PROFESSIONAL JUDGMENT TIP SHEET

Topic: Medical/Dental Expenses

What?

Standard Institutional Methodology (IM) and Federal Methodology (FM) include an Income Protection Allowance (IPA) that recognizes a base level of living expenses, which includes most medical/dental expenses a family might incur. IM additionally recognizes that some families experience greater expenses than those included in the IPA, so reported medical/dental expenses greater than a defined percentage of total income can be considered in the need analysis.

Why?

For some families, neither the medical/dental expenses included in the IPA nor the additional IM protection can fully acknowledge the impact of a family's medical/dental expenses on their ability to meet educational costs. In these situations, if allowed by the institution's policies, a deeper and more complete evaluation of the family's situation may be required.

How do I…..

Collect information?

Based on institutional policy, the financial aid administrator may want to collect a statement from the family about their circumstances as well as other documentation supporting the out-of-pocket expenses directly related to the medical/dental event (e.g., receipts/copies of payments, copies of charges and insurance coverage statements, and/or Schedule A from the federal tax return). If there are associated expenses, such as for travel, an accounting of these costs might be required.

Special circumstances related to extraordinary medical/dental expenses can impact the family in other ways, such as reduction in work to care for a family member or a relative. If this is the case, it may be necessary to collect more information about the family's future income.

Analyze the information?

Determining the out-of-pocket medical/dental expenses can be difficult, since some expenses could be covered by tax-advantaged programs such as Flexible Spending Accounts (FSAs)[1] or Health Savings Accounts (HSAs)[2]. When the family has such accounts, care should be taken so that the change takes these into consideration and does not benefit or disadvantage the family.

FM includes HSA as untaxed income, while base IM includes both HSA and FSA as untaxed income. Make sure the appropriate total income is used when looking to see how the family paid their medical/dental expenses. Depending on institutional policy, total income may need to be adjusted in order to capture both the HSA and FSA.

A hospital bill does not necessarily constitute the value of the medical/dental expense allowance. Rather, the aid administrator should consider the amount of the bill the family is responsible for and has paid or will pay in a given year. The aid administrator may also want to consider whether this situation will continue in future years.

It is also possible that a family may have a medical/dental circumstance that could have an impact on the ability to earn income. If so, consideration of medical/dental expenses might include an adjustment using alternate income. (For more on handling these cases refer to the Alternate Year Parent Income Tip Sheet.)

Treatment in IM and FM

Medical/dental expenses are collected on the CSS Profile and are automatically considered in the methodology. Software using the College Board's IM permits institutions to redefine "exceptional" medical/dental expenses by entering a percent from 0 to 99.9%. If a different percent is provided as a global parameter, the IM calculation will adjust the medical/dental allowance to consider expenses above the percent of income established by the institution.

Alternately, if the aid officer decides to use a specific medical/dental expense value, the desired amount can be entered as an override amount, and that amount will be used as an allowance against income.

While FM does not consider exceptional medical/dental expenses, it is possible to consider a specific amount in the methodology by either reducing income by the amount determined by the financial aid administrator or by increasing a field, such as federal taxes paid.

[1] **Flexible spending arrangements** are employee benefit programs, sometimes called "cafeteria plans." While contributions to these programs are counted as untaxed income in IM, payments from these programs should not be considered as income. However, payments from these incomes should be accounted for in considering unusual medical/dental expenses, as families should only report amounts beyond what is paid by insurance programs and from the proceeds of FSAs.

[2] **Health savings accounts (HSAs)** resemble tax-deferred pension and savings plans more than flexible spending arrangements since the balance in an HSA can build and be carried over from year to year, while a flexible spending arrangement must be spent on qualified expenses by the end of the year in which it is funded. Therefore, a tax-free contribution to an HSA is treated as untaxed income. This will appear as the "*Health savings account deduction*" on the IRS Form 1040. The balance in an HSA account does not count as an asset, nor would distributions from it count as untaxed income when they are used for qualified medical/dental expenses. Distributions not used for qualified expenses are subject to income tax (and a possible penalty) and will be counted in the adjusted gross income.

Case Study 1 – Medical Expenses

The Adams family appealed their financial aid award for their daughter Wendy. They sent a letter explaining exceptional expenses associated with out-of-pocket medical costs. The letter explains that Mr. Adams, who is legally disabled, suffers from chronic and complex medical conditions including chronic migraines.

Mr. Adams sees an acupuncturist to assist with pain management (on top of his other pain medications). He has seen multiple specialists over the past few years, and is now planning to have surgery on his neck later this year. The acupuncture treatments and scheduled surgery are considered elective, and not covered by his insurance.

The Adams family has paid/is expecting to pay the following expenses this year:

Reported Expenses	Monthly Expenses	Annual Expenses
Insurance Premiums*	$1,423	$17,086
Co-pays (doctor visits)	$300	$3,600
Co-pays (medication)	$616	$7,400
Father's upcoming surgery		$40,000
Acupuncture treatments	$1,000	$12,000

*Includes Medicare Part B and Part D

As documentation, the family provided copies of invoices from the acupuncturist, multiple specialists, and a recent ER trip. They also sent a printout from their pharmacy showing all co-pays so far this year (and projected prescription co-pays for the remainder of the year).

Decision

After reviewing the appeal, the financial aid administrator used $28,086 in out-of-pocket expenses associated with premiums and co-pays only. Per institutional policy, the acupuncture treatments were not allowed.[1] Furthermore, the costs associated with the surgery were not considered at this time, as this is a future expense. In response to the family, it was explained that following the surgery, the Adams family may submit documentation of actual out-of-pocket payments in the application year, to be considered at that time.

The financial aid administrator entered $28,086 into the institution's financial aid management system, and an allowance based on institutional options was applied. This family received a considerable increase in aid due to this allowance.

[1] In this case study, the institution opted not to include acupuncture as a medical expense. This is not considered guidance on whether such an expense should be allowed or not. A different institution might make a different decision and include these expenses.

Treatment in the Methodologies

IM Treatment

Standard IM has a basic allowance for out-of-pocket medical expenses (including dental expenses and insurance premiums) in the Income Protection Allowance (IPA). For medical expenses that exceed this basic amount, IM includes an additional medical expense allowance which will increase the total allowances and will reduce the parent's available income.

The financial aid administrator could allow for the $28,086 in out-of-pocket medical expenses in IM in one of the following ways:

- The $28,086 could be entered as the reported medical/dental expense which allows the methodology to handle the calculation as normal.
- Or the $28,086 could be entered as an override to the parents' medical allowance, allowing the full $28,086 to be used as an allowance against income in the need analysis calculation.

FM Treatment

In FM, unreimbursed medical/dental expenses are included in the Income Protection Allowance (IPA), representing 11% of the IPA value. The financial aid administrator could accommodate the $28,086 in out-of-pocket medical expenses in FM by determining the amount that exceeds the 11% of the IPA, then:

- add that amount to the parents' federal taxes paid; or
- subtract that amount from the parents' Adjusted Gross Income (AGI).

Case Study - Medical Expenses and More

The Jones family appealed their financial aid for daughter Molly, on the basis of ongoing exceptional expenses that impact their family's ability to contribute to Molly's education. In addition to Molly, the Jones family has two younger children, Sara, age 6, and Jenny, age 9, both of whom have a rare genetic condition affecting their limbs and joints. Regional specialists informed the family four years ago they could not address the children's physical disabilities without amputation and were referred to a specialist in another region. A specialist there was able to offer the operations Sara and Jenny needed to have the hope of being able to walk; however, each child required multiple surgeries, as well as continued physical therapy. This led the Jones family to temporarily relocate periodically throughout the year, as Sara and Jenny continued to undergo surgeries and physical therapy.

Mr. Jones, age 70, works as a data analyst. Five years ago he retired and accepted his pension as a lump sum payment. After two years of retirement, he decided to return to the workforce due to the significant medical expenses his family was incurring for the youngest children, but at a much lower salary than his previous employment. Mrs. Jones, age 51, does not work outside of the home due to the care requirements of the younger children. The family had hoped to sell their home and downsize when Mr. Jones retired. However, at that time, the housing market in their area was weak and they have not been able to find a buyer, even after reducing the selling price multiple times. In addition, the family annually withdrew funds from their IRA to help support the significant medical and household expenses, as well as reduce credit card debt accumulated over the last several years. The Jones family has been able to negotiate a monthly payment plan with the clinic for the unreimbursed portion of the medical procedures, which will spread these costs out over several years.

The family provided a breakdown of their income and expenses for the base year, recent year, and anticipated year. The Jones family reported minimal cash, savings, and checking; a $730,000 home that is underwater; and a current IRA value of $176,300. Tax returns, medical bills, and other financial statements confirm the family's resources and expenditures.

	Annual Amount - Base Year	**Annual Amount - Recent Year**	**Annual Amount - Anticipated Year *(estimated)***
Income			
Wages	$82,646	$81,524	*$86,000*
IRA Distribution (taxed)	$155,000	$121,500	*$170,000*
Social Security Benefits			
Taxed	$25,697	$26,789	*$27,000*
Untaxed	$4,535	$3,951	*$0*
AGI	$263,343	$231,865	*$283,000*
Expenses			

	Annual Amount - Base Year	**Annual Amount - Recent Year**	**Annual Amount - Anticipated Year *(estimated)***
Insurance Premiums	$13,440	$14,765	*$16,000*
Unreimbursed co-pays and medication	$1,800	$2,300	*$1,500*
Unreimbursed medical procedures	$25,475 $8,500 Actual payment per plan	$18,750 $14,750 Actual payment per plan	*$10,500* *$18,250 Estimated payment per plan*
Travel and transportation expenses	$3,500	$2,800	*$3,000*
Housing expenses	$2,850	$3,250	*$3,500*

Decision

In the appeal, the financial aid administrator considered the exceptional medical expenses, the cost of travel and maintaining a second household for the visits with the specialist, and the fluctuating income. In response to the appeal, the financial aid administrator made the following decision:

- Allowed the unreimbursed medical expenses for the insurance premiums, co-pays, medication, and annual payment towards medical procedures (from the payment plan) as an allowance against income in the base year.
- Included an allowance against income for the travel, transportation, and household expenses in the base year.
- Made no adjustments for the fluctuating income, because that would be addressed from year to year in the annual financial aid evaluation and the retirement distributions were not a one-time occurrence.

In future years, the financial aid administrator will consider similar treatment of these annual exceptional expenses to the financial aid evaluation, with supporting documentation. The financial aid administrator also made a note to consider an adjustment for the retirement distribution in future years, once all retirement funds are depleted.

Treatment in the Methodologies

IM treatment

In IM, standard treatment includes basic medical expenses and insurance premiums in the Income Protection Allowance, at a percentage of the total family income. To accommodate the decisions in the need analysis, the aid administrator could:

For the medical/dental allowances:

- Enter the total allowances for medical/dental expenses into the appropriate field and allow the methodology to handle as normal[1], or
- Enter the total allowances for medical/dental expenses as an override amount in the financial aid management system so that the full value allowed is considered in the methodology.

For the additional expenses allowed for transportation, housing, etcetera, the aid administrator could enter the amount allowed as an additional allowance against income in the financial aid management system.

FM treatment

In FM, unreimbursed medical expenses are included in the Income Protection Allowance (IPA), representing 11% of the IPA value. The unreimbursed medical expenses in excess of the 11% of IPA could be:

- added to the parents' federal taxes paid; or
- subtracted from the parents' Adjusted Gross Income (AGI).

[1] Medical expenses are considered unusual if they exceed a defined percentage of income. To calculate unusual expenses, the total income is multiplied by the medical expense allowance percentage, which is 4.9% in 2018-19. Reported medical expenses exceeding that calculated amount are used as an allowance against income.