PROFESSIONAL JUDGMENT TIP SHEET

Topic: Imputing Asset Values[1]

What?

Standard Institutional Methodology (IM) and Federal Methodology (FM) assess a family's cash, savings, checking, and non-retirement investments (asset values) as of the date the applications are completed. Taxable interest and dividend income is included in the Adjusted Gross Income (AGI) on the FAFSA, but is reported separately from AGI on the CSS Profile. To confirm the validity of reported asset data, the financial aid administrator can impute assets from interest and dividend income in IM by assuming a certain level of return on investment.

Why?

In some situations, the reported asset values may seem low in comparison to the reported interest and dividend income. An approximate asset valuation can be imputed to determine if it is necessary to request additional information about asset equity.

How do I…

Collect information?

The financial aid administrator may request clarification from the family. Documentation could include, but is not limited to:

- base and/or recent year federal tax return and related schedules to review the source of interest/dividend income and capital gains,
- explanation of interest/dividend income,
- institutional asset clarification form,
- bank and investment statements to confirm account balances,
- detailed listing of all family assets, or
- statement regarding sale of assets and how funds were utilized.

There would be no reason to request asset clarification under the following circumstances:

- Imputed assets fall below the level of the asset protection allowances, as there would be no discretionary net worth to assess.
- The family will not qualify for need-based aid, regardless of asset value.

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[1] See the *Imputing Assets Worksheet* in the College Board's Financial Aid Services Information Center for step-by-step instruction on calculating an imputed asset value.

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Analyze the information?

Information provided by the family can be used to determine if the interest and dividend income and asset values reported are correct by ensuring the amounts listed match the documentation. Determine what type of asset a family holds, as there are certain categories of assets that produce interest or dividend income. Examples include savings accounts, money market accounts, certificates of deposit, stocks, bonds, and mutual funds.

These income-producing assets allow an administrator to impute an approximate asset value, based on an average rate of return. This is calculated by taking the interest and dividend income and dividing by the appropriate interest rate[2]. This calculation can be completed systematically in two ways. The first is to set the option in IM. It may be beneficial to set this option on a global level to maintain consistency in the review. The second option is to impute assets on a case-by-case basis.

It is common for different categories of assets to yield different rates of return and for interest rates/dividend income to fluctuate over time. While rates of return can vary, the flow chart in Figure 1 provides general guidelines to evaluate a reasonable asset value:

[2] The Annual Investment Income Factor (AIIF) is based on the higher of the 1-year or the 20-year US Government Treasury rates published by the Federal Reserve.

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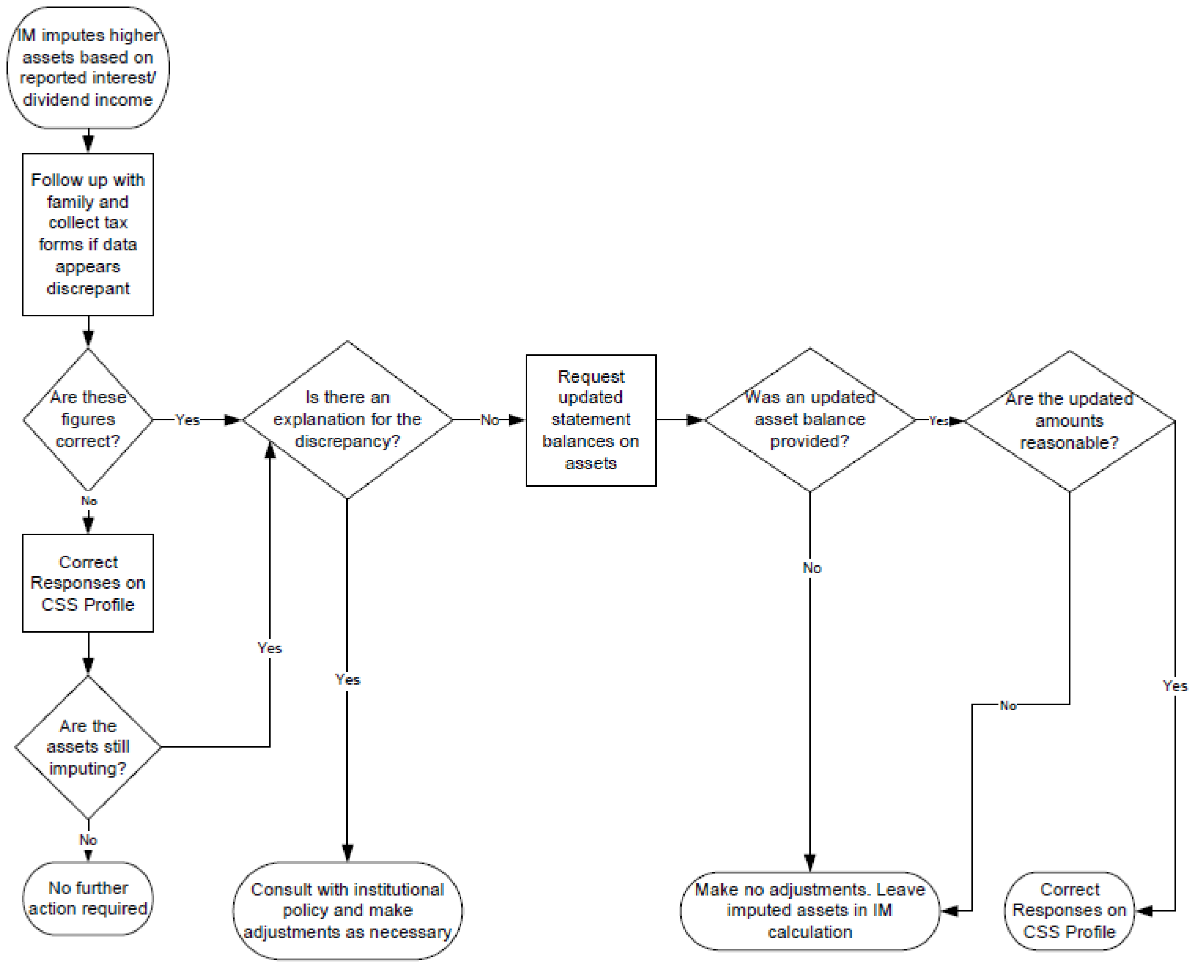

Figure 1 - Evaluating a Reasonable Asset Value

Treatment in IM and FM

IM Standard Treatment

IM standard treatment considers the cash, savings, checking, and non-retirement investments reported on the CSS Profile. Assets are not imputed in IM Standard Treatment.

FM Standard Treatment

FM standard treatment considers the assets reported on the FAFSA. Assets are not included in the FM need analysis calculation for a family who qualifies for one of the simplified Expected Family Contribution formulas (simplified or automatic-zero). Families with a total asset value below a certain threshold, as determined by the FAFSA, will not be asked to report assets. Assets are not imputed in FM Standard Treatment.

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IM Options Provided by INAS

If an institution's software utilizes the imputing option, an expected rate of return may be established for assets that yield interest and dividends. IM annually sets a standard rate of return, but an institution may utilize their own rate of return to impute asset values. Different yield rates can be set based on the total asset value, and a tolerance can be established according to institutional policy. This tolerance would be set to eliminate the imputation when the difference between reported and imputed assets is minimal.

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PROFESSIONAL JUDGMENT CASE STUDY

TOPIC: Imputing Asset Values

Case Study 1

Anna Smith submitted the CSS Profile and the FAFSA which included $65,000 in interest income, $20,000 in cash, saving and checking accounts, and $150,000 in non-retirement investments for her parents.

Based upon the reported total asset value of $170,000 and $65,000 in interest income, the rate of return on their assets calculated to 38.24%. In the evaluation, IM imputed assets based upon a 3% institutional rate of return, which yielded $2,166,666 in expected assets for the $65,000 in interest income.

The financial aid administrator contacted the Smith family to verify the reported asset value, as Anna would not be eligible to receive any need-based financial assistance using the imputed asset value. The Smith family submitted a copy of their base year tax return, confirming the interest income, and documentation from bank and investment statements showing the value of their non-retirement investments as $740,000 as of the date they completed their financial aid applications. This changed the rate of return from 38.24% to 8.78%. The Smith family also explained that since the base year, they utilized some of their assets to pay for their children's educational expenses. Therefore, the rate of return on the assets is more consistent with an expected rate of return.

Decision
The financial aid administrator corrected the FM and IM asset values to reflect the $740,000 documented by the Smith family. This qualified Anna for a small amount of need-based financial assistance.

Treatments in Methodologies

IM Treatment
The option to impute assets was turned off for this individual student in the software, which allowed the financial aid administrator to use the amount documented by the family instead of the imputed total.

FM Treatment
The discrepant asset information was resolved with the documentation.

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Case Study 2

Carl Jones submitted the CSS Profile and the FAFSA which included $15,000 in interest income, $40,000 in cash, savings and checking accounts, and $20,000 in non-retirement investments for his parents.

Based upon the reported total asset value of $60,000 and $15,000 in interest income, the rate of return on their assets calculated to 25%. In the evaluation, IM imputed assets based upon a 3% institutional rate of return yielded $500,000 in expected assets for the $15,000 in interest income.

The financial aid administrator contacted the Jones family to verify the reported asset value, as Carl would have limited eligibility for need-based financial assistance using the imputed asset value. The Jones family submitted a copy of their base year tax return, confirming the interest income, and documentation from bank and investment statements showing the value of their non-retirement investments as $155,000 as of the date the financial aid applications were completed. This changed the rate of return from 25% to 9.68%. The Jones family also explained that they have additional assets intended for retirement that are not saved in traditional retirement accounts. However, they refused to provide documentation detailing the value of their complete assets.

Decision

Without complete documentation of the family's asset values, the financial aid administrator chose to use the imputed asset value to resolve the discrepancy. The IM need analysis calculation treated the assets at the imputed value of $500,000. This qualified Carl for a small amount of need-based financial assistance. Since assets cannot be imputed in FM, the financial aid administrator used the $155,000 reported on the bank and investment statements to correct the data originally reported on the FAFSA.

Treatments in Methodologies

IM Treatment

The imputed asset value was utilized.

FM Treatment

The discrepant asset information was resolved with the documentation.

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