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Financial Aid Changes on the Horizon

The U.S. Department of Education has designated February as Financial Aid Awareness Month, and this year there's a lot to talk about. On December 21, 2020, Congress passed the Consolidated Appropriations Act, 2021, another relief package in response to the pandemic. Included in the bill were several provisions related to education, including many changes to financial aid. Here are some key highlights.



Money for education

In total, the bill provides \$82 billion for education, including \$22.7 billion for colleges and universities. Colleges must use some of those funds to provide emergency financial help to students who have been affected by the pandemic. This is likely left to the discretion of each school's financial aid office.

Despite the cash infusion to colleges, the amount is far short of the \$120 billion that college advocates said they needed to deal with the dual headwinds of rising expenses and falling revenue. Ted Mitchell, president of the American Council on Education, stated: "[T]he situation currently facing America's colleges and universities is a crisis of almost unimaginable magnitude....The money provided in this bill will provide some limited relief, which is welcome news to struggling students and institutions. But it is not going to be nearly enough in the long run or even the medium term."

Simplified FAFSA for 2023-2024 year

The relief package included a smaller bill called the FAFSA Simplification Act, which accomplishes the long-held bipartisan objective of simplifying the Free Application for Federal Student Aid, or FAFSA. These changes will take effect starting on July 1, 2023, for the 2023-2024 school year. Here are some of the more significant changes.

- **Fewer questions.** The bill significantly reduces the overall number of questions on the FAFSA, including eliminating questions about drug convictions and Selective Service status.
- **Changes to cost of attendance.** The bill makes several changes to the definition of "cost of attendance" in an attempt to standardize the term among colleges and make it more favorable to families. For example, the allowance for room and board will be split into separate allowances for housing and meals, with the allowance for meals based on three meals a day and the housing allowance for students living in college housing based on the average or median housing charge (not the lowest charge), whichever is greater. What's more, colleges can no longer set the housing allowance to zero for dependent students who live at home with their parents, and colleges must include an allowance for loan fees for federal student and parent loans. Colleges will be required to disclose all the elements of the cost of attendance on their website.
- **Expanded income protection allowance.** The "income protection allowance," which shelters a portion of income from the FAFSA, will generally be more favorable for parents and students. Also, the income protection allowance will no longer be reduced based on the number of children in college.
- **Changes to untaxed income and benefits.** For purposes of the FAFSA formula, the definition of "untaxed income and benefits" has been streamlined and several types of untaxed income and benefits have been omitted, including child support (this will be considered an "asset" instead), workers' compensation, veterans' benefits, and any money paid on the student's behalf. In addition, income from

New changes to the FAFSA, including a significant reduction in the number of questions, will take effect for the 2023-2024 school year.



a federal work-study job, the American Opportunity tax credit, and the Lifetime Learning credit will not be counted as "income."

- **Multiple children in college at the same time loses preferential treatment.** Having multiple children in college at the same time can be a benefit for parents, because the EFC is typically cut in half (or divided by three or four, depending on how many children in the family are in college). But that's going to change. Starting in the 2023-2024 school year, the number of children in a family attending college at the same time on at least a half-time basis will no longer be a relevant data point. The FAFSA will still collect this information, but it will no longer divide a parent's assessment by the number of children in college. This change has the potential to significantly reduce the amount of financial aid offered to middle-class and high-income families who have multiple children in college at the same time.
- **Expanded Simplified Needs Test.** The Simplified Needs Test, an alternate formula within the FAFSA that exempts certain families from having to report their assets (i.e., only income is counted to determine aid eligibility), has been renamed Applicants Exempt from Asset Reporting. In addition, there will be multiple ways to qualify, including a higher income threshold that will be raised from \$50,000 to \$60,000.
- **Expanded Pell Grant.** The bill widens the net of students eligible for a Pell Grant, and allows them to use basic information, like adjusted gross income and family size, to see if they qualify.
- **Goodbye EFC terminology.** The Student Aid Report generated by the FAFSA will no longer refer to the end calculation as the Expected Family Contribution, or EFC. Instead, this figure will be called the Student Aid Index, or SAI. The purpose of the name change is to more accurately reflect what this number represents — a yardstick for aid eligibility rather than a guarantee of what families will pay, because families often pay more than their EFC amount.

The 2023-2024 FAFSA that will include these changes will be available to file beginning October 1, 2022. This will give the U.S. Department of Education time to implement the changes. The 2022-2023 FAFSA, which will be available to file on October 1, 2021, will follow the current definitions and rules.

Employer help with student loan repayment starting in 2021

The bill extends a provision allowing employers to pay up to \$5,250 of employees' student loans per year on a tax-free basis for another five years. This provision, included in the Consolidated Aid, Relief, and Economic Security (CARES) Act, would have expired at the end of 2020.

Expanded Lifetime Learning credit starting in 2021

Beyond financial aid, the relief bill increases the income limits necessary to qualify for the Lifetime Learning credit, an education tax credit worth up to \$2,000 per year for courses taken throughout one's lifetime to acquire or improve job skills.

Starting in 2021, a full credit will be available to single filers with a modified adjusted gross income (MAGI) below \$80,000 and joint filers with a MAGI below \$160,000 (the credit phases out for single filers with incomes between \$80,000 and \$90,000 and joint filers with incomes between \$160,000 and \$180,000). These are the same income limits used for the American Opportunity credit. To accommodate an expanded Lifetime Learning credit, Congress repealed the deduction for qualified college tuition and fees for 2021 and beyond.

For more information

The Consolidated Appropriations Act, 2021, contains other provisions that affect the FAFSA, making Financial Aid Awareness Month even more important this year. For more information on the FAFSA in general, along with news and updates, visit the official [FAFSA website](#).

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