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YOUR MONEY

FAFSA Says How Much You Can Pay for College. It’s Often Wrong.

The form opens the door to student aid. But it’s “a terrible measure of what people can actually afford,” one expert said. And many families will be asked to pay more, anyway.

By Tara Siegel Bernard

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Like millions of other parents, Julie Phipps filled out the federal form last November that determined her college-bound daughter was eligible for financial aid. She also learned how much the federal government figured her family could contribute to the bill: $14,000.

That figure, known as the expected family contribution, was generated immediately after she completed the Free Application for Federal Student Aid, or FAFSA. But with every dollar from their solidly middle-class income already accounted for, Ms. Phipps, 53, said she and her husband, Andy, were stunned at what they were expected to pay.

That was just the start.

The real shock came later, when they learned that the expected contribution was only about half of what their daughter’s chosen school expected the family to pay.

“If we were paying our expected family contribution, we would be thrilled,” said Ms. Phipps, of South Portland, Maine. “But we are paying twice our expected family contribution, so it means absolutely 100 percent nothing.”

Now that the latest FAFSA is out — it became available on Oct. 1 — millions of families are plugging in their numbers. The form is the first step to unlocking any potential federal financial aid, including grants, loans and work-study jobs, as well as aid from states and some colleges.

But it also generates their expected family contribution, or E.F.C. — a number that can easily be misleading. It’s often higher than many households can afford, and yet in many cases, like the Phipps family’s, it’s still not enough.

“For a long time, there has been this growing chasm between the need-analysis formula and accurately reflecting a student and their family’s ability to pay for college,” said Justin Draeger, president of the National Association of Student Financial Aid Administrators, which has members at nearly 3,000 schools.

The gap has grown wider not just because of the exponential rise in college prices, but also because of the E.F.C. formula itself. The formula, which stretches across 36 pages, often assumes families have far more income available to pay for college than they actually do, financial aid experts said, particularly in high-cost areas. The reason lies in its basic assumptions: that a family of four, for example, can subsist on less than $30,000, no matter where they live.

“Students have a lot more need than we are recognizing,” said Eddy Conroy, an assistant director at the Hope Center for Community, College and Justice at Temple University. “But the system isn’t really capturing that properly.”

Colleges use the E.F.C. to determine a student’s financial need — the difference between the college’s cost of attendance and the family’s expected contribution. Then, schools come up with a financial aid package. (About 400 schools and programs, mostly private colleges, also use another formula, known as the CSS Profile, to determine institutional aid, according to the College Board, which created the calculation.)

But unless a student attends a college that promises to meet 100 percent of his or her need — and the vast majority do not — students and their families will probably pay more than what the FAFSA estimates.

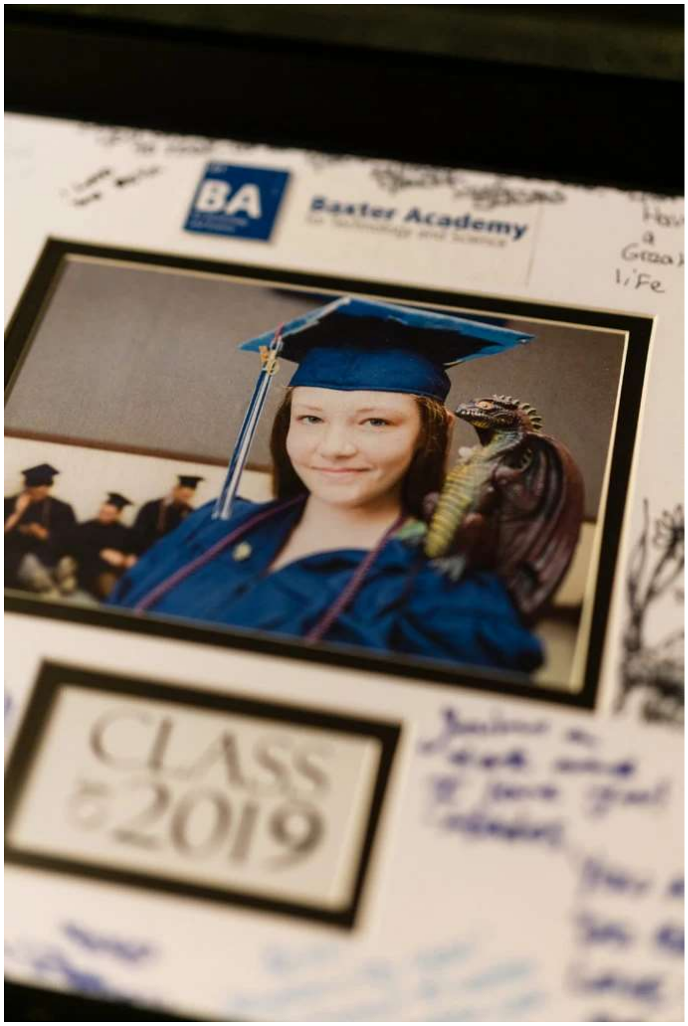
“The expected family contribution is a terrible measure of what people can actually afford,” said Robert Kelchen, associate professor in Seton Hall University’s department of education, leadership, management and policy. “It’s more of a way for colleges and government to rank people by how much need they have. It’s really more of a rationing tool.”

(The nomenclature has drawn the attention of lawmakers. The Student Aid Improvement Act, a bill introduced by Senator Lamar Alexander of Tennessee that would mandate funding for historically black colleges, simplify the FAFSA and make other changes, includes a provision that would rename the E.F.C. the Student Aid Index.)

Ms. Phipps and her husband agreed that an art school would be the best fit for Isabella, who wants a career in animation. Specialized schools can be expensive, even when they’re public: The cost of attendance at the school where she’s now a freshman, the Massachusetts College of Art and Design, was about $55,400 for out-of-state students. A program offering a discount to New England residents knocked the price down to a bit over $47,000.

A $14,000 expected family contribution meant the Phippses were eligible for an aid package of about $33,000.

They got $16,700 — a $10,200 grant from the college, $1,000 for a work-study program and $5,500 in subsidized and unsubsidized federal loans, the maximum for first-year students.



Isabella Phipps is studying animation at the Massachusetts College of Art and Design. Yoon Byun for The New York Times

That left a hole of roughly $31,000 — or about double their E.F.C.

“We basically have given her every ounce, every bit of savings,” Ms. Phipps said.

She said their daughter was a dedicated worker and saved $5,000 by working at a movie theater, which went straight to school costs. And Mr. Phipps, who works as a contract specialist for an insurance company, took a second job driving a limousine at night.

Ms. Phipps does not work but receives disability because of an autoimmune disorder, and she dipped into their emergency fund two years ago to cover medical bills from a mastectomy. The couple took out a home equity line of credit to cover other unexpected expenses that may arise, like the $6,000 in braces they just learned their 13-year-old son needs.

The E.F.C. calculation does not take all of those kinds of expenses into account (though colleges can be asked to consider special circumstances), nor does it adjust for the cost of living in different areas. And its assumptions for the costs of food, clothing and shelter are unrealistically low for even the cheapest places in the country.

For a family of four, the so-called income protection allowance — or the amount shielded from the formula — is $29,340. For a single parent with one child in college, it’s a mere $19,080.

“It’s a very harsh assessment of the ability to pay,” said Mark Kantrowitz, a financial-aid expert and publisher of Savingforcollege.com. “The assumptions they are using to calculate all of this have no connection to reality.”

The income protection allowance is subtracted from the family's adjusted gross income, along with some other items (like taxes), while other items are added back (retirement savings contributions, for example). The final figure is the family's so-called adjusted available income.

Using a progressive table similar to tax brackets, the formula assumes parents should dedicate anywhere from 22 percent to 47 percent of that amount to college costs each year. Many middle-class families and above are assessed at 47 percent.

(Families earning less than $26,000 a year can qualify for an "automatic zero" E.F.C., if they meet certain requirements.)

The formula also considers parents' and students' assets — and some allowances have actually become less generous over the years. Retirement savings and home equity are excluded from the federal formula, but the amount of other savings that parents can shield has plummeted over the past decade.

Take, for example, a 48-year-old parent, the median age of a person with college-age children: That parent was able to shelter $52,400 from the formula in 2009-10; now, the parent can shield only $6,000. Mr. Kantrowitz said that meant a parent with at least $52,000 saved would have an E.F.C. that is about $2,600 higher now than a decade ago.

House Democrats proposed several tweaks to the need-analysis formula in a giant bill introduced last month, which would update the Higher Education Act of 1965 for the first time in a decade. The bill would enable more families to qualify for an E.F.C. of zero by increasing the income threshold to $37,000 from $26,000.

The bill would also shield more of a student's income from the formula, according to aides for Representative Robert C. Scott, a Virginia Democrat and chairman of the House Committee on Education and Labor. But parents with dependent children wouldn't receive anything extra when it came to sheltering income.

Adjusting the federal formula, however, goes only so far. Even if families' expected contributions decrease, the gulf between that figure and the cost of attendance will only widen.

"It will not be enough to just get the formula right," said Jessica L. Thompson, director of policy and planning for the Institute for College Access & Success, a nonprofit advocacy group. "To truly bring college costs within realistic reach will require much broader federal investments in financial aid and in public colleges."

For now, students and their families facing steeper costs of attendance for their schools of choice are faced with tough decisions: Find a cheaper institution? Borrow? Find some other creative mix of solutions?

Ms. Phipps explored private loans, but said she was blown away by the interest rates. Next year, they will continue to tap their savings and use earnings from her husband's second job and their daughter's summer job — and joked about finding a buyer for one of her kidneys. She's also going to suggest that her daughter move off campus, which may yield savings.

Still, private loans are also likely in the family's future, Ms. Phipps said. "But we hope to postpone them as late as possible."

Tara Siegel Bernard covers personal finance. Before joining The Times in 2008, she was deputy managing editor at FiLife, a personal finance website, and an editor at CNBC. She also worked at Dow Jones and contributed regularly to The Wall Street Journal. @tarasbernard

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