



Major Changes On The FAFSA Form

(No effect on the CSS Profile form)

As a result of the December 2020 Free Application for Federal Student Aid (FAFSA) Simplification Act, colleges that use the FAFSA to distribute financial aid will be changing how they calculate and award needs-based aid beginning in the 2024-2025 school year. That year, today's high school seniors will just be starting their junior year in college. If the high school Class of 2022 families do not plan for these changes today, their kids could face significant reductions in financial aid, increased parental and student loan debt, gap years, and a possible transfer to a more affordable college.

Below are the steps and strategy you can take today to protect yourself from being negatively impacted by these FAFSA changes.

What Families are Impacted?

Families with Multiple Students in School Simultaneously

Under current FAFSA rules, you get to divide your Expected Family Contribution (EFC, the **minimum** amount families are expected to pay each year for college) by the number of students you have in college that year.

For example, if a family has an EFC of \$80,000 and has 2 kids in college, each would get a prorated share of the EFC equal to \$40,000 ($\$80,000 \div 2$ students). If one of them attended a school with a total "all in" cost (Cost of Attendance, or COA) of \$70,000, that student would have \$30,000 ($\$70,000 - \$40,000$) of financial need. (Note that the EFC term will be replaced with SAI, or Student Aid Index beginning with the 2024-2025 school year. For simplicity, I will use the EFC term here.)

The proration of the EFC will be eliminated starting with the 2024-2025 school year. Applying the new rules to the example above, both students would have an EFC of \$80,000. The student attending the school with the COA of \$70,000 would pay the full cost as the COA (\$70,000) does not exceed the EFC (\$80,000).

Families with Divorced Parents may pay more

Today, the spouse with which the student lives the majority of the time (> 183 days) is responsible for filing the FAFSA and reporting their income and assets. The income and assets of the other birth parent are ignored. The current advice we give to these families is to make

sure the student lives the majority of the time with the parent with lower income and assets. (Note that the terms of a divorce decree are irrelevant in determining which parent files and reports their income and assets on the FAFSA.)

Starting with the 2024-2025 school year, the divorced parent who **provides the most financial support** for the student must file the FAFSA and report their income and assets. Regardless with whom the student lives most of the time, this family's EFC (and the net cost of college) will be higher than it would be under current FAFSA rules.

But this is a good and equitable change, right? Maybe not. Consider the following situations:

Situation 1: Parent #1 is the custodial parent but makes significantly less than Parent #2, who provides the most support. Their divorce decree stipulates that Parent #1 must pay 33% of college costs and Parent #2 67%. Since Parent #2 must file the FAFSA, the financial aid award will be lower. As a result, the family's total cost of college will go up and both birth parents will pay more for college. Parent #1 (who makes a lot less than Parent #2) will need to pay more than under current FAFSA rules.

Situation 2: The parent providing the most financial support (Parent #2) gets remarried, and their new spouse also has a 6-digit salary. Under the FAFSA rules, the income of the new step-parent must be included on the FAFSA filed by Parent #2. Now, Parent #1's 33% share of the college costs will go up even more simply because their ex-spouse got remarried. (Talk about adding some gas to the fire, no?) Wait, it gets worse....

Situation 3: What if this divorced couple had 2 or 3 children in college simultaneously? Then, the higher EFC that is triggered by the change in the divorce rules is compounded by the fact that the family doesn't get to split the EFC amongst the siblings. Each sibling gets the new higher EFC!

A Caution to High School Seniors

Families with high school seniors will soon select the college they will attend. They need to determine if and by how much their 4-year college costs will increase in their junior and senior years due to these changes. If the family fails to plan and waits until their costs go up in 2024 before addressing these changes, they will then need to make some uncomfortable decisions that may include (a) taking out parental PLUS or private loans, home equity loans, or running up credit card debt, (b) asking their student to take a gap year to earn money to finish college, or (c) asking their student to transfer to a lower-cost college. A better option is to measure the impact these FAFSA changes will have to their financial aid over the full 4 years of college **today** and to plan and react accordingly.

Should the Colleges Be Warning Parents?

It remains to be seen if colleges will proactively warn parents of these financial aid changes over the upcoming months. I am sounding the alarm now because I know how the hearts of 17- and 18-year-olds can become fixated on a specific school, especially one they know is affordable under the current rules. At a minimum, I hope colleges will warn students that large changes are coming to the FAFSA in 2024-2025 (perhaps when they send out their award letters). But, I am also aware that colleges are businesses fighting for their survival. Finally, if

colleges do disclose these pending changes, I hope that the disclosure is more than a footnote in a financial aid award letter.

What Can Parents Do Now?

All families should check today to see if they could be negatively impacted by these changes. They have a number of options at their disposal:

- Families with students accepted to schools where their aid could be decreased may want to engage in a dialogue with the financial aid office before enrolling at the college. If the family knows their cost of college may go up under the new rules, they should appeal to the college to:
 - Grandfather the family's aid calculation methodology to remain the same as the current FAFSA methodology for the student's full 4 years, or
 - Keep the dollar amount of gift aid equal to the student's freshman and sophomore year award (i.e. prior to the FAFSA rules change).
- Consider attending one of the schools that utilize a second financial aid form called the CSS profile. The schools that utilize the CSS are mostly private schools that administer a considerable amount of their own institutional aid. So far, the CSS schools have not adopted the proposed FAFSA rules revoking the splitting of the EFC. This may make CSS schools more attractive to families with multiple students in college at the same time. Divorced families may or may not get more aid under the CSS as its calculation of EFC often (but not always) includes both birth parents' income and assets. The CSS also includes a portion of home equity as a parental asset in its EFC calculation.

The financial aid rules today are overly complicated, and that is before these new rules are considered. If you are overwhelmed or not comfortable with these rules, seek the help of a professional college professional financial advisor who is a fiduciary. If you choose to do nothing today, you may be kicking the can down the road and your inaction may come back to haunt you and your student. If these FAFSA rule changes are enacted as currently written, expect an outcry from many parents when they realize the impact to their wallet and their family in a few years.

Please share this information with your friends and schools and please reach out to me if you need help or have questions. As always, I appreciate your referrals!