CollegeBoard CSS Profile

PROFESSIONAL JUDGMENT TIP SHEET

Topic: Income and Assets Not Proportional (Low Income/High Assets)

What?

In some situations, a family's assets and/or expenses may not seem reasonable given their level of total income (taxed and untaxed). In these circumstances, the family's financial strength or ability to contribute to educational expenses may not be accurately reflected in the initial calculated contribution.

Why?

In circumstances where a family has significant assets and/or expenses that suggest more disposable income (financial strength) than their total income would indicate, it may be appropriate to expect a different parent contribution than is calculated. An aid administrator may want to follow up with the family to help determine the accuracy of the originally reported data.

How do I…

Collect information?
Data collected on the CSS Profile may suggest that the family's financial strength is different than indicated by the total income. Examples of this might include:

- Mortgage, rent payment, or value of home or real estate that is disproportionately high for their income
- Assets that appear (or are) high in relation to their income
- Total reported income may be too low to reasonably support the household size
- Negative adjusted gross income
- Interest and dividend income may be high in relation to total income and/or assets
- Private school tuition, college tuition, or other expenses in an amount that would be difficult to manage on reported income
- Parental offer may be higher than income would seem to support
- Low income along with a high IRA or pension distribution

To confirm and better understand the family's financial circumstances, the financial aid administrator may want to collect the following additional information:

- Narrative from the family that clarifies income, assets, and expenses
- Income and expense worksheet, as well as detailed explanation for how the family is meeting expenses in relation to reported income
- Documentation of tuition paid for K-12 education
- Federal income tax return(s) and any related schedules, including business returns for base year, recent year, and/or anticipated year. Prior years' returns showing higher income may be useful in supporting asset accumulations.
- Documentation of asset values, such as bank statements

Analyze the information?

Reported Expenses Exceed Income

If a family's expenses seem significant compared to their income, confirmation of how these expenses are paid may be necessary. For example, a billing statement or receipt for private K-12 education may show the student is receiving financial assistance or reduced tuition; it may also prompt the family to report this expense is being paid by another family member, such as a grandparent.

A family's reported adjusted gross income may be reduced due to personal or business losses, even though further analysis indicates there is positive income being received by the family. Non-cash expenses, such as depreciation, do not lower the family's cash flow but will lower the profit shown on a tax return for a business.

In some situations, a family's financial strength can be greater than indicated by their total income. Often this occurs when someone in the family is self-employed. For these families, total income on the aid application may not reflect all of the resources available to them. For example, their business may be providing for major household expenses such as mortgage/rent, automobile, phone/internet, etc.

Reviewing personal and business returns will provide details of income and expenses that can be used to determine if there were cash losses that truly reduced income received during the year. An income and expense worksheet may be helpful in understanding the basic living expenses of the family and how the family is covering these expenses. This worksheet may show the family is using credit, or borrowing money from relatives, friends, or retirement accounts to cover expenses beyond their net income.

Reported Assets Are Higher Than Income Would Suggest

In some situations, a family's income may be unrealistically low to justify the accumulation of assets. For example, the family may have obtained their house many years ago and the value of all homes in the area has risen dramatically since then. This situation is common in certain areas of the country where home values have skyrocketed (e.g., San Francisco, Boston, New York, northern Virginia). The home/other real estate equity may indicate greater financial strength than is realistic.

An inheritance or a severance package may also explain why assets are significantly higher than income could suggest. In this situation, the aid application may accurately reflect the asset value.

Parent Offer Very Generous
If the parental offer seems too high, it is possible the parents entered the total amount they believe they can contribute over the student's academic career, rather than the annual amount. Other reasons for the discrepancy could be resources provided by other family members or investments that were not reported on the aid application.

Treatment in IM and FM

IM and FM Standard Treatment
Standard IM and FM will consider the family's income and assets as reported on the aid applications. If further research indicates that some of the data may need to be revised, a financial aid administrator may modify the relevant income and asset elements and recalculate taxes paid to approximate a more realistic contribution.

IM Options
IM provides several options that may alter the contribution to a more reasonable amount.

Income Based:

- If the parent offer seems higher than the income would suggest, the parent offer could replace the calculated contribution.
- If college tuition expenses seem high in relation to income, the number in college could be restricted by age. Decreasing the number in college will likely increase the calculated contribution.
- If private K-12 tuition expenses are being paid by other family members, any private K-12 tuition allowance the institution typically provides could be reduced or eliminated.
- If income seems low for the household size, the number in household could be restricted by age. Older family members might be expected to support

themselves. Reducing the household size decreases the Income Protection Allowance and the Emergency Reserve Allowance, potentially increasing the contribution.

Asset Based:

- If the home equity appears to be high compared to income, the home value or home equity may be capped as a factor of total income. This would lower the home equity amount considered, decreasing the calculated contribution.
- If the interest and dividend income seem high in relation to reported assets, then asset values may be imputed. This would raise the cash or investment values considered, increasing the calculated contribution.

Additional Considerations

These situations are more nuanced and rely more on an aid administrator's professional judgment and discretion when evaluating the family's aid application. They often require additional investigation and documentation.

PROFESSIONAL JUDGMENT CASE STUDY

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Case Study 1 – Expenses Disproportionate to Income
Amanda Miller's family owns a nail salon with 10 employees. They report AGI and total income of $45,000 on the financial aid applications; however, they also report a home value of $1.2 million with $550,000 in equity and a monthly mortgage payment of $5,500. The equity in their business is $175,000.

Based on their level of income and the fact that the federal calculation does not consider home equity or business equity, Amanda's family is determined to be Pell eligible. Amanda's institutional contribution is higher than the federal contribution because IM utilizes business and home equity in determining eligibility. However, given their monthly mortgage payment and the value of their home, it appears that there could be additional financial strength than the $45,000 in total income would suggest. The financial aid administrator requested additional information from Amanda's family, including a monthly income and expense statement. The family reported expenses of $11,000 a month, which are primarily met with resources from the business. The statement did not show any credit or loans being used to meet monthly expenses.

Decision
The financial aid administrator decided to recalculate the parents' IM contribution using a total income of $132,000 ($11,000 in expenses x 12 months) based on the monthly income and expense statement. This includes $45,000 in the reported taxable AGI and $87,000 in untaxed income. The resulting contribution is higher than the initial IM calculation and more realistic given the family's financial strength.

Treatments in Methodologies

IM Treatment
The financial aid administrator increased the untaxed income based upon the new level of total income. The reported federal taxes paid were used, since the additional income is untaxed.

FM Treatment
In FM, the financial aid administrator chose not to utilize professional judgment to revise the untaxed income. However, that is a possible course of action according to their institutional policy.

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Case Study 2 – Home Value High in Relation to Income

Sam Jackson's family files financial aid applications showing total income of $145,000 in the base year. The family reported no significant assets beyond home equity. Both parents are teachers and the family lives in San Francisco, California. The family reports a home currently valued at $900,000 with equity of $700,000. The family reports that the home was originally purchased for $450,000 in 1990.

In the family's request for additional financial aid, they acknowledged the home equity but clarified that their home is modest for the area. They know that home equity was reported on the CSS Profile and are wondering if that is why the amount due is greater than the EFC from FAFSA. They further explain that finding a similar house for a comparable price would require moving over an hour away from jobs and the current neighborhood. The financial aid administrator does research on the cost of living in their area and discovers that the median home value for their zip code is $2.2M.

Due to the sizeable equity that has been built in the San Francisco housing market, the family's base IM contribution is significantly higher than the family thinks they can pay. The financial aid administrator looked at the IM Need Analysis and almost half of the parental contribution is coming from home equity. The IM Parental Contribution is also 60% higher than the FM calculation.

Decision

Given the family's income level, the limited liquidity of home equity, and the inability to easily sell their home and relocate, the aid administrator decides it is reasonable to cap home equity at two times the family's total income, or $290,000, in IM. This increased their eligibility for need-based aid.

Treatments in Methodologies

IM Treatment

IM treatment caps home equity at two times the family's total income using the option in the institution's financial aid management system.

FM Treatment

No change is made in FM because home equity is not a data element within FM.