

# Understand the Differences: FAFSA vs CSS Profile

The basic philosophy behind student financial aid need analysis is to assess a portion of the family's discretionary income. Discretionary income is calculated by subtracting mandatory expenses from total income. Mandatory expenses include expenses that by law must be paid, such as allowances for payroll/income taxes and basic living expenses. Total income includes taxable income and untaxed income and benefits, as well as a percentage of net assets. This analysis yields a measure of the family's financial strength, often called an EFC.

Some financial aid, such as the Federal Pell Grant, is awarded based only on the EFC. Other financial aid is awarded based on demonstrated financial need, which is the difference between the COA and the EFC. The COA includes such institutional costs as tuition and required fees, room and board, books and supplies, transportation and miscellaneous personal expenses. The COA may be adjusted by the financial aid administrator to include other education-related expenses, such as dependent care and the cost of a computer. Financial need increases with increases in the COA and with decreases in the EFC.

Different organizations may have different determinations of a student's demonstrated financial need based on different formulas for calculating the EFC. They may also differ in their definition of college costs. There are two main formulas for calculating the EFC, Federal Methodology (FM) and Institutional Methodology (IM).

The FM is used to award financial aid from the federal and state governments, and from all but about 250 mostly private institutions. Many private scholarship providers also rely on the federal methodology. The FM EFC is calculated when a student files the Free Application for Federal Student Aid (FAFSA). The FM is based on the family size, the number of children enrolled in higher education, the age of the older parent, and the income and assets of the parents and the student. Unlike the IM, the FM does not consider the net value of the family's principal place of residence or small businesses owned and controlled by the family.

The IM is used by these 250 mostly private institutions to award institutional grants and scholarships. It is also used by some private scholarship programs to award scholarships, where all or part of the award is based on financial need. The IM EFC is calculated when a student files the CSS Financial Aid PROFILE form. Some institutions have their own financial aid forms that differ from the PROFILE form. Even schools that rely on the PROFILE form may tweak the formula, for example, by capping the value of home equity. Nevertheless, all such formulas are identified as implementing an "institutional methodology." The PROFILE is much longer and more detailed than the FAFSA. The additional data elements are designed to address exceptional situations that might make a wealthy student look poor.

The primary differences between the FM and the Institutional IM for calculating the EFC are as follows:

- The IM considers more family assets than the FM, such as a portion of net home equity for the family's principal place of residence. The IM does not ignore family assets for families with income less than \$50,000, unlike the simplified needs test in the FM. The IM can also consider assets in the name of siblings when the siblings are under age 19 and not enrolled in higher education.
- The IM assumes a minimum student contribution based on an expectation of earnings from summer employment.
- The IM removes paper losses such as depreciation, net operating loss carry-forwards, business/farm losses, and capital losses that artificially reduce the adjusted gross income. As a result, the IM is more focused on current cash flow than the FM.

- The IM solicits information about some of the more common unusual circumstances, instead of requiring the family to ask for a professional judgment review. These include medical and dental expenses not covered by insurance and private K-12 tuition
- The IM considers the finances of the non-custodial parent in divorce or marital separation cases, in addition to the income and assets of the custodial parent. The FM ignores the finances of the non-custodial parent. Both the IM and the FM consider the income and assets of the stepparent if the custodial parent is remarried.
- The IM has a smaller reduction in the parent contribution when more than one child is enrolled in college at the same time.
- The IM subtracts allowances for cumulative education savings and an emergency reserve from assets.
- The IM has regional allowances for differences in cost of living.

The IM will yield a higher EFC for most families and a lower eligibility for need-based aid than the FM.

Some sources of financial aid may consider themselves to be last dollar, meaning that they base their award on the student's remaining financial need, after financial aid has been awarded by all other sources. As noted previously, when two sources both consider themselves to be last dollar and use different formulas for determining financial need, conflicts can arise. For example, suppose that an institution uses the IM for calculating the EFC for its institutional funds while a scholarship provider uses the FM. Sometimes the IM results in a higher or lower EFC, yielding a different figure for demonstrated financial need. If the scholarship provider awards a scholarship to cover a student's remaining financial need based on a higher figure for financial need, the college might then consider the student to be overawarded. After all, the student's financial aid from all sources will exceed the college's definition of demonstrated financial need. When the institution compensates for the overaward by reducing its grants, the student will be left with some unmet need based on the scholarship provider's definition of financial need. Thus differences in definitions of EFC and financial need can lead to award displacement.