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Contact: Michelle Asha Cooper
Deputy Director
202-219-2099
michelle.cooper@ed.gov



ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE



Congress Simplifies Student Aid Through Budget Reconciliation

The College Cost Reduction and Access Act of 2007 (P.L. 110-84) was signed into law by President Bush on September 27, 2007. Many of its key provisions resulted directly from the Advisory Committee's congressionally mandated Simplification Study of 2004-05, and closely parallel the recommendations in the Advisory Committee's final report, *The Student Aid Gauntlet*.

- **Automatic Zero Expected Family Contribution (EFC).** Raises the threshold from \$20,000 to \$30,000 and directs the Secretary of Education to annually adjust the level using the Consumer Price Index (CPI).
- **Income Protection Allowance (IPA).** Increases the IPA to \$9,330 and \$14,690 for independent students without dependents by 2012 (levels determined by enrollment status of spouse), \$6,000 for dependent students by 2012, and by a substantial amount for independent students with dependents.
- **Simplified Needs Test (SNT).** Extends from 12 months to 24 months the period during which a student can qualify for a federal means-tested program and still be eligible for the SNT. The law also adds dislocated workers to those who qualify for the SNT.
- **Education Savings Benefits.** Treats 529 savings plans, prepaid tuition plans, and Coverdell education savings accounts as assets of the student if the student is independent and as assets of the parents if the student is dependent.
- **Definition of Independent Students.** Expands the definition to include orphans, students in foster care, and wards of the court over the age of 12, as well as emancipated minors, minors in legal guardianship, and homeless youth.
- **Dependency Override.** Permits financial aid administrators to accept another institution's dependency override decision as a basis for permitting a dependent student to be declared independent, as long as the initial determination was made within the same award year.

The first two of these changes not only simplify student aid for low- and moderate-income students, but also increase their eligibility and awards. The following examples illustrate these effects. Calculations made in the examples may differ slightly depending on assumptions made.

EXAMPLES

A Low-Income Dependent Student

Jack, the only son of married parents, lives in Louisiana and applies for federal aid intending to enroll full-time in a four-year college. Jack's parents earn a combined adjusted gross income (AGI) of \$24,947. Jack, however, has no income. Taking into account that Jack qualifies for the SNT:

- in the current academic year (2007-08), his EFC is **\$781** and Pell Grant award is **\$3,460**;
- under the auto-zero income threshold taking effect in 2009-10, Jack will qualify for the auto-zero because his parents' income falls below \$30,000. He will also receive the maximum Pell Grant, scheduled to be **\$4,800** under the new Title IV provisions.

A Low-Income Dependent Student Who Works

If Jack works during his senior year of high school and earns \$8,000:

- in the current year (2007-08), his EFC increases from **\$781** to **\$2,895**, due to the student work penalty embedded in the current need analysis formula;
- in 2009-10, Jack will be eligible for zero EFC because his parents' income falls below the auto-zero threshold and, thus, his earnings are disregarded. The new calculations will ensure that Jack receives a **\$4,800** Pell Grant award, up from the **\$1,460** he would have received without the raise in the IPA.

For students whose parents' AGI is above the income threshold or whose parents do not qualify for the auto-zero for other reasons, the increase in the student IPA still reduces the student work penalty: a one-dollar increase in the IPA results in a fifty-cent reduction in EFC.

An Independent Student with Dependents

Sam lives in North Carolina with his wife and child. Because he attends college full-time, his AGI is \$26,271, and he qualifies for the SNT:

- in the current year (2007-08), Sam's EFC is **\$907** and his Pell Grant is **\$3,360**;
- under the new Title IV provisions, Sam will qualify for the auto-zero EFC in 2009-10, simplifying his application process and providing him with a Pell Grant of **\$4,800**.

An Independent Student without Dependents

Alice, who lives in Wisconsin, is a single, independent student without dependents. Her AGI of \$12,148 means that:

- although independent students without dependents are not eligible for the auto-zero EFC, Alice does qualify for the SNT in the current year (2007-08) resulting in an EFC of **\$2,075** and a Pell Grant of **\$2,260**.
- in 2009-10, her EFC will fall to **\$1,600** and her Pell Grant will rise to approximately **\$3,200** (depending on the payment schedule) because IPA increases in the new Title IV provisions will improve her aid eligibility by reducing the student work penalty.