household/1 in college | |
| **Parent Total Income** | $27,000 | |
| **Parent Assets** | $0 | |
| **Student Total Income** | $196,000 | |
| **Student Assets** | $6,000 | |
| **EFC/SAI: calculated** | 61,000 | 0 |
| **Pell Grant** | $0 | $6,345 |

Cole will go from having no Pell Grant eligibility and an EFC that is high enough to likely prevent eligibility for need-based assistance, to receiving the maximum Pell Grant and an SAI of 0.

This large shift in eligibility is due to changes to the Pell Grant eligibility criteria. Currently, the Pell Grant is based exclusively on the EFC, and the EFC is made up of a parent contribution and a student contribution, unless the student qualifies for an automatic zero EFC. The parent's income is low enough to qualify for SNT, but not to qualify for an automatic zero EFC. The student's high earnings lead to a high student contribution which contributes significantly to the high EFC.

Under the new Pell Grant eligibility criteria, the student qualifies for an automatic maximum Pell Grant based on the fact that Cole's parent earns less than 225% of the FPG ($16,460 x 225%= 37,035, vs. parent total income of $27,000). Qualifying for the maximum Pell Grant through this automatic eligibility also results in an automatic zero SAI.

While a dramatic change from the current Pell eligibility and FM formulas, this is also a very unusual case and financial aid administrators should only rarely expect to see situations like this.

## Example 5: SAI Lower Than EFC Due to Contributions to Tax-Deferred Pensions

Max is a dependent student with married parents and a family size of four. Their parents' combined income is $95,000 and they contributed $20,000 in pre-tax income to 401(k) retirement savings accounts. They have $15,000 in savings. Max earns $10,000 and has no assets.

| | EFC formula | SAI formula |
|---|---|---|
| **Applicant Dependency status** | Dependent | |
| **Parent marital status** | Married | |
| **Parent Household/Family Size/# in College** | 4 in household/1 in college | |
| **Parent Total Income** | $115,000 | $95,000 |
| **Parent Assets** | $15,000 | |
| **Student Total Income** | $10,000 | |
| **Student Assets** | $0 | |
| **EFC/SAI: calculated** | 18,500 | 9,900 |
| **Pell Grant** | $0 | $0 |

Max's SAI is lower than their EFC by nearly half. This is largely driven by the changes to untaxed income in the new FM formula. Whereas currently, all contributions to tax-deferred retirement savings accounts like 401(k) plans are treated as untaxed income, starting in 2024-25 only those contributions that are delineated on the tax return, like IRAs, will be treated as untaxed income. This is because of the broader FAFSA simplification effort that uses the FUTURE Act to collect all income data, taxed and untaxed, directly from the IRS. Because contributions to 401(k) plans are not delineated on the FAFSA, they cannot be obtained directly from IRS tax data and, as such, are not treated as untaxed income in the SAI calculation. Other factors contributing to the decrease in SAI vs. EFC include higher income protection allowances under the new FM formula.

Families that make large untaxed contributions to 401(k), 403(b), and other retirement plans that aren't delineated on the tax return will likely see correspondingly large decreases to the SAI as compared to the EFC.

## Example 6: Impact of Small Business or Family Farm on SAI

Cameron is a dependent student with married parents and two siblings at home.

| | EFC formula |
|---|---|
| **Applicant Dependency status** | Dependent |
| **Parent marital status** | Married |
| **Parent Household/Family Size/# in College** | 5 in household/1 in college |
| **Parent non-business/farm assets** | $0 |
| **Student Total Income** | $10,000 |
| **Student Assets** | $0 |

These are examples of how the inclusion of small businesses and family farms will impact SAIs at different income and business/farm net worth values.

| Parent AGI | Business/Farm Net Worth | EFC | SAI |
|---|---|---|---|
| $61,000 | $50,000 | 1975 | -1500 |
| | $200,000 | | 2870 |
| | $500,000 | | 8350 |
| $150,000 | $50,000 | 28,000 | 27,000 |
| | $200,000 | | 31,000 |
| | $500,000 | | 40,000 |

As you can see in the table above, under the current FM formula there is no change to the EFC when the small business/family farm net worth changes because those values are not considered at all in determining the EFC. However, the SAI does change depending on the value of the small business or family farm because small businesses and family farms are no longer exempt from consideration in the new FM formula.

The business/farm assessment tables are still part of the new FM formula, so the values of small businesses and family farms will continue to be assessed at a graduated rate.

Also, in this example, if this family's income were below $80,905 (FPG= $29,420 x 275%= $80,905) the student would qualify for an automatic minimum Pell grant regardless of the net worth of the business or farm because the automatic minimum Pell grant is based only on income and household size.

## Example 7: Significant Decrease to SAI vs. EFC

Kai is a dependent student of married parents with two siblings. Their parents earn $26,500 and have $8.5 million in assets. Kai earns $15,400 and has $900 in assets.

| | EFC formula | SAI formula |
|---|---|---|
| **Applicant Dependency status** | Dependent | |
| **Parent marital status** | Married | |
| **Parent Household/Family Size/# in College** | 5 in household/1 in college | |
| **Parent Total Income** | $26,500 | |
| **Parent Assets** | $8,500,000 | |
| **Student Total Income** | $15,400 | |
| **Student Assets** | $900 | |
| **EFC/SAI: calculated** | 470,000 | 0 |
| **Pell Grant** | $0 | $6,345 |

This is an example of how the SAI Modeling Tool may deliver inaccurate results due to a lack of available data.

This is a low-income/high asset family. Under the current EFC formula, the applicant does not qualify for the simplified needs test despite the parents' low income, presumably due to filing a tax return with schedules. As such, their $8.5 million in assets are factored into the EFC.

Under the new SAI formula for dependent students, parents with an AGI of less than $60,000 who either filed no tax schedules or who filed only a schedule C with a gain or loss of less than $10,000 qualify for SNT.

Because there is not adequate data on the current FAFSA to determine whether an applicant would qualify for the simplified needs test based on the new SNT criteria, NASFAA took the most conservative approach in terms of impacts on institutional budgets and assumed all applicants with an AGI of less than $60,000 qualified for SNT. It is unlikely, given the value of their assets, that these parents filed a simple tax return (no schedules or schedule C with less than a $10,000 gain or loss) and, as such, likely will not qualify for SNT, meaning their assets will be factored into the SAI and the actual SAI will be significantly higher than what is estimated here.

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