

# The Effective Education Award

*"Sec. 12601. Establishment of the National Service Trust*

(a) Establishment

There is established in the Treasury of the United States an account to be known as the National Service Trust..."

Brandon Rogers  
Corporation for National Service  
National Service Fellowship Program  
July 2001

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Corporation for National Service  
1201 New York Avenue, N.W.  
Washington DC 20525  
(202)606-5000  
[www.nationalservice.org](http://www.nationalservice.org)

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### **About the Author**

Brandon Rogers is the VISTA Project Coordinator for the Northwest Regional Educational Laboratory, Portland, Oregon. During the Fellowship, Mr. Rogers served as an Admissions and Financial Aid Counselor at The Evergreen State College, Olympia, WA. A former AmeriCorps Program Director and AmeriCorps\*VISTA, Mr. Rogers earned his Master in Education at the University of South Carolina.

### **Alternative Format Request:**

*Upon request, this material will be made available in alternative formats for people with disabilities.*

### **Acknowledgments**

Much of the work within this product could not have been accomplished without the help of the Western Association of Financial Aid Administrators, my Admissions and Financial Aid colleagues at The Evergreen State College, AmeriCorps Alums, and a host of National Service Volunteers who gave freely of their time to provide me with their input and ideas. Tom Flemming, Robin Dean, Jeff Gale, Deena Johnson, the other Fellows and Patrick: For your support and humor, please accept this open invitation to ride in my fire engine any time you're in the Bald Hills. Four years ago this month a nonprofit director asked me if I wanted to be an AmeriCorps VISTA. I had no idea.

## *Abstract*

### **1. Goals**

The original goal of this Fellowship consisted primarily of assisting AmeriCorps members increase the value of the Education Award, primarily through imparting an understanding of the college financial aid process. As the study progressed, however, a larger percentage of the research was devoted to clarifying the rules that govern the administration of the Education Award within college financial aid offices, and establishing a line of communication between AmeriCorps members, Financial Aid Administrators, the Department of Education and the National Service Trust.

### **2. Results**

In surveying over 1,000 AmeriCorps members, AmeriCorps Program Directors and Financial Aid Administrators, this research pinpointed specific difficulties that all involved parties have encountered with the Education Award, measured levels of awareness of key aspects of the program, and identified several strategies for addressing the issue. For instance, a key finding of the research illustrates that the vast majority of AmeriCorps members are under-reporting their AmeriCorps benefits in an income exclusion category of the Free Application for Federal Student Aid (FAFSA), which has resulted in millions of dollars in lost federal and state financial aid. The presentations delivered in the State of Washington as a result of this research have vastly improved the situation on a local level.

### **3. Conclusions/Recommendations**

Various recommendations are present throughout this report, though the common thread among all such suggestions is communication. The Department of Education must communicate applicable policies to the Financial Aid community through a Dear Colleague letter and to the student community through clearer wording of the FAFSA. The National Service Trust should increase its efforts to communicate correct procedures to the Student and Financial Aid communities through its web and telephone operations, as well as in the mailings which include the Education Award voucher. In addition, AmeriCorps Program Directors would serve their members well by offering mid-service and end-of-service training on issues related to paying for college.

### **4. Beneficiaries**

The direct primary beneficiaries of this research are the AmeriCorps members, who should wind up with an increased financial ability to matriculate to college. Indirectly, AmeriCorps programs should benefit by being better able to work with colleges and universities, thereby expanding their recruiting opportunities. If all of the recommendations are implemented, the Corporation should benefit from improved member morale.

### **5. For More Information**

Contact Brandon Rogers at [brandon@eduscript.com](mailto:brandon@eduscript.com), or visit the Education Award Information Web Site, [www.eduscript.com](http://www.eduscript.com). AmeriCorps Alums, Inc. ([www.americorpsalums.org](http://www.americorpsalums.org)) will also distribute information regarding this issue.

### ***Recommendations***

The following report will outline concerns that AmeriCorps members have had in redeeming their Education Awards. Consequently, readers may wish to consider possible remedies for these problems. The suggestions below are merely a starting point, with the hope that they will lead to further discussion of solutions that might possibly be more feasible. In examining the report, the reader may wish to refer back to these suggestions, as they may be unclear at first glance.

- Since the federal code makes a specific reference to the Education Award and the Living Allowance as resources that must be excluded from calculating financial need, the Free Application for Federal Student Aid (FAFSA) must reflect this change;
- As the Draft Version of the 2002-2003 FAFSA appears to contain the same problematic wording as the current FAFSA, the Department of Education should endeavor to implement a change of wording immediately;
- Since Financial Aid Administrators are hesitant to give advice contrary to what's written on the FAFSA, the Department of Education must deliver an unambiguous statement verifying the intent of the law;
- Since the first contact for many Financial Aid Administrators with the Education Award is the instruction letter that accompanies the voucher, the voucher must make reference to the laws governing administration of AmeriCorps benefits;
- Since many Financial Aid Administrators supplement their information with telephone calls to the National Service Trust, the Corporation for National Service should consider a specific number for Financial Aid Administrators, with staff capable of answering their questions;
- Since individual training is so effective at conveying the intent of the law, CNS should consider consulting with a Training and Technical Assistance Provider or other source to deliver trainings at the regional financial aid conferences;
- In an attempt to boost morale among the members, CNS might give thought to further delineating the Education Award into two versions: one that can be used in any way, as it is now, and one that can only be used for current educational expenses, in order to comply with the interpretation of its taxability by the IRS;
- AmeriCorps programs should develop partnerships with colleges and universities, particularly with financial aid offices, as they have a mutual interest in recruiting men and women into their programs, and a similar philosophy in maximizing the value of their experiences;
- The Corporation for National Service should attempt to identify model Financial Aid Offices and AmeriCorps Program/College partnerships for further study.
- Member development must include a session dedicated solely to informing members of the correct procedures for applying their Education Award. For the sake of maximizing the financial aid opportunities for members, this training should take place in January or February each year, corresponding with the financial aid deadlines for the majority of American colleges and universities.

## Table of Contents

<b>Abstract .....</b>	<b>3</b>
<b>Recommendations .....</b>	<b>4</b>
<b>The Effective Education Award: .....</b>	<b>6</b>
<b>What Exactly is the Education Award?.....</b>	<b>7</b>
<b>Understanding College Student Financial Aid, .....</b>	<b>10</b>
<b>An Overview of the FAFSA and Financial Aid Terminology .</b>	<b>13</b>
<b>The FAFSA Worksheets:.....</b>	<b>15</b>
<b>Correctly Completing the FAFSA Worksheets .....</b>	<b>18</b>
<b>Resources and Campus Based Financial Aid Programs.....</b>	<b>20</b>
<b>The Role of the Financial Aid Office.....</b>	<b>23</b>
<b>The Need for Guidance.....</b>	<b>25</b>
<b>A Final Word to National Service</b>	
<b>Programs and Participants .....</b>	<b>27</b>
<b>Bibliography .....</b>	<b>30</b>

# The Effective Education Award: Helping Members Maximize the Value of AmeriCorps

## Introduction

The information in this report is a result of research conducted through the National Service Fellowship Program, Class of 2001. Though the contents of this report are based on both Corporation for National Service and Department of Education policies, it is intended only as a guide, and does not represent a replacement of, or addendum to, the AmeriCorps Program Director's Handbook.

The catalyst for this research consisted of a 1998 Chronicle of Higher Education article, in which author Jeffrey Selingo wrote:

AmeriCorps, with an annual budget of \$425.5-million, has fallen well short of President Clinton's promise to extend educational opportunities to thousands of students, say college lobbyists, lawmakers, and former Administration and Congressional aides.

Comparing the Education Award to an expensive Pell Grant, and referring often to statistics showing that almost half of the Education Awards had not been used, Mr. Selingo repeated a misguided criticism that the "...\$4,725 scholarships have, in most cases, aided those who would have found other ways to pay for a higher education."

This rather short-sighted study into the details of the Education Award is analogous to claiming that the Pell Grant program itself is a failure, since most Pell Grant recipients would have found other ways to pay for college (namely student loans). A deeper analysis of the topic from a financial aid framework provides a glimpse into the potential of the Education Award as a means to higher education, much in the way the program was originally envisioned.

## Cont.,

However, due to complex regulations, a lack of adequate guidance, and inexperience among AmeriCorps members in applying for federal financial aid, usage of the Education Award can result in unintended consequences. In fact, AmeriCorps members have likely lost several million dollars in Pell Grants, and other need based financial aid programs, due to confusion over how to report the Education Award on the **Free Application for Federal Student Aid (FAFSA)**, the form used by the Department of Education to determine how much need based financial aid a student can receive.


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Therefore, though this guide will offer advice on how to help members maximize the value of the Education Award, its real worth is in explaining the relationship of the Education Award to the relevant policies that govern college student financial aid. Being informed in this regard, and knowing where to turn for answers, will serve as a valuable asset in ensuring that AmeriCorps lives up to ideal of ensuring educational opportunity.

# What You Don't Know, But Are Afraid to Ask: What Exactly is the Education Award?

## Background

**The Education Award is the component that distinguishes AmeriCorps as more than the largest national and community service program since the Civilian Conservation Corps of the 1930's.** Authorized by the National and Community Service Trust Act of 1993, AmeriCorps has entered the lexicon of college and university administrators as a financial aid program. Through AmeriCorps VISTA, AmeriCorps National Civilian Community Corps, and AmeriCorps State and National, thousands of members have earned Education Awards that can be redeemed at institutions of higher education, or to repay qualified student loans. The amounts of these awards, which may be prorated, are \$4,725 for a full-time year of service, and \$2,362.50 for a part-time year of service. By 1999, 121,985 awards worth \$443,291,133 had been redeemed, according to the National Service Trust, the administrative unit within the Corporation for National Service (CNS) that oversees the Education Awards.

### *Number of Education Awards and Their Values*

'94-'95	18,788	\$62,760,987
'95-'96	18,418	\$71,448,914
'96-'97	18,197	\$71,189,984
'97-'98	26,545	\$96,203,081
'98-'99	25,519	\$92,153,043
'99-'00	14,518	\$43,535,124
<b>Total</b>	<b>121,985</b>	<b>\$443,291,133</b>

Though these numbers seem substantial, as a financial aid program the AmeriCorps Education Award is practically unnoticeable when one considers the total student financial aid under title IV of the Higher Education Act of 1965

## Cont.

(HEA), as amended. Under this act, financial aid for students during academic year 1994-95 was \$32.7 billion. The Pell Grant program, for example, provided 3.7 million grants totaling \$5.6 billion to needy students in 1994-1995. The Education Award is not a student financial aid program under title IV. If it were, it would make up less than 2/10 of a percent of all aid programs nationally.

This statistic becomes highly relevant to AmeriCorps members planning on using their Education Award at an institution of higher learning, since it points to the reason why most financial aid counselors are not adequately familiar with how to properly administer these funds. Because financial aid counselors process relatively few Education Awards, they are largely unaware of the following aspects that are familiar to AmeriCorps members:

- AmeriCorps members have up to 7 years to use the Education Award;
- AmeriCorps members may choose to use their Education Award in any of the following ways:
  - Repay qualified student loans;
  - Pay towards the Cost of Attendance (COA) at institutions of higher education;
  - Pay a combination of current expenses within the Cost of Attendance and repay qualified student loans.
- The Education Award, unlike most other forms of scholarships and fellowships, is fully taxable in the year it is redeemed.

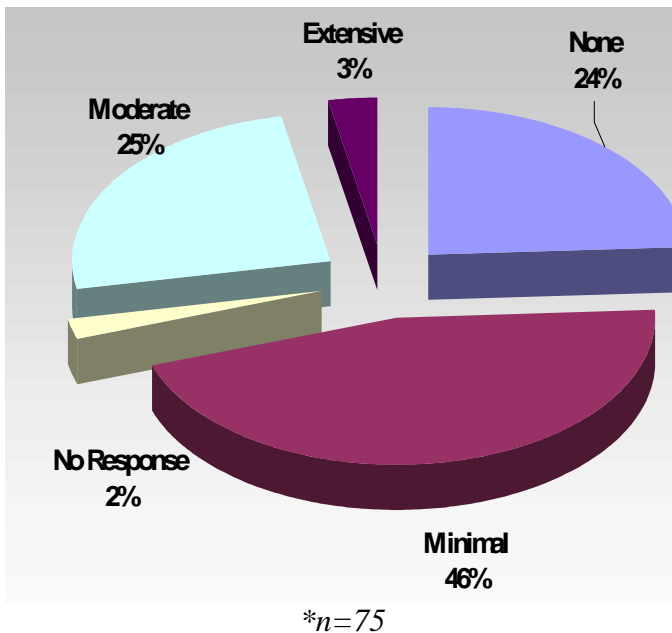
Unfamiliarity with these details often impacts the advice given by financial aid counselors.

## The Impact of Not Knowing: Assessing Awareness Levels of Members and Directors

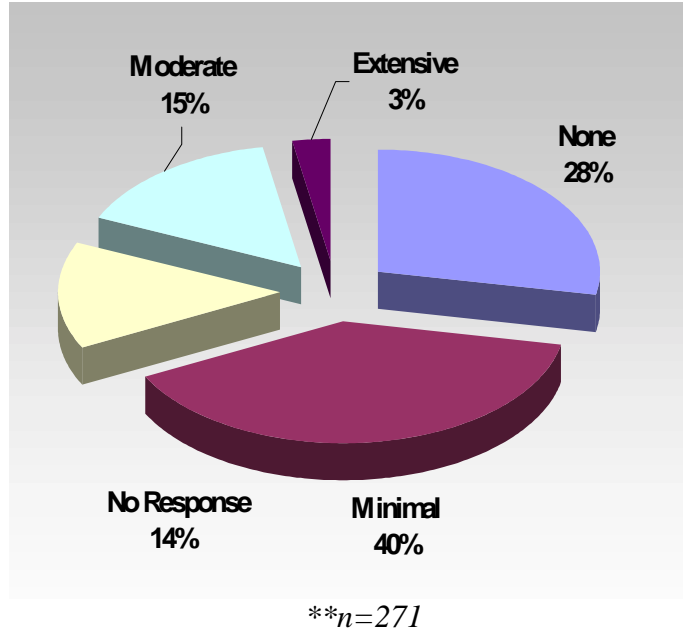
Surveys conducted over the past 10 months illustrate that unfamiliarity with the Education Award extends beyond the field of college financial aid. Many AmeriCorps members and Program Directors remain uninformed about certain aspects of this post-service benefit. This is not surprising considering that the vast majority of both program directors and AmeriCorps members report not receiving adequate training in this area.

Specifically, both AmeriCorps Program Directors and AmeriCorps members report similarly low levels of training on how best to use the Education Award. Approximately 70% of Program Directors (Table 1) and 68% of AmeriCorps members (Table 2) report having received *Minimal* or *No Training* at all in this regard.

**Table 1: Level of Training Among Program Directors on the Education Award\***



**Table 2: Level of Training Among AmeriCorps Members on the Education Award\*\***



Further survey results illustrate the significance of these findings. When asked “*How important a factor was the Education Award in your decision to join AmeriCorps?*,” 67% of AmeriCorps Members claimed it was at least moderately important, while another 20% claimed it was the only reason they joined.

Program Directors are similarly insistent about the role of the Education Award in recruitment efforts. When asked to respond to the following statement: “*The Education Award is one of the primary reasons that we are able to recruit potential AmeriCorps members.*,” 85% of Program Directors agreed, with 15% saying that the Education Award is the *only* reason they have been able to attract members.

As a factor in attracting and retaining potential members, it appears evident that the Education Award has received an insufficient level of attention in relation to its relative importance.



## The Impact of Not Knowing, Cont.

### The Education Award as a *Post-Service* Benefit.

Though AmeriCorps Program Directors are aware of the Education Award's importance in recruiting potential members (see Table 3), less than ½ of Program Directors reported that administering the Education Award is a *Moderate* or *Major* problem. One of the most commonly cited explanations for this apparent discrepancy is due to the fact that issues with the Education Award generally arise only after the member is no longer participating in the program. In the past, many Program Directors have not felt the need to obtain additional training on the Education Award, therefore, because it's not generally a concern of *current* members. In fact, the Education Award often only receives a cursory overview in AmeriCorps orientations. Said one respondent, "We try to hide from our members the fact that the Ed Award is so complicated to get and understand, so as not to discourage their participation in the program."

In spite of this, however, we do know that members return to their Program Directors for Advice. When asked how often former AmeriCorps members contact past Program Directors relaying difficulties that they are having with the Education Award, 51% said 'Occasionally' while 26% said 'Often' (23%) or 'Very Often' (3%).

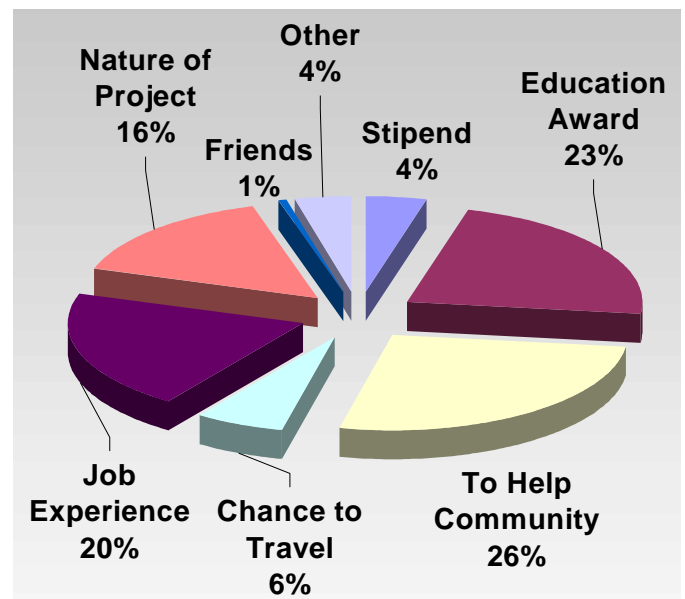
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***"We try to hide from our members the fact that the Education Award is so complicated to get and understand, so as not to discourage their participation in the program."***

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In addition, when AmeriCorps members were asked who they contacted most often with Education Award questions, 38% responded 'Program Directors', meaning Program Directors are queried about the Education Award more often than the 'National Service Trust' (36%), 'Other AmeriCorps Members/Alumni' (21%) and 'College Financial Aid Offices' (13%). These figures point towards a need for greater Education Award training at the Program Director level.

**Table 3: Top Reasons Members Joined AmeriCorps**



It is not surprising, therefore, that more Program Directors are requesting additional assistance. The vast majority (86%) of Program Directors surveyed in this study indicated that they are Moderately (31%) or Very (55%) Interested in receiving more information and/or training on how to give Education Award advice. The reasons for this have as much to do with Program Directors' concern over the well being of their members once they leave AmeriCorps as it does with being able to recruit highly capable participants.

# Understanding College Student Financial Aid, The Key to Maximizing the Value of the Education Award

In addressing the challenge of ‘maximizing’ the AmeriCorps Education Award, many members and program directors have suffered from tunnel vision. In the past, their efforts focused on locating colleges that ‘matched’ the Education Award, not understanding that AmeriCorps members suffer the majority of damage from the improper application of the Education Award at colleges, as well as in the repayment of prior student loans. Maximizing the Education Award, then, means first of all obtaining its full value, and then leveraging that value with additional forms of aid if possible, such as ‘matching scholarships.’

Because of the myriad of ways a member can lose money in applying the Education Award, as well as the general complexity of the issue, a case study is warranted before describing the College Financial Aid process.

## AmeriCorps Education Award Case Study

*First time, low-income student at a state college with a full 2-year Education Award*

Michael has an **Expected Family Contribution (EFC)** of \$0, is a dependent student, state resident and is attending his local 4 year State College X in Washington State. State College X has an in-state student **Cost of Attendance (COA)** of \$12,066, that is, the student's total amount of financial aid, including loans, grants, work-study, scholarships and outside aid, such as the AmeriCorps Education Award, cannot exceed \$12,066. Michael has been an AmeriCorps member for the past two years, earning \$9,450 in Education Awards, and a stipend of \$11,000 in his most recent year of service, which ended in August, right before the start of college.

Michael makes all of the appropriate deadlines, and if he completes the **Free Application for**

**Federal Student Aid (FAFSA)** correctly, meaning he placed the amounts of his AmeriCorps earnings in **Worksheet C**, he would receive the maximum aid package possible for the state of Washington:

Pell Grant	\$3,300
SEOG (Federal Grant)	\$300
WA State Need Grant (SNG)	\$2,538
Work Study	\$3,000
<u>Perkins Loan</u>	<u>\$2,928</u>
Total	\$12,066

Michael receives much of his aid in the form of grants, which do not have to be repaid, since his **Need** is \$12,066. (**Need** is defined as a student's **Cost of Attendance** minus his/her **Expected Family Contribution**). The Financial Aid Office would send an award letter to Michael in April. The student is ineligible for additional aid *because he has now reached his Cost of Attendance*.

However, in August, after the student finishes his AmeriCorps term, he has his AmeriCorps Program Director submit his paperwork, and the National Service Trust sends Michael a voucher request form. The student then submits this voucher to College X's business office, which draws down the entire \$9,450 Education Award and applies it towards the student's account.

Upon seeing this action, the financial aid office, in keeping with Department of Education regulations that a student's total financial aid package cannot exceed the student's total **Cost of Attendance**, marks the student in Overaward status. In essence, the student's original aid package must be reduced by \$9,450, and the amount is refunded to the granting agencies.

## Understanding College Student Financial Aid, Cont.

Now Michael is only eligible for \$2,616 in financial aid, the amount of the \$9,450 Education Award subtracted from the COA, \$12,066. However, since the Pell Grant, as an entitlement, may not be reduced, the student's adjusted aid package is now:

Pell Grant	\$3,300
<u>Education Award</u>	<u>\$9,450</u>
Total	\$12,750

The following aid packages are returned to the granting agencies:

SEOG (Grant Aid)	\$300
WA State Need Grant (SNG)	\$2,538
Work Study	\$3,000
<u>Perkins Loan</u>	<u>\$2,928</u>
<b>Total Returned</b>	<b>\$8766</b>

**However**, in all likelihood Michael will never know that he was eligible for these funds, because *based on the data collected regarding the knowledge level of financial aid advisors, AmeriCorps Program Directors and AmeriCorps members, Michael would not know to include both the Education Award and the Living Allowance in **Worksheet C**, which would exclude these amounts from being calculated into his **EFC** (Expected Family Contribution).*

What this means is that in Michael's case, his first year he really received:

Education Award	\$9,450
<u>Stafford Subsidized Loan</u>	<u>\$2,616</u>
Total	\$12,066

In his sophomore year, since he is still a dependent student, he must again report his

parents' income. Remember, Michael comes from a low-income family where both parents' combined income is \$24,000, which supports both him and a younger sister in high school. In the past year, Michael earned the majority of his stipend, which amounted to around \$7,000, and he applied \$9,450 in Education Awards. Because of these actions, he owes taxes of \$2,430, and now has an EFC of \$5,630.

With an EFC of \$5,630, Michael would be ineligible for need-based grants, Work Study or Perkins Loan. He has already used all of his Education Award his freshman year. He would therefore only be offered the following financial aid package in his sophomore year:

Stafford Subsidized Loan	\$3,500
<u>PLUS Loan</u>	<u>\$9,088</u>
Total	\$12,588*

Had he correctly completed the FAFSA, however, by including the AmeriCorps Education Award and Living Allowance in **Worksheet C**, he would have an EFC of \$0, meaning he would be eligible for all of the need based grants available. As the Pell Grant has increased for the following year to \$3,750, Michael *should have received*:

Pell Grant	\$3,750
SEOG	\$300
WA State Need Grant (SNG)	\$2,538
Work Study	\$3,000
<u>Perkins Loan</u>	<u>\$3,000</u>
Total	\$12,588*

*\*(The COA has increased to \$13,000 due to rises in tuition)*

# Understanding College Student Financial Aid, Cont.

In his sophomore year, Michael did not receive \$12,588 in need based aid for which he was eligible, including \$6,588 in grant aid that he would never have had to repay.

If he had completed Worksheet C correctly the first year Michael would receive the grants and low-interest loans for which he was always eligible over his four years of education.

However, since this did not occur, Michael borrowed \$21,204 to cover the costs of education over the four years. And since he unwisely used his entire Education Award in the first year, he does not have any of those funds available to pay off part of the loan debt.

By using the entire amount of the Education Award his first year, and by incorrectly completing the FAFSA, Michael forfeited grant aid in the amount of **\$6,138** the first year and **\$6,588** the second year, which represents money that he would never have had to repay. In addition, he lost **\$6,000** in Work Study, and **\$5,928** in Perkins Loans, which has an interest rate of 5%. Plus, he was hit with a tax bill of **\$2,430** in his first year of college. In essence, Michael wound up paying **\$15,156** more for college than if he had never heard of AmeriCorps in the first place.

### What could this student do?

In this case, Michael would be better off holding onto the Education Award until after graduation, borrowing \$9,450 in student loans, and using the Education Award to repay those loans as soon as he graduated. He might choose to use small parts of his Education Award during the year, instead of borrowing through the student loan programs, but he would need to be careful not to take use so

much of the Education Award as to reduce his other grant aid and Work Study.

In most cases, it is wiser to apply for federal aid before applying any portion of the Education Award. Once a student has received an Award Letter from the Financial Aid Office, he/she may then decide to use part or all of the Education Award, working with a financial aid counselor to see what the impact of using the Education Award might be.

In order to find out what an AmeriCorps member's correct **need** and **EFC** is, however, he/she must first correctly complete the **Free Application for Federal Student Aid (FAFSA)**.

**2001-2002**  
**The FAFSA** July 1, 2001 - June 30, 2002  
Free Application for Federal Student Aid  
OMB # 1845-0001

Use this form to apply for federal and state\* student grants, work-study, and loans.

Apply over the Internet with [www.fafsa.ed.gov](http://www.fafsa.ed.gov)

- If you are filing a 2000 income tax return, we recommend that you complete it before filling out this form. However, you do not need to file your income tax return with the IRS before you submit this form. If you or your family has unusual circumstances (such as loss of employment) that might affect your need for student financial aid, submit this form, and then consult with the financial aid office at the college you plan to attend. You may also use this form to apply for aid from other sources, such as your state or college. The deadlines for states (see table to right) or colleges may be as early as January 2001 and may differ. You may be required to complete additional forms. Check with your high school guidance counselor or a financial aid administrator at your college about state and college sources of student aid.
- Your answers on this form will be read electronically. Therefore:
  - use black ink and fill in ovals completely:
  - print clearly in CAPITAL letters and skip a line between words:
  - report dollar amounts (such as \$12,356.41) like this: \$ 112 . 356 no cents

Green is for students and purple is for parents.

If you have questions about this application, or for more information on eligibility requirements and the U.S. Department of Education's student aid programs, look on the Internet at [www.ed.gov/understand](http://www.ed.gov/understand). You can also call 1-800-485-AID (1-800-483-3243) seven days a week from 8:00 a.m. through midnight (Eastern time). TTY users may call 1-800-730-8913.

- After you complete this application, make a copy of it for your records. Then send the original of pages 3 through 6 in the attached envelope or send it to: Federal Student Aid Programs, P.O. Box 4016, Mt. Vernon, IL 62864-3508. You should submit your application as early as possible, but no earlier than January 1, 2001. We must receive your application no later than July 1, 2002. Your school must have your correct, complete information by your last day of enrollment in the 2001-2002 school year. You should hear from us within four weeks. If you do not, please call 1-800-483-3243 or check on-line at [www.fafsa.ed.gov](http://www.fafsa.ed.gov).
- Now go to page 3 and begin filling out this form. Refer to the notes as needed.

## Defining the Problem: An Overview of the FAFSA and Financial Aid Terminology

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Many of the problems AmeriCorps members face in applying their Education Awards arise from incorrect or untimely completion of the FAFSA. In fact, a follow-up survey of AmeriCorps members illustrates a key concern: only 5% of members correctly identified where to list the amounts of their Education Award and Living Allowance on the FAFSA, a mistake that has cost individual members thousands of dollars in lost financial aid.

In reviewing the comments of both members and program directors, it is apparent that the level of knowledge regarding college financial aid warrants a detailed description of the process.

### Important Terms Defined as They Relate to AmeriCorps:

- **Expected Family Contribution (EFC):** The amount you (and your family, if you are a Dependent student) are expected to contribute towards the costs of your education. The EFC is determined by a federally established formula and ranges from \$0 (highest level of need) to \$99,999.

Note that the formula is based on *prior-year* income information. The figures that will be required for the FAFSA are the amounts that you and your family earned in the previous tax year (i.e. if you plan on enrolling in college in the 2001-2002 academic school year, the EFC will be determined from your 2000 earnings).

*Neither the Education Award nor the Living Allowance a member earns should impact the Expected Family Contribution. These amounts are excluded from the formula used to calculate the EFC by Section 20 U.S.C. 1087vv(j) of the United States Code and the*

*1998 Amendments to the Higher Education Act.*

- **Cost of Attendance (COA):** The amount it costs to attend a college or university. Included in the COA are tuition/fees, room and board, books, supplies, transportation, loan fees, miscellaneous expenses and the one-time purchase of a computer. In addition, Department of Education guidelines allow financial aid offices to adjust a student's cost of attendance based on documented unusual or additional expenses (such as study abroad, dependent care expenses or costs related to a disability). These above costs are allowed primarily for students attending college on at least a half-time basis.

*The term 'Cost of Attendance' is referred to in TITLE 42 - THE PUBLIC HEALTH AND WELFARE, CHAPTER 129 - NATIONAL AND COMMUNITY SERVICE, Sec. 12604: Disbursement of national service educational awards*

*(a) In general*

*Amounts in the Trust shall be available -*

*(1) to repay student loans in accordance with subsection (b) of this section;*

*(2) to pay all or part of the **cost of attendance** at an institution of higher education in accordance with subsection*

*(c) of this section;*

Thus, College Financial Aid Offices generally understand that the Education Award may be used for all costs within the Cost of Attendance, as long as the student is enrolled at least half-time. There has been some confusion among AmeriCorps members and Directors that the Education Award may only be used to pay for tuition, fees and books.

## An Overview of the FAFSA and Financial Aid Terminology, Cont.

- **Need:** The difference between the COA and the EFC is the student's financial need. In the example above, we saw that Michael had a need equal to his cost of attendance, since his expected family contribution was \$0. It is possible for a student to have an EFC greater than his/her COA, and thus have no need. Such a student is generally only eligible for Unsubsidized Stafford Loans and/or Parent Loans for Undergraduate Students (PLUS Loans).

- **Student Aid Report (SAR):** Approximately 4-6 weeks after a student completes the FAFSA, he/she will receive a report that summarizes the information. This report, which is sent to all colleges listed by the student on the FAFSA, indicates the amount of Pell Grant eligibility, if any, and the student's Expected Family Contribution (EFC). To request a duplicate copy of your SAR, call 1-319-337-5665.

*Most AmeriCorps members incorrectly complete the FAFSA in terms of correct placement of their living allowance and Education Award. If an AmeriCorps member incorrectly completes the FAFSA, he/she may make corrections on the Student Aid Report, and submit those changes to the Federal Processor. The student may also deliver those changes to the College Financial Aid Office.*

- **Disbursement:** For purposes of AmeriCorps members attending college, disbursement refers to the release of funds from the financial aid office to the college Bursar's or Student Accounts Office. If the total amount of financial aid, including AmeriCorps Education Awards, exceeds the student's fees, then any excess funds are paid to the student in cash or by check. Disbursement generally takes place in two payments each quarter or semester.

**In addition to being familiar with financial aid terminology, there is also a great need for understanding the actual form involved. In particular, AmeriCorps members must be careful in how they report their Living Allowance and Education Award. Essentially, the Living Allowance and Education Award that was redeemed must be reported twice on the FAFSA:**

(1) In the appropriate income box [in the 2001-2002 FAFSA, this box is located under Step Two, on page 4, item #39: [What was your (and spouse's) adjusted gross income for 2000?]

-(2) In the correct 'Worksheet.' In the 2001-2002 FAFSA, the correct Worksheet is Worksheet C, on page 8.

***For a thorough review of the FAFSA and financial aid issues, you may wish to visit:***

***[www.finaid.org](http://www.finaid.org)  
[www.students.gov](http://www.students.gov)***

***or call:***

***1-800-4-FED-AID  
(1-800-433-3243)***

## The FAFSA Worksheets: The Power of Wording

**We now know that the FAFSA is the form** used by the Department of Education to determine a student's need. We know that in order to determine a student's Expected Family Contribution, that student must provide income information from the year prior to enrollment. We intuitively understand that the mission of federal financial aid is to provide funding for college to those who can least afford it. The greater one's income, the higher one's Expected Family Contribution is likely to be. What most students and parents do not generally understand, however, is the role of the FAFSA Worksheets in the Federal Methodology, the formula used to determine a student's Expected Family Contribution. The Worksheets are often on the last page of the FAFSA, and are not generally mailed in to the Federal Processor. They are tables used to calculate amounts which will then be placed within the FAFSA (in the 2001-2002 FAFSA, they are to be placed in Step Two, under questions 44-46 for the student, and Step Four, questions 78-80 for the parents).

The Worksheets provide additional information about assets and liabilities that the Federal Processor uses to further define a student's ability to pay for college. Some of these amounts are easily located on one's federal income tax return, but other items aren't necessarily reported, though they further reflect a student's financial picture. Many of the items are counted in addition to a student's Adjusted Gross Income, and will generally increase a student's Expected Family Contribution. Some items, however, are amounts that are already included in one's Adjusted Gross Income, but are then subtracted. In essence, the Worksheet which contains these figures will lower one's EFC. This is often referred to as the 'Income Exclusion Worksheet.' The reasons for

'excluding' these income amounts vary, but in the case of AmeriCorps Living Allowances and Education Awards, it is by law\*.

For the 2001-2002 FAFSA, the Income Exclusion Worksheet is **Worksheet C** (Note: the names of the worksheets sometimes change from year to year; in the 2000-2001 FAFSA, the Income Exclusion Worksheet is Worksheet B, while in 1996 the Income Exclusion Worksheet was Worksheet #3). The Amounts in Worksheet C, as explained above, will wind up reducing a student's EFC by subtracting those amounts from the student's adjusted gross income. It is important, then, to note that a student should put no amount in Worksheet C that is not included in the Adjusted Gross Income.

\*Prior to 1998, the only AmeriCorps related benefit that could be placed in the Income Exclusion Worksheet was the living allowance. The reference in the United States Code is:

### **20 U.S.C. 1087vv(j)**

#### *(e) Excludable income*

The term "excludable income" means -

(1) any student financial assistance awarded based on need as determined in accordance with the provisions of this part, including any income earned from work under part C of subchapter I of chapter 34 of title 42;

(2) **any living allowance received by a participant in a program established under the National and Community Service Act of 1990 (42 U.S.C. 12501 et seq.);**

(3)...

The **1998 Amendments to the Higher Education Act**, however, ensured that the Education Award, as well, should be considered as excludable income.

## The FAFSA Worksheets, Cont.

The reference to this change is:

**Section 480(j) (20 U.S.C. 1087vv(j)) is amended--**

(1) in paragraph (1), by inserting before the period at the end the following: ` , **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.)**’;

(2)...

The ability of AmeriCorps members to exclude both their Living Allowances and Education Awards from the Federal Methodology is a tremendous benefit. In terms of eligibility for need-based financial aid, serving in AmeriCorps is analogous to having no income.

For Independent (Table 4) students who served in AmeriCorps in the year prior to college matriculation, and whose income information generally does not include parental resources, this means that they often have an extremely low Expected Family Contribution (\$0 in most cases where they have little or no assets). In other words, Independent AmeriCorps members are generally eligible for thousands of dollars in grants and other need based aid, unlike similar Independent students who worked in traditional jobs, and whose income is not excluded from the Federal Methodology. This is one of the ‘hidden’ ways that AmeriCorps has increased access to higher education. Program Directors who have a basic understanding of this concept are further adept at recruiting potential members.

The number of AmeriCorps members who are Independent (and thus, very likely to have a high level of need) varies from year to year but is generally quite high. In the 1999 program year, the National Service Trust reports that of

the 27,310 members who redeemed their Education Awards, 13,165, or 48.2%, were 24 years of age or older. In 1998, that number was even higher, with 13,844, or 50.7%, of the 27,291 members being 24 years of age or older. These figures support a 1996 study by Jucovy which estimates the mean age of AmeriCorps members to be 25.6 years.

**Table 4: Independent vs. Dependent Status**

***Dependency-***

*Students are classified by the FAFSA as being either ‘Independent’ or ‘Dependent’. For Independent students, parental income information is not required. In order to be considered Independent, the student must:*

- *Be Married, or*
- *Be 24 years of age by January 1<sup>st</sup> of the Academic Year, or*
- *Be a graduate or professional student, or*
- *Have a legal dependent, other than children or spouse, or*
- *Have children for whom the student provides more than ½ their support, or*
- *Be an orphan or ward of the court, or*
- *Be a veteran of the U.S. Armed Forces*

Though Independent AmeriCorps members often wind up with more grant eligibility, it is equally important for Dependent students to understand the importance of the Income Exclusion Worksheet. This is due to a characteristic of the Federal Methodology that allows for a greater percentage of Dependent student earnings to count towards the Expected Family Contribution. In fact, a student is



# The FAFSA Worksheets, Cont.

expected to contribute about 35% of his or her savings and approximately one-half of his earnings above \$1,750. Therefore, even when the parental portion of the Expected Family Contribution is \$0, an AmeriCorps member who fails to record the Living Allowance and Education Award in the Income Exclusion Worksheet will lose his/her grant eligibility.

Even when Dependent AmeriCorps members have parental portions of the EFC greater than \$0, they should still correctly place the appropriate amount of the Living Allowance and/or Education Award in the Income Exclusion Worksheet. This might mean the difference between other forms of need-based aid, such as Work-Study or Subsidized Stafford Loans.

**Instructions for Recording AmeriCorps Benefits** – Table 5 represents the draft version of the 2002-2003 FAFSA, and the Income Exclusion Worksheet remains Worksheet C. In both years, the line on which an AmeriCorps member should record his/her benefits is line 4, which reads:

“Student grant, scholarship and fellowship aid, including AmeriCorps awards, that was reported to the IRS in your adjusted gross income”

Note that the phrase ‘AmeriCorps awards’ as used in the FAFSA does not correspond to the definition as prescribed by the Corporation for National Service. In the National Service community it is generally

understood that the ‘AmeriCorps award’ refers specifically to the \$4,725 Education Award, and not to the Living Allowance that a member receives. This obviously creates a high level of confusion among both AmeriCorps members and Financial Aid Counselors. The effects of that confusion will be discussed below.

**Table 5: FAFSA Worksheets**

**DRAFT 3/13/01**

**Worksheets** Do not mail these worksheets in with your application. Keep these worksheets; your school may ask to see them.

For question 44 Student/Spouse	Worksheet A Calendar Year 2001	For question 78 Parent(s)
\$	Earned income credit from IRS Form 1040-line n7; 1040A-line n7; 1040EZ-line n7; or Table A-line 7.	\$
\$	Additional child tax credit from IRS Form 1040-line n8 or 1040A-line n8.	\$
\$	Welfare benefits, including Temporary Assistance for Needy Families (TANF). Don't include Food Stamps.	\$
\$	Social Security benefits received that were not taxed (such as SSI).	\$
\$	Enter in question 44.	Enter in question 78.

For question 45 Student/Spouse	Worksheet B Calendar Year 2001	For question 79 Parent(s)
\$	Payments to tax-deferred pension and savings plans (paid directly or withheld from earnings), including, but not limited to, amounts reported on the W-2 Form in Boxes n, codes 7, 7, 7, 7, and 7.	\$
\$	IRA deductions and payments to self-employed SEP, SIMPLE, and Keogh and other qualified plans from IRS Form 1040-total of lines n+ + n+ or 1040A-line n+.	\$
\$	Child support received for all children. Don't include foster care or adoption payments.	\$
\$	Tax-exempt interest income from IRS Form 1040-line n7 or 1040A-line n7.	\$
\$	Foreign income exclusion from IRS Form 2555-line n+ or 2555EZ-line n+.	\$
\$	Untaxed portions of payments from IRS Form 1040-lines (n7 minus n7) + (n7 minus n7) or 1040A-lines (n7 minus n7) + (n7 minus n7) including rollovers.	\$
\$	Credit for federal tax on special fuels from IRS Form 4136-line n- nonfarm only.	\$
\$	Housing, food, and other living allowances paid to members of the military, clergy, and others (including cash payments and cash value of benefits).	\$
\$	Veterans noneducation benefits such as Disability, Death Pension, or Dependency & Indemnity Compensation (DIC) and/or VA Educational Work-Study allowances.	\$
\$	Any other untaxed income or benefits not reported elsewhere on Worksheets A and B, such as worker's compensation, untaxed portions of military retirement benefits, Black Lung benefits, Religious Assistance, etc. Don't include student aid, Workforce Investment Act educational benefits, or benefits from flexible spending arrangements, e.g., cafeteria plans.	\$
\$	Cash received, or any money paid on your behalf, not reported elsewhere on this form.	XXXXXXXXXX
\$	Enter in question 45.	Enter in question 79.

For question 46 Student/Spouse	Worksheet C Calendar Year 2001	For question 80 Parent(s)
\$	Educator credits (Hope and Lifetime Learning tax credits) from IRS Form 1040-line n+ or 1040A-line n+.	\$
\$	Child support paid because of divorce or separation. Don't include support for children in your (or your parents') household, as reported in question 84 (or question 84 for your parents).	\$
\$	Taxable earnings from Federal Work-Study or other need-based work programs.	\$
\$	Student grant, scholarship, and fellowship aid, including AmeriCorps awards, that was reported to the IRS in your (or your parents') adjusted gross income.	\$
\$	Enter in question 46.	Enter in question 80.

**DRAFT 3/13/01** Page 8

AmeriCorps members, then, as per 20 U.S.C. 1087vv(j), should include in Worksheet C not

## Correctly Completing the FAFSA Worksheets

only the Education Award, but also the amount of the Living Allowance they earned in the year prior to enrollment (remember that the information provided on the FAFSA is from the prior year).

It is worth repeating that amounts to be entered in the Income Exclusion Worksheet must represent actual dollars earned and, in the case of the Education Award, redeemed in the tax year prior to enrollment.

**Therefore, AmeriCorps members should only put in Worksheet C the amount of Education Award which was actually redeemed in the prior year. If a member has not yet redeemed his/her Education Award, and has therefore not reported it to the IRS on his/her tax return, he/she cannot place the amount of the Education Award on the FAFSA.**

**The Corporation for National Service will issue a Form 1099-Miscellaneous Income for the amount of Education Award redeemed in the year after it is disbursed. AmeriCorps members should use the 1099 they are issued to determine how much Education Award they should list on the subsequent FAFSA.**

With this stated, however, many AmeriCorps members have and will continue to incorrectly complete Worksheet C of the Free Application for Federal Student Aid, due largely to wording which is unclear.

### **Worksheet C, 2001-2002 FAFSA-**

#### ***It is vitally important that members realize:***

- *When completing the 2001-2002 FAFSA, they should enter the entire amount of the living allowance they earned from January 2000 to December 2000 in line 4 of Worksheet C (...AmeriCorps awards...)*
- *If an AmeriCorps member redeemed any of their Education Award in tax year 2000 they should put that amount as well on line 4 of Worksheet C.*
- *All amounts entered in Worksheet C should correspond to amounts included in the member's Adjusted Gross Income (line 39, page 4 of the FAFSA).*
- *The 2002-2003 FAFSA appears as though it will remain unchanged: AmeriCorps members should therefore put into Worksheet C of the 2002-2003 FAFSA, any Living Allowance earned or Education Award redeemed in 2001*
- *Note- If member completes the FAFSA on the Web, the AmeriCorps amounts will not be recorded on line 4 of Worksheet C, but rather on line WC4 of Worksheet C. See Table 6.*

Most Financial Aid Administrators are inadequately prepared to answer questions pertaining to AmeriCorps, and will simply advise members to 'just write down what it asks for.' For AmeriCorps members and Program Directors, this usually impels them to record only the *Education Award*. If this happens, the mistake may be corrected, but only if the Member becomes aware of the error.

### **Making Changes to the FAFSA-**

During the past year in conducting AmeriCorps Education Award workshops, the vast majority of participants incorrectly completed the FAFSA, in particular Worksheet C. Once aware of the mistake, AmeriCorps members have several ways to make corrections. Approximately 4-6 weeks after a member completes and submits

## Correctly Completing the FAFSA Worksheets

the FAFSA, he/she will receive in the mail a **Student Aid Report**. If the member did not adequately record AmeriCorps related amounts in Worksheet C, he/she may simply make the corrections on the Student Aid Report itself (making copies of the entire document), sign and date the form, and return it to the Federal Processor. In addition, the member may choose to take the corrected Student Aid Report directly to his/her college's financial aid office, and report the changes to a Financial Aid Counselor.

Finally, if for some reason the member never receives, or loses the Student Aid Report, and suspects that incorrect information was provided, he/she may simply approach the financial aid office with the information, and follow the institutional procedures for making such changes.

“Student grant, scholarship and fellowship aid, including **AmeriCorps awards**, that was reported to the IRS in your adjusted gross income”

As the changes often have a substantial impact on the student's EFC, the financial aid office may likely select the member for a process known as Verification. Verification is the process Financial Aid Offices use to ensure that students are providing accurate financial information. The Federal Processor randomly selects students for verification (if on the Student Aid Report there is an asterisk next to the EFC figure, this indicates that the file has been randomly selected for verification), and most schools verify 1/3 of all applicants. Even if the information the AmeriCorps member has provided is correct, therefore, he/she may still

be asked to provide supporting documents, which usually include copies of the previous year's federal income tax returns.

For this reason, members should be advised to retain legible copies of their federal income tax returns, as well as their W-2 forms, and in the case of the Education Award, a copy of the 1099-Miscellaneous form.

**Table 6- FAFSA on the Web Worksheet C: Line WC4 (www.fafsa.ed.gov)**

Worksheet C

Did you receive any of the following items in 2000? These items are collectively called Worksheet C. The calculated total will be entered on your application as question number 48.

Enter whole dollar amounts in financial fields, and do not use commas.

WC3. Taxable earnings from Federal Work-Study or other need-based work programs: \$ .00

WC4. Student grant, scholarship, and fellowship aid, including AmeriCorps awards, that was reported to the IRS in your (or your parent's) adjusted gross income: \$ .00

48. Total for Worksheet C: \$ .00

Previous Next

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Having all these documents on hand when requested will help members avoid losing financial aid due to missing deadlines. Many of the federal financial aid programs, unlike the Pell Grant and Stafford Loan, are limited, and are often given out on a first-come, first serve basis.

## Special Cases: Resources and Campus Based Financial Aid Programs

As we discussed earlier, a student's *need* is determined by subtracting his/her *Expected Family Contribution (EFC)* from the school's *Cost of Attendance (COA)*. The EFC, again, is determined by the *Federal Methodology*, which uses data provided by a student and his/her family in the *Free Application for Federal Student Aid (FAFSA)*. A student may receive financial aid equivalent to his/her Cost of Attendance, but no more. A student may receive *need-based aid*, such as Pell Grants and Subsidized Stafford Loans, only up to his/her calculated *need*.

Two more terms become important at this point in regards to the Education Award: *resources* and *campus-based programs*. *Campus-based programs* are types of federal financial aid that are distributed to colleges and universities in limited amounts. The school administers these funds directly. Generally, the demand for these funds outstrips the supply, and unlike the Federal Pell Grant program, once an institution runs out of funding, no more campus-based awards are available. The campus-based financial aid programs include the Federal Supplemental Educational Opportunity Grant (SEOG), the Federal Work-Study Program, and the Federal Perkins Loan Program. We will discuss these programs in detail below.

*Resources*, essentially funds that the student has available towards the cost of attendance, are applicable to these campus-based financial aid programs. Resources are considered when awarding campus-based programs, meaning that some students may receive reduced or no campus-based aid when they have an abundance of other resources. **Prior to October 1, 1998, the AmeriCorps Education Award was not considered a *resource* for purposes of the campus-based aid programs. Pursuant to the 1998 Higher Education Act Amendments,**

**however, financial aid offices must now view the AmeriCorps Education Award as a *resource* when considering students for the SEOG, Work-Study and Perkins Loan. [34 CFR 673.5(c)]**

In other words, before these changes took effect, AmeriCorps members could use their Education Awards without worrying about the loss of Work-Study, SEOG or Perkins Loan, as long as the total amounts of all awards did not exceed the Cost of Attendance. Now, however, if an AmeriCorps Member uses his/her Award, that Award applies towards the Member's Need, and thus, will reduce the amount of campus-based aid.

**For example:**

Adam is a first-year, independent undergraduate student with an EFC of 1800 (from non-AmeriCorps earnings) who is enrolled at a State College with a Cost of Attendance of \$9,300. His need is therefore \$7,500 (COA-EFC=Need). He is eligible for \$2,000 in Pell Grant, \$3,000 in Work-Study, \$500 in Supplemental Educational Opportunity Grant, and \$2,000 in Perkins Loan. His need-based awards, including the three campus-based programs are:

Pell Grant	\$2,000
Work-Study	\$3,000
SEOG	\$500
<u>Perkins Loan</u>	<u>\$2,000</u>
Total	\$7,500
Need	\$7,500

He could borrow up to \$1,800 in Unsubsidized Stafford Loan to meet his Cost of Attendance.

However, if Adam applied his Education Award to the above scenario, he would lose his Perkins Loan, as well as most of his Work-Study. Why?

## Special Cases: Resources and Campus Based Financial Aid Programs

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Because the AmeriCorps Education Award counts as a resource towards the student's need. Therefore, the college financial aid office would apply his \$4,725 towards his \$7,500 need. This would leave him with \$2,775 in remaining need-based aid eligibility. Adam's new award would be:

Pell Grant	\$2,000
Education Award	\$4,725
SEOG	\$500
<u>Work-Study</u>	<u>\$275</u>
Total	\$7,500
Need	\$7,500

He could then borrow \$1,800 in an Unsubsidized Stafford Loan to make up the difference between his COA and his aid. However, he has lost \$4,725 in other, more favorable financial aid. In fact, it is unlikely that a financial aid office would make a Work-Study Award of only \$275, as it would only allow the student to find employment for a two- to three-week period.

In addition, if Adam received any of the other sources of aid that are considered 'resources', his campus-based programs (Work-Study, SEOG and Perkins Loan) would need to be reduced again. These other 'resources' include:

- funds a student is entitled to receive from a Federal Pell Grant;
- William D. Ford Federal Direct Loans (Direct Loans);
- Federal Family Education Loans (FFEL's);
- scholarships, including athletic scholarships and ROTC scholarships;
- waivers of tuition and fees;
- fellowships or assistantships;
- veterans educational benefits paid under Chapters 30, 31, 32, and 35 of Title 38 of the U.S. Code;

- income from insurance programs that pay for the student's education; and
- net income from need-based employment.

There are innumerable scenarios in which Adam might be able to avoid losing aid. First and foremost, he could save his AmeriCorps Education Award and use it to repay the Perkins and Stafford Loans. He might also want to try and document additional expenses that he might have, such as medical or child care. In essence, he would ask for an increase in his Cost of Attendance, and if this were granted, his Need would necessarily increase, since Need is determined by subtracting EFC from COA.

In addition, some members will attend colleges where Stafford Loans might come into play, and a more complicated scenario might develop: Under new campus-based regulations 34 CFR 673.5(c)(4), financial aid offices may, **at their discretion**, exclude as a resource the portion of a *subsidized* Stafford Loan up to the amount of the AmeriCorps Education Award (In other words, if Adam redeems \$4,725 in Education Award, the financial aid office may choose to ignore \$4,725 worth of Subsidized Stafford loan from Adam's resources).

### Example #2:

Corrin is a first-year, independent undergraduate student with an EFC of \$1,800, a Pell Grant of \$2,000, and Education Award benefits of \$4,200. She enrolls in a four-year program at a State College, where her need is \$7,700 (\$9,500 COA - 1800 EFC). Her assistance from the Pell Grant and Education Award equals \$6,200 (\$2,000 + 4,200). The difference between her need and assistance is \$1,500 (\$7,700 - 6,200). Because the Education Award benefits do not count as estimated financial assistance for subsidized

## Special Cases: Campus Based Financial Aid Programs, Cont.

loans, Corrin is eligible for a subsidized Stafford loan in an amount that exceeds \$1,500. Her COA minus her EFC and Pell Grant would leave an unmet need of \$5,700 (\$9,500 - 1800 - 2,000). The maximum subsidized loan amount for a first-year student is \$2,625 and is less than Corrin's unmet need for subsidized loan purposes, so she may receive a subsidized loan of \$2,625. The decision to take out a subsidized loan is Corrin's, and the school must follow the statute. In this case, her assistance totals \$8,825 (\$2,000 + 4,200 + 2,625), which exceeds her need.

However, under the statute and regulations this is not considered an overaward or an overpayment. Corrin is eligible for campus-based aid if the school chooses to exclude her subsidized loan as a resource. (It can exclude up to the value of the Education Award benefits from the loan.) Corrin's need is \$7,700, and her total resources, minus the loan, would be \$6,200, which is \$1,500 (\$7,700 - 6,200) under her need. Therefore the school may provide campus-based aid up to \$1,500, for example, \$1,000 in FWS funds and \$500 in FSEOG funds. In this case, Penny's assistance totals \$10,325, which exceeds her need as well as her COA.

Pell Grant	\$2,000
GI Bill	\$4,200
Stafford	\$2,625
Work-Study	\$1,000
<u>SEOG</u>	<u>\$500</u>
Total	\$10,325
Need	<b>\$7,700</b>
COA	<b>\$9,500</b>

Though the option provided by the new campus-based regulations 34 CFR 673.5(c)(4) prove to be an obvious benefit for AmeriCorps members, the

complexity of the above case keeps many financial aid offices from exercising this option.

### **The Role of the Financial Aid Office**

At this point, the difficulties with the Education Award reach critical mass. As shown above, AmeriCorps members and Program Directors are inadequately prepared to address how their awards will impact their other financial aid. There are precedents for 'outside' aid programs similar to AmeriCorps which have become institutionalized to the point that many college financial aid offices have resident experts on the issue, such as with VA benefits. As with any new program, there is a learning curve, and financial aid offices have been slowly coming to the realization that AmeriCorps members are growing in number. This trend is likely to continue.

***I'm ashamed (and frustrated) to say that I didn't realize all of the implications noted above existed.***

Unfortunately, the long process of accumulating institutional knowledge of the AmeriCorps Education Award is occurring at the expense of current and past members. Said one financial aid counselor, 'I didn't realize how much I don't know about the AmeriCorps program. I'm ashamed (and frustrated) to say that I didn't realize all of the implications noted above existed.'

In surveys and conference presentations delivered over the past year, this sentiment proved to be the rule rather than the exception.



## Final Piece of the Puzzle: The Role of the Financial Aid Office

After assessing the level of knowledge about the AmeriCorps Education Award process among AmeriCorps members and Program Directors, determining that same awareness among Financial Aid Offices becomes crucial. In March 2001, a survey of 148 Financial Aid Administrators illustrated that, unfortunately, colleges and universities are as ill-prepared to address the issue as the National Service community.

First and foremost, the confusion over the Income Exclusion worksheet has proven to be the most damaging to AmeriCorps members of all the various issues. In the survey, less than 3% (n=143) of all Financial Aid administrators correctly answered that both the AmeriCorps Living Allowance and the AmeriCorps Education Award should be reported in Worksheet B of the 2000-2001 FAFSA and Worksheet C of the 2001-2002 FAFSA (Table 7).

Furthermore, as it turned out, each of the 4 respondents who correctly answered this question had either attended a conference presentation the

author delivered, or had spoken with him prior to the survey regarding AmeriCorps policies and procedures. Simply put, past AmeriCorps members who have relied on Financial Aid Offices for advice on correctly reporting their AmeriCorps benefits on the FAFSA have almost assuredly received incorrect information, and have likely lost eligibility for need-based financial aid.

**Table 7: What Should AmeriCorps Members Record on Worksheets B and C?**

	Education Award Only	AmeriCorps Living Allowance Only	Education Award and AmeriCorps Living Allowance	No response/Unsure	Neither the Education Award nor the Living Allowance	Other, Please Specify	Totals
Education Award Only	3	38				1	42
AmeriCorps Living Allowance Only	1	6			1		8
Education Award and AmeriCorps Living Allowance		21	4	1	2		28
No response/Unsure		18		27		1	46
Neither the Education Award nor the Living Allowance		2					2
Other, Please Specify		8	3	1		5	17
<b>Totals</b>	<b>4</b>	<b>93</b>	<b>7</b>	<b>29</b>	<b>3</b>	<b>7</b>	<b>143</b>

Unfortunately, while confusion over the Income Exclusion Worksheet results in the greatest loss of potential aid for AmeriCorps members, it is far from the only way that Members lose money.

For example, in the first case study presented, Michael lost \$9,450 in need-based financial aid

## The Role of the Financial Aid Office, Cont.

for which he was eligible because he applied the entire amount of his Education Award, unaware of its impact. In addressing a possible solution to this problem, we discussed the possibility of Michael holding onto his Education Award until after graduation, using the money instead to repay loan debt. Unfortunately, if Michael were to ask a financial aid counselor for this advice, he would most likely be told that this is not a possibility.

From the survey of Financial Aid Administrators, when asked the following question,

"If an AmeriCorps Education Award recipient with an Expected Family Contribution of \$0 (who would otherwise receive most or all of his/her budget in the form of grants and scholarships) presented me with an Education Award voucher for \$9,450, I would advise that student not to use the voucher, because of the resulting loss of other aid."

only 34% of respondents agreed. The reasons for this response vary, but some of the underlying issues include:

- Awareness - 44% of Financial Aid Administrators do not know that AmeriCorps members may hold onto their Education Award for up to 7 years. Therefore, they could not advise a student such as in the above example to keep the award as an option.
- Training - Only 7% of Financial Aid Administrators have received some type of training on how to administer the AmeriCorps Education Award.
- Familiarity - 62% of colleges and universities process less than 5 AmeriCorps Education Awards annually, with 16% of these

respondents claiming to have never processed such an award.

- Accessibility to the National Service Trust - 16% of respondents felt that it was relatively easy to get answers about the Education Award from the Corporation.
- Technical Issues - Only 27% of Financial Aid Administrators are aware that the Education Award is fully taxable. Taxability is an issue for financial aid purposes in the sense that a member's tax burden can be significantly decreased by spreading out disbursement of AmeriCorps Education Award funds over the course of two tax years. In other words, members can request that they receive half of their \$4,725 Education Award in the Fall Semester of 2000, and the other half in the Winter Semester 2001, thereby applying the entire amount of their Education Award in one *Academic* year, though redemption of the funds actually occurs over the course of two *Tax* years.
- Coordination - Less than half of the colleges and universities who responded to the survey indicated that the Financial Aid Office is the primary administrator of the Education Award. At many colleges, the Bursar's /Student Accounts Office, or a combination of the Bursar's and Financial Aid Office process the Education Award. Many of the issues regarding administration of the Education Award are complicated by a 'right hand not knowing what the left hand is doing' phenomenon. (i.e. the Financial Aid Office wishes to comply with the member's wishes to apply the Education Award over two tax years, though the Bursar's Office requests the entire amount of the voucher at once).



## Financial Aid Administrators: The Need for Guidance

Unfortunately, even with an abundance of evidence that illustrates how AmeriCorps members are losing financial aid, unless this information comes directly from the Department of Education or the National Association of Student Financial Aid Administrators (NASFAA), improvements are not likely to occur. The rules that govern the disbursement of federal financial aid are especially complex, and colleges face serious consequences for noncompliance. Therefore, AmeriCorps members who share the findings of this report directly with a Financial Aid Administrator are likely to be questioned on the legitimacy of their source.

Case in point, in April 2001, under research funding through the Western Association of Financial Aid Administrators (WASFAA), I presented the findings included in this report to the WASFAA Annual Conference in San Jose. After directly citing the appropriate regulations and sharing a statement drafted by a Department of Education officer, most participants stated that they would review their procedures regarding the AmeriCorps Education Award.

The following week, however, I started to receive messages such as the following:

I shared the information with our Financial Aid Director regarding reporting both the stipend & award on Worksheet C of the FAFSA. However, our director asked when this information was publicized to inform institutions that it was incorrectly being requested on the FAFSA, since the instructions clearly state to report the earnings in Worksheet B & the award in Worksheet C. **According to our Director we cannot instruct the students differently from the instructions on the FAFSA unless the institutions have been notified by the Dept. of Education.** Is there a web site or a publication that actually addresses this issue where our director can verify the information?

Clearly, unless the Department of Education or NASFAA issues a statement, thousands of AmeriCorps members will continue to lose the financial aid to which they are entitled.

Ironically, such a statement has already been drafted (but not yet published) by a Department of Education employee. During the early stages of this research when it became apparent that current AmeriCorps members might be helped, I posted the statement to FINAID-L, the listserv for Financial Aid Administrators:

### **Summary of AmeriCorps Benefits Issues Related to Completing the FAFSA**

**Individuals working in AmeriCorps service projects usually receive a living allowance. A living allowance is paid on a regular basis, but is not considered an hourly wage or a salary. This income is taxable by the IRS but is an exclusion from income used to calculate a student's EFC for purposes of awarding Title IV aid. The living allowance stipend, if correctly included in the student's AGI, is to be included on Worksheet B of the 2000-2001 FAFSA (line 4 "AmeriCorps awards-living allowances only"). For the 2001-2002 FAFSA, any amount of living allowance in the AGI is included on Worksheet C (line 4 "Student grant, scholarship, and fellowship aid, including AmeriCorps awards, that was reported to the IRS in your (or your parents') adjusted gross income").**

**Note that if a student is earning Federal Work-Study wages for working in an AmeriCorps service project, then there will be NO living allowance. The FWS wages will be reported on the appropriate worksheet and excluded from AGI in the need analysis calculation.**

## Financial Aid Administrators: The Need for Guidance, cont.

An AmeriCorps participant who completes his or her service is entitled to an educational award. Many students use this award toward current educational expenses. A student is entitled to up to \$4725 per year of AmeriCorps service. According to the IRS, in most cases educational awards are subject to income taxes in the calendar year in which they are used. That taxable amount is reported on a 1099 form. When the student files a FAFSA for the following year, the amount of the AmeriCorps educational award received in the base year (i.e., 2000 calendar year for the 2001-2002 FAFSA) and included in that year's AGI, is to be excluded from the need analysis calculation and included on line 5 of Worksheet B of the 2000-2001 FAFSA ("Student grant and scholarship aid (in excess of the tuition, fees, books, and supplies) that was reported to the IRS in question 40 for students and 74 for parents"). In most cases, the entire educational award amount is taxable, so the entire amount is included in the AGI, thus the filer is to report all of the award, not just the amount in excess of tuition, fees, books and supplies. For the 2001-2002 FAFSA, the amount of the AmeriCorps educational award included in the AGI is to be included on line 4 of Worksheet C.

Merely posting this statement to the FINAID-L listserv, however, has very little effect. When confronted with an unknown course of action, Financial Aid Administrators typically turn to one of two sources: the NASFAA Encyclopedia or the IFAP (Information for Financial Aid Professionals) online library administered by the Department of Education. Currently the above statement is nowhere to be found in either resource.

Regrettably, this statement also appears to contradict the existing language on the FAFSA Worksheet instructions. Predictably, when faced with this dilemma, Financial Aid Administrators will not instruct students differently from the FAFSA.

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*Until the language of the Free Application for Federal Student Aid (FAFSA) accurately reflects the intent of the Amendments to the Higher Education Act, and the "Summary of AmeriCorps Benefits" statement appears in the NASFAA Encyclopedia or on the IFAP web site ([www.ifap.ed.gov](http://www.ifap.ed.gov)), AmeriCorps members will continue to lose benefits.*

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It is worth repeating then, for any Financial Aid Administrator who may read this report, that the sections in the United States Code that make all appropriate references to the AmeriCorps Education Awards are:

**20 U.S.C. 1087vv(j)**

**Section 480(j) [20 U.S.C. 1087vv(j)] as amended by the 1998 Amendments to the Higher Education Act**

Until NASFAA or the Student Financial Assistance program of the Department of Education makes the needed changes, this code may be the only 'official' reference available.

For an excellent online resource for reviewing these sections of the United States Code, or any section of the U.S. Code, you may wish to visit:

**<http://www4.law.cornell.edu/uscode/>**

# A Final Word to National Service Programs and Participants

This report is a first step and a small piece of an overall effort to improve the lives of those who serve. Other partners in the National Service family will build upon this work to provide more effective training for AmeriCorps members as they enter service. As a first step, however, this report may raise more questions than it answers. Unfortunately, though many compare the language of federal financial aid to hieroglyphics, there is no Rosetta Stone in this case to provide AmeriCorps members and directors with these easy answers.

As there is of yet no body of knowledge regarding the AmeriCorps Education Award, here are some closing comments on several key issues:

## **What Should AmeriCorps Programs Know About the Ed Award?**

First of all, nobody expects that Program Directors should be financial aid experts. That said, there are some details that AmeriCorps members expect to know about the Education Award.

-First and foremost, the Education Award is taxable, and these taxes are not deducted beforehand. AmeriCorps members need to know that if they choose to use their award, they should plan on budgeting a reasonable amount to cover these expenses in the event that they owe taxes.

-The Education Award can only be used to cover cost of attendance expenses at Title IV institutions of higher education, which includes some proprietary/vocational schools. Though cost of attendance includes more than tuition, books, and fees, AmeriCorps members can only redeem their Education Awards if they are fully *matriculated*. Matriculated means that the

student has applied for and successfully met the requirements for full admission to the institution. Note that this is a departure from past practices where members could redeem their Education Awards for individual or extension classes that did not necessarily lead to the completion of a degree program.

-AmeriCorps Program Directors should view the Education Award as a supplement, and not a replacement of, existing forms of federal student aid. In other words, AmeriCorps Program Directors should encourage their members to apply early for any other financial aid by completing the Free Application for Federal Student Aid (FAFSA) in January or February of the year when the member plans on attending college.

-AmeriCorps Program Directors and members should use financial aid offices as a resource for meeting the costs of college. Programs should endeavor to invite financial aid office representatives to give presentations to members on how to correctly complete the FAFSA and search for local scholarships. College financial aid offices typically do this on a pro bono basis.

-AmeriCorps Program Directors and members should review the sections of this report on Case Studies and Correctly Completing the Worksheets, with the understanding that neither the Education Award nor the Living Allowance should count towards a member's Expected Family Contribution.

## **What Should AmeriCorps Programs Know About Taxation Issues?**

-Though it is beyond the scope of this report to discuss taxation issues, Program Directors should know that taxation is somewhat of a

## **A Final Word to National Service Programs and Participants, cont.**

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factor in morale and to a lesser extent recruitment/retention. The surveys conducted in this study suggest that members feel that they have been short-changed by CNS regarding taxation. Program Directors might want to be aware that the decision to tax the Education Award does not fall within the jurisdiction of CNS, but, rather, is a determination made by the Internal Revenue Service. Though this fact does not change the taxability of the Education Award, it is worth mentioning to members so that they understand that their voices are not being disregarded by the national service family of programs.

-One simple recommendation that Program Directors may wish to offer their members is more a matter of logic than tax advice per se. Members should know that the tax year coincides with the calendar year, so that any amount of money earned (or in the case of the Education Award, redeemed) between January 1 and December 31 serves as the tax base. One way, then, that members have avoided singularly large tax bills is by redeeming half of their Education Awards in one year, say for example 1998, and the other half of their Education Awards after January 1 of the following year, in this case 1999. This approach can be applied whether paying for tuition or repaying past student loans.

-Though neither Program Directors nor current AmeriCorps members should engage in lobbying efforts, both may want to be aware that there is a growing number of former members who are active in promoting service and improving the lives of those who serve. AmeriCorps Alums, for example, is active in researching the taxation of the Education Award and colleges that offer matching scholarships ([www.americorpsalums.org](http://www.americorpsalums.org)).

### **What About ‘Matching Awards’?**

Second only to questions regarding taxation are inquiries into which schools offer so-called ‘matching awards’. A few thoughts:

- There is no ‘industry-wide standard’ when it comes to matching awards. Some schools offer to match the amount of the Education Award, while some schools offer scholarships in set amounts that remain constant regardless of the amount of Education Award earned. Some institutions offer the scholarships on a continuing basis, while others offer one-time only awards. I know of no college that offers an unlimited number of true ‘matching’ scholarships to all AmeriCorps members who attend.

-In many cases, attending a college simply because it offers a ‘matching scholarship’ may not necessarily offer a financial benefit. If a college with a tuition of \$24,000 per year offers to match a member’s \$4,725 Education Award, that member would still be better off financially by attending his/her state college, whose tuition is only \$5,000 per year. The point is this: the Education Award is meant to be a tool to help people achieve the dream of a higher education, and not the means to and end in itself. Members would be better served by planning out their dreams and seeing how their Education Awards can help them get there. If the school that offers what the member wants to study also offers ‘matching awards’, so much the better.

-AmeriCorps programs should consider partnering with local college admissions offices in order to double recruiting efforts. For example, many state colleges receive inquiries from students who live in other states. Often, these students will not attend those colleges

## **A Final Word to National Service Programs and Participants, cont.**

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until they gain state residency, since in-state tuition is often much cheaper. This usually means that the prospective student must move to and work for at least one year in the state in question. AmeriCorps Program Directors might want to see if the admissions offices at these colleges would be willing to refer these prospective students to their AmeriCorps program, since they will be looking for something to do for one year. In exchange, AmeriCorps programs may want to invite admissions counselors from these schools to give presentations about their institutions to the AmeriCorps members. Such a partnership was begun at the Evergreen State College with local AmeriCorps programs in the Puget Sound area.

Though Evergreen offers ‘matching awards,’ of far greater financial benefit is the difference for prospective students between in-state and out-of-state tuition. The Evergreen State College Matching Scholarship is \$2,100, while the savings in tuition for an Evergreen student by gaining state residency is over \$7,000.

-If AmeriCorps Program Directors want to approach a local college or university about creating a ‘matching award’, they may wish to do some research into the language of enrollment management. Many Program Directors ask colleges to create scholarships for their members out of altruistic reasons, as an appreciation of the local community service the AmeriCorps members have performed. While this service is no doubt important, a college is far more likely to be moved into creating ‘scholarships’ if that money can be used to help the college reach its enrollment goals. An approach along these lines would include informing the enrollment management office that between 1994 and 2000 over \$440 million worth of Education Awards have been redeemed

by students completing their higher education. Many colleges remain unaware that within 50 miles of their campuses are perhaps hundreds of men and women earning \$4,725 to attend the college of their choosing.

### **Where Should Programs Turn When They Have Questions Regarding the Education Award?**

- There are several sources that AmeriCorps programs can turn to while CNS works to improve the body of information available regarding the Education Award. Many states have local ‘experts’ on the Education Award, and programs may want to talk with their respective state CNS officers to see who is out there. AmeriCorps Alums is also dedicating a substantial amount of effort to answering many of the questions that members have, such as which colleges match the Education Award. In addition, as the research begun under this fellowship is continued, programs will want to periodically visit the CNS web site, at [www.nationalservice.org](http://www.nationalservice.org).

Brandon Rogers  
National Service Fellow 2000-2001  
AmeriCorps VISTA 1997-1998

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