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## **DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE**

**Office of Education**

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**BASIC EDUCATIONAL  
OPPORTUNITY GRANTS  
PROGRAM**

**Family Contribution Schedule**

DEPARTMENT OF HEALTH,  
EDUCATION, AND WELFARE

Office of Education  
[ 45 CFR Part 190 ]

BASIC EDUCATIONAL OPPORTUNITY  
GRANTS PROGRAM

Family Contribution Schedule

Pursuant to the authority contained in subpart 1 of part A of title IV of the Higher Education Act of 1965 as amended (20 U.S.C. 1070a) notice is hereby given that the Commissioner of Education, with the approval of the Secretary of Health, Education, and Welfare proposes to issue the following regulations under Part 190 of Title 45 of the Code of Federal Regulations, covering the basis for determining the expected family contributions toward the education of both dependent and independent students.

1. Subpart C would set forth the methods to be used in determining the expected family contribution for dependent students which is to be used in determining a student's "entitlement" under the Basic Educational Opportunity Grants Program. The section would establish methods of treating a family's income and assets, the student's effective income and the student's assets, and the "offsets" to be taken into account in determining the amount of "expected family contribution" for dependent students.

2. Subpart D would establish the method to be used in the determination of the expected family contribution for independent students. The section would establish the treatment of the students family income and effective income, the student's assets, and the "offsets" to be considered in determining the amount of "expected family contribution" for independent students.

3. The appendix to this notice, which will not be a part of the regulations, covers charts summarizing the calculations to be made in determining expected family contributions and explanations of such calculations for both dependent and independent students.

Interested persons are invited to submit written comments, suggestions, or objections regarding the proposed rules to the Acting Coordinator, Basic Educational Opportunity Grants, Deputy Commissioner for Higher Education, U.S. Office of Education, Room 4025, Federal Office Building No. 6, 400 Maryland Avenue SW., Washington, DC 20202. Such responses to this notice will be available for public inspection at the above office on Mondays through Fridays between 8 a.m. and 4:30 p.m. All relevant materials received on or before March 5, 1973, will be considered.

Dated: January 30, 1973.

JOHN OTTINA,  
Acting U.S. Commissioner  
of Education.

Approved: January 30, 1973.

FRANK C. CARLUCCI,  
Acting Secretary, Health,  
Education, and Welfare.

Subpart C—Expected Family Contribution for  
Dependent Students

Sec.	Indicators of financial strength.
190.31	Special definitions.
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190.33	Computation of standard expected contribution from parents' assets.
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AUTHORITY: Subpart 1 of Part A of Title IV of the Higher Education Act of 1965, as amended (20 U.S.C. 1070a).

Subpart C—Expected Family Contribution  
for Dependent Students

§ 190.31 Indicators of financial strength.

"Expected family contribution" with respect to each dependent student means the amount which the family of that student may reasonably be expected to contribute toward the cost of his education for an academic year. Each of the following elements of financial strength will be considered in determining the family contribution for dependent students:

(a) The amount of the effective income of the student.

(b) The amount of the effective income of the student's parent(s).

(c) The number of dependents of the student's parent(s).

(d) The number of dependents of the student's parent(s) who are in attendance in a program of postsecondary education.

(e) The amount of assets of the student.

(f) The amount of assets of the student's parent(s).

(g) Unusual expenses of the student and the unusual expenses of the student's parent(s). Such unusual expenses shall be limited to medical and dental expenses and expenses arising from catastrophe.

(h) The additional expenses incurred in providing an income when two parents are employed or when a family is headed by a single parent.

§ 190.32 Special definitions.

For purposes of this subpart:

(a) "Dependent student" means any student who does not qualify as an independent student as defined in § 190.42(a).

(b) "Parent" means the mother or father of the student, unless any other person provides more than one-half of the student's support and claims or is eligible to claim the student as an exemption for Federal income tax purposes for the base year, in which case such person shall be considered the parent.

(c) "Base year" means the tax year for which information is requested by the Commissioner for the purpose of determining family income.

(d) "Effective income of the student" means any amount paid to, or on account of, the student under the Social Security Act which would not be paid if he were not a student, i.e., under section 202(d) of title II of the Social Security Act, 42 U.S.C. 402(d), and one-half of any amount paid the student under chapter 34 of title 38, United States Code (Veterans Educational Assistance—38 U.S.C. 1651 et seq.) and chapter 35 of title 38, United States Code (War Orphans' and Widows' Education Assistance—38 U.S.C. 1700 et seq.). The amount of the effective income of the student is the amount to be received during the academic year for which Basic Grant assistance is requested.

(e) (1) "Annual Adjusted Family Income" for any base year means the sum of the following: Adjusted gross income as defined in section 62 of the Internal Revenue Code of the student's parents, investment income upon which no Federal income tax is required to be paid such as interest on municipal and State bonds, other income of the parents upon which no Federal income tax is required to be paid such as child support payments, income of the parents received under income maintenance programs including welfare benefits, social security benefits except those benefits paid to or on account of the student included in paragraph (d) of this section, and Veteran's benefits except those veteran's benefits paid under chapters 34 and 35 of title 38 of the United States Code.

(2) In the case of the student whose parents are divorced, or are separated and file separate returns for Federal income tax purposes, only the income as described in paragraph (e) (1) of this section of the parent claiming or eligible to claim the student as a dependent for Federal income tax purposes for the base year shall be considered in determining the annual adjusted family income. If no parent claims or is eligible to claim the student for Federal income tax purposes, the income of both parents shall be combined to determine the annual adjusted family income.

(3) In the case of the student whose parents are married and not separated but file separate returns for Federal income tax purposes, the income as described in paragraph (e) (1) of this section of both parents shall be combined to determine the annual adjusted family income for that student.

(f) "Effective Family Income" of a student's parents means the annual adjusted family income received for the base year minus the Federal income tax paid or payable with respect to such income during the base year.

(g) "Assets" means cash on hand including amounts in checking accounts, savings accounts and trusts, the current market value at the time of application of stocks, bonds, any other securities, real estate, home (if owned), income producing property, business equipment and business inventory which are held by the student's parents and by the student.

(h) "Net Assets" means the current market value of the assets minus the

outstanding liabilities (indebtedness) against such assets at the time of application.

(i) "Medical expenses" means those types of medical and dental expenses that may be deducted under section 213 of the Internal Revenue Code which were incurred during the base year by the parents of the student and their dependents.

(j) "Expenses Arising from Catastrophe" means those types of casualty losses which may be deducted under section 165 (c) (3) of the Internal Revenue Code which were incurred during the base year by the parents of the student and their dependents.

(k) "Employment Expenses Offset" means an allowance to meet expenses relating to employment where both parents are employed or where one parent qualifies as a surviving spouse or as head of a household under section 2 of the Internal Revenue Code.

(l) "Family Size Offset" means an allowance to meet subsistence expenses, including food, shelter, clothing, and other basic needs of a family. For purposes of this part the "Weighted Average Threshold at the Low Income Level," as developed by the Social Security Administration shall be used as a basis to determine the amount for the family size offset.

**§ 190.33 The expected family contribution for dependent students from parents' income.**

The expected family contribution for dependent students from parents' income for each grant shall be an amount determined in the following manner:

(a) Add to annual adjusted family income one-half of the effective income of the student attributable to the dependents of the student who is a veteran.

(b) Determine effective family income by subtracting from the annual adjusted family income the amount of Federal income tax paid or payable with respect to such income.

(c) Determine discretionary income by deducting the following from effective family income:

(1) *Family size offset.* A family size offset in the amount specified in the following table. Family size includes the student's parents and the parents' dependents as defined in section 152 of the Internal Revenue Code at the close of the base year. If the parents are divorced or separated, family size shall include any parent whose income is taken into account for the purpose of computing the annual adjusted family income and his or her exemptions.

**FAMILY SIZE OFFSETS**

Family size	Dollar amount
2	2,800
3	3,350
4	4,300
5	5,050
6	5,700
7	6,300
8	7,000
9	7,700
10	8,400
11	9,100
12	9,800

(2) *Unusual expenses.* The amount by which the sum of medical and dental expenses and losses resulting from catastrophe incurred in the base year and not compensated by insurance exceeds 20 percent of effective family income. Unusual expenses may be deducted if they were incurred by any parent (and any persons for whom an exemption was claimed by that parent) whose income is taken into account for the purpose of computing the annual adjusted family income.

(3) *Employment expense offset.* An employment expense offset in an amount equal to 50 percent of the adjusted gross income earned in the base year by the parent earning the lesser income if both parents are employed, or 50 percent of the adjusted gross income of a parent qualifying as surviving spouse or as head of household as defined in section 2 of the Internal Revenue Code, but in no case shall such an offset exceed \$1,500. An employment expense may be claimed for any parent whose income is taken into account for the purposes of computing the adjusted family income.

(4) To determine the expected family contribution from parental income the following rates shall be applied to discretionary income:

\$1 to 4,999	20 percent of Discretionary Income.
\$5,000 or more	\$1,000 plus 30 percent of Discretionary Income in excess of 5,000.

**§ 190.34 Computation of standard expected contribution from parents' assets.**

(a) The expected contribution from parental assets shall be an amount determined in the following manner:

(1) Determine the total amount of net assets owned by the parents and deduct from that amount an asset reserve of \$7,500.

(2) The contribution from parental assets shall be an amount equal to 5 percent of the remainder obtained in subparagraph (1) of this paragraph.

(b) If the student's parents are divorced or separated only the assets of the parent whose income is taken into account for the purpose of computing annual adjusted family income claiming the student as a dependent for Federal income tax purposes in the base year shall be considered.

**§ 190.35 Computation of expected contribution from the student's effective income.**

The expected family contribution shall include 100 percent of the student's effective income for the academic year for which aid is requested except that one-half of the portion of effective income of the student attributable to the dependents of a veteran shall be included as a part of, and treated as, annual adjusted family income.

**§ 190.36 Computation for expected contribution from parents' income and assets adjusted for number of family members attending institutions of postsecondary education.**

(a) For each grant the amount expected from parents' income as deter-

mined in § 190.33 shall be added to the amount expected from parents' assets as determined in § 190.34.

(b) For each grant the combined expectation calculated on the basis of the above formula shall be further adjusted in the following manner to take into consideration the number of family members who will be in attendance in programs of postsecondary education during the academic year for which basic grant assistance is requested:

Number of family members attending institutions of postsecondary education	Expected contribution from combined contribution per student
1	100 percent of contribution from the amount determined above.
2	70 percent of contribution from the amount determined above.
3	50 percent of contribution from the amount determined above.
4 or more	40 percent of contribution from the amount determined above.

Family members include the student's parents and persons for whom the parent may claim an exemption under section 151 of the Internal Revenue Code. When the student's parents are divorced or separated and are filing separate returns for Federal income tax purposes, family members shall include only the parent whose income is taken into account for the purpose of computing annual adjusted family income and who claimed the student for Federal income tax purposes for the base year and the exemptions of such parent as defined in section 152 of the Internal Revenue Code.

**§ 190.37 Computation of expected contribution from student's assets.**

For each grant the contribution from the student's assets shall be an amount equal to 33 per centum of his net assets as defined in § 190.32(h).

**§ 190.38 Computation of the total expected family contribution.**

For each grant the total expected family contribution shall be the sum of:

(a) The expected contribution from parents' discretionary income and parents' assets as determined in § 190.36,

(b) The expected contribution from the student's effective income as determined in § 190.35, and

(c) The expected contribution from the student's assets as determined in § 190.37.

**Subpart D—Expected Family Contribution for Independent Students**

Sec.	
190.41	Indicators of financial strength.
190.42	Special definitions.
190.43	Computation of the expected family contribution from effective income for independent students.
190.44	The expected family contribution for independent students from annual adjusted family income.
190.45	Computation of expected contribution from the assets of the independent student and his or her spouse.

## Sec.

190.46 Computation of the total expected family contribution.

AUTHORITY: Subpart 1 of part A of title IV of the Higher Education Act of 1965, as amended (20 U.S.C. 1070a).

**Subpart D—Expected Family Contribution for Independent Students**

**§ 190.41 Indicators of financial strength.**

"Expected Family Contribution" with respect to each independent student means the amount which that student, and his or her spouse, if any, may reasonably be expected to contribute toward the cost of his or her education for an academic year. Each of the following elements of financial strength will be considered in determining the family contribution for independent students:

(a) The amount of effective income of the independent student.

(b) The amount of annual adjusted family income of the independent student and the independent student's spouse.

(c) The number of persons whom the independent student can claim as an exemption.

(d) The number of dependents of the independent student who in addition to the student will be in attendance in a program of postsecondary education.

(e) The amount of the assets of the independent student and his or her spouse.

(f) The unusual expenses of the independent student, and his or their dependents. Such unusual expenses shall be limited to medical and dental expenses and expenses arising from catastrophe.

(g) The additional expenses incurred in providing an income where both the independent student and his spouse are employed or where the independent student qualifies as a surviving spouse or as head of a household under section 2 of the Internal Revenue Code.

**§ 190.42 Special definitions.**

For the purposes of this subpart:

(a) "Independent Student" means a student who:

(1) Has not and will not be claimed as an exemption for Federal income tax purposes by any person except his or her spouse for the calendar year(s) in which aid is received and the calendar year prior to the academic year for which aid is requested,

(2) Has not received and will not receive financial assistance of more than \$600 from his or her parent(s) in the calendar year(s) in which aid is received and the calendar year prior to the academic year for which aid is requested, and

(3) Has not lived or will not live in the home of a parent during the calendar year in which aid is received and the calendar year prior to the academic year for which aid is requested.

Notwithstanding the foregoing, a student will not be considered to have been claimed as an exemption by a parent, or to have received \$600 from a parent, or to have lived with a parent, who has died prior to the student's submission of an application for a grant under this part.

(b) "Base year" means the tax year for which information is requested by the Commissioner for the purpose of determining family income.

(c) "Dependent" means the independent student's spouse and such other persons who are eligible to be claimed as an exemption for Federal income tax purposes by the student during the base year.

(d) The "Effective Income of the Student" means any amount paid to, or on account of, the student under the Social Security Act which would not be paid if he were not a student; i.e., under section 202(d) of title II of the Social Security Act, 42 U.S.C. 402(d), and one-half of any amount paid the student under chapter 34 of title 38, United States Code (Veterans Educational Assistance—38 U.S.C. 1651 et seq.) and chapter 35 of title 38, United States Code (War Orphans and Widows' Education Assistance—38 U.S.C. 1700 et seq.). The amount of the effective income of the student is the amount to be received during the academic year for which basic grant assistance is requested.

(e) (1) "Annual Adjusted Family Income" for any base year means the sum of the following: Adjusted gross income as defined in section 62 of the Internal Revenue Code of the student and the student's spouse, investment income upon which no Federal income tax is required to be paid such as interest on municipal and State bonds, other income of the student and the student's spouse upon which no Federal income tax is required to be paid such as child support payments, income of the student and the student's spouse received under income maintenance programs including welfare benefits, social security benefits except those benefits paid to or on account of the student included in paragraph (d) of this section, and veteran's benefits except those veteran's benefits paid under chapters 34 and 35 of title 38 of the United States Code.

(2) In the case of the student who is divorced, or is separated and files a separate return for Federal income tax purposes, only the student's own income shall be considered in determining the annual adjusted family income.

(f) "Effective Family Income" means the annual adjusted family income received during the base year minus the Federal income tax paid or payable with respect to such income.

(g) "Assets" means cash on hand including amounts in checking accounts, savings accounts and trusts, the current market value at the time of application of stocks, bonds, and other securities, real estate, home (if owned), income producing property, business equipment and business inventory which are held by the independent student or his spouse.

(h) "Net Assets" means the current market value at the time of application of the assets minus the outstanding liabilities (indebtedness) against such assets.

(i) "Medical Expenses" means those types of medical and dental expenses that may be deducted under section 213 of the

Internal Revenue Code, which were incurred by the independent student and his dependents during the base year.

(j) "Expenses Arising from Catastrophe" means those types of casualty losses which may be deducted under section 165 of the Internal Revenue Code which were incurred by the independent student and his dependents during the base year.

(k) "Employment Expense Offset" means an allowance to meet expenses relating to employment where both the independent student and his or her spouse are employed or where the independent student qualifies as a surviving spouse or as head of a household under section 2 of the Internal Revenue Code.

(l) "Family Size Offset" means an allowance to meet subsistence expenses, including food, shelter, clothing, and other basic needs of the independent student and his dependents. For purposes of this part the "Weighted Average Thresholds at the Low Income Level," as developed by the Social Security Administration, shall be used as a basis to determine the amount for the family size offset except in the case of a single independent student, where an amount estimated to be equal to living expenses during periods of nonenrollment shall be utilized.

**§ 190.43 Computation of the expected family contribution from effective income for independent students.**

The expected family contribution shall include 100 per centum of the student's effective income for the academic year for which aid is requested, except that one-half of the portion of effective income of the student attributable to the dependents of a veteran shall be included as a part of, and treated as, annual adjusted family income.

**§ 190.44 The expected family contribution for independent students from annual adjusted family income.**

The expected family contribution of the independent student shall be an amount determined in the following manner:

(a) Add to annual adjusted family income one-half the effective income of the student attributable to the dependents of the student who is a veteran.

(b) Determine effective family income by subtracting from the annual adjusted family income the amount of Federal income tax paid or payable with respect to such income.

(c) Determine discretionary income by deducting the following from effective family income:

(1) *Family size offset.* A family size offset in the amount specified in the following table. Family size includes the student and his dependents, as defined in section 152 of the Internal Revenue Code, at the close of the base year. If the student is divorced or separated, family size shall include any person whose income is taken into account for the purpose of computing the annual adjusted family income and his or her exemptions.

Family size	Dollar amount
2	\$2,800
3	3,350
4	4,300
5	5,050
6	5,700
7	6,300
8	7,000
9	7,700
10	8,400
11	9,100
12	9,800

An offset of \$700 shall be made for the single self-supporting student.

(2) *Unusual expenses.* The amount by which the sum of medical and dental expenses, and losses resulting from catastrophe not compensated by insurance, exceeds 20 percent of effective family income. Unusual expenses may be deducted if they were incurred by the independent student and his dependents during the base year.

(3) *Employment expense offset.* An employment expense offset in an amount equal to 50 percent of the adjusted gross income earned in the base year by the independent student or the student's spouse, whichever earns the lesser; or 50 percent of the adjusted gross income during the base year of an independent student qualifying as a surviving spouse or as head of household as defined in section 2 of the Internal Revenue Code but in no case shall such an offset exceed \$1,500.

(4) To determine the expected family contribution from the income of the independent student and his or her spouse the following rates shall be applied to discretionary income:

- (i) 75 percent of discretionary income for the single independent student with no dependents;
- (ii) 50 percent of discretionary income for the married independent student with no dependents other than spouse; and
- (iii) 40 percent of discretionary income for the independent student who has dependents other than spouse.

**§ 190.45 Computation of expected contribution from the assets of the independent student and his or her spouse.**

The expected contribution from the assets of the independent student and his or her spouse shall be determined in the following manner:

(a) Determine the total amount of net assets owned by the student and the student's spouse.

(b) The net assets of the student and the student's spouse shall be assessed at a rate of 33 percent and the result of such calculation shall be considered the expected contribution from the assets of the student and the student's spouse.

**§ 190.46 Computation of the total expected family contribution.**

The total expected family contribution for the independent student shall be the sum of:

- (a) The expected family contribution from effective income for the independent student as determined in § 190.43.
- (b) The expected family contribution from the independent student's family income as determined in § 190.44.

(c) The expected family contribution from the assets of the independent student as determined in § 190.45.

**APPENDIX**

**EXPECTED FAMILY CONTRIBUTION FOR DEPENDENT STUDENTS, ACADEMIC YEAR 1973-74**

Summary of calculation.	
1. Parent's adjusted gross income in 1972	-----
2. Other parental income in 1972	----- +
3. Parent's adjusted annual income in 1972	----- =
4. Parent's Federal income tax paid in 1972	----- -
5. Effective family income in 1972	----- =
6. Family size offset	----- +
7. Unusual expenses	----- +
8. Employment expense offset	----- +
9. Total offsets against income (lines 6+7 +8)	----- =
10. Discretionary income (line 5 minus line 9)	----- =
11. Multiply discretionary income by applicable rate to obtain standard contribution	-----
12. Determine net assets of parents	-----
13. Subtract asset reserve	----- -\$7,500
14. Available parental assets	----- =
15. Multiply available assets by 0.05	----- × .05
16. Parental contribution from assets	----- =
17. Add lines 11 plus 16 to obtain standard contribution from income and assets	-----
18. Multiply standard contribution by multiple student rate to determine expected family contribution for each family member in postsecondary education	-----
19. Effective income of student	-----
20. Determine net assets of student	-----
21. Multiply student's net assets by 0.33	----- × .33
22. Student's contribution from assets	----- =
23. Total family contribution equals sum of lines 18 plus 19 plus 22	----- =

**EXPLANATION OF CALCULATION<sup>1</sup>**

1. *Parents' adjusted gross income in 1972 (line 1).* All income which is available to the parents should be considered in the evaluation of parental ability to support the cost of postsecondary education. The most valid reference for parental income subject to Federal income tax is the adjusted gross income item in the family's Federal income tax return. This information is readily available to most families, and the information can be verified by referring to the IRS forms actually filed by the parents.

If it may be assumed that family income will be measured on an annual basis, which

<sup>1</sup> Reference numbers are keyed to the line numbers in preceding summary.

year of family income shall be used? Parents provide from their current income for the education of their children. However, if we attempted to use current year information, a parent would have to estimate the amount of income which he will receive during a year in which a child is a student since application for aid is made before the student enrolls for a particular year of study. A study by Orwig and Jones shows that income received during the tax year prior to the year in which the student is applying for aid is the best practical indicator of the income from which a student's actual expenses will be paid.<sup>2</sup> If estimates of the income received during the actual year of attendance are provided by parents, middle income families systematically underestimate their earnings, and lower income families systematically overestimate their earnings. The amount to be entered here, therefore, is from the previous year's Federal income tax form.

2. *Other parental income in 1972 (line 2).* Information on other family income must also be collected since this income does clearly contribute to family financial strength and may represent a considerable portion of the parental income of many basic grant recipients. Elements of other family income are: Income from tax exempt bonds, that portion of pensions on which no Federal income tax is required, welfare benefits, social security retirement, child support payments, income of families which didn't file income tax returns, that portion of capital gains on which no Federal income tax is required, etc.

3. *Parents' adjusted annual income in 1972 (line 3).* Parents' adjusted annual income is the sum of parents' adjusted gross income (line 1) plus other family income (line 2).

4. *Parents' Federal income tax paid in 1972 (line 4).* The legislation requires that a deduction be made, from adjusted annual income, for the amount of Federal income tax paid during the previous tax year.

5. *Effective family income in 1972 (line 5).* The result of subtracting Federal income tax paid (line 4) from the adjusted annual income (line 3) is effective family income and is the base for calculating expected contribution from parental income.

6. *Family size offset (line 6).* In addition to taxes, a family has basic subsistence expenses which must be met before any contribution from income can be expected. These expenses will vary depending on size of the family involved. For purposes of the basic grant, the "Weighted Average Thresholds At the Low Income Level," developed by the Social Security Administration and published by the Bureau of the Census, have been used as a reasonable approximation of basic family expenses.<sup>3</sup> These expenses are based on the food costs of a family of a given size, and make certain assumptions about the additional expenses of shelter and other family needs.

The data are revised annually, and thus can be used periodically to update the family contribution schedules from year to year. The figures supplied by the Bureau of the Census have been incremented by 4 percent to reflect estimated cost of living increases from the fall of

<sup>2</sup> Orwig and Jones, "Can Financial Need Analysis Be Simplified?" The American College Testing Program, Iowa City, Iowa, 1970—p. 11.

<sup>3</sup> From "Weighted Average Thresholds At the Low Income Level" in 1971 by size of family and sex of head, by farm-nonfarm residence; current population reports, consumer income, characteristics of the low-income population; 1971 series p. 60, No. 82, July 1972.

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1971 to the present, and then rounded to facilitate calculation. The resulting figures have been called "Family Size Offsets." Their derivation is illustrated below:

Family size	Family size offset
2 Member Family-----	2800
3 Member Family-----	3350
4 Member Family-----	4300
5 Member Family-----	5050
6 Member Family-----	5700
7 Member Family-----	6300
8 Member Family-----	7000
9 Member Family-----	7700
10 Member Family-----	8400
11 Member Family-----	9100
12 Member Family-----	9800

\*Census Bureau category "7 or more persons" are for 8 member family. Values for family size 7-12 have been extrapolated.

7. *Unusual expenses (line 7).* The basic grant program is required by law to take into consideration two kinds of unusual expenses, those arising from a "catastrophe" and "unusual medical expenses." It is proposed to use the Internal Revenue Service definitions of medical and dental expenses and casualty loss in determining "unusual expenses" for the basic grant program. The use of Internal Revenue Service definitions avoids the need for creating a new definition of expenses which would be used only by the basic grants program. However, some distinction must be made between expenses which may be itemized for income tax purposes, and those itemized expenses which are "unusual" as used for the basic grant legislation.

For purposes of the basic grant program, those items which may be included as unusual expenses are:

1. Those medical and dental expenses (not compensated by insurance or otherwise) which may be listed as "medicine and drugs" on line 2 of Schedule A, Form 1040 of the Internal Revenue Service and those expenses which may be listed as "Other Medical and Dental Expenses" on line 6 of Schedule A, Form 1040. The gross amount of all such medical, dental and drug expenses is to be used in the basic grant calculation.

2. Those casualty or theft loss(es) permitted by the Internal Revenue Service (Form 1040, Schedule A, line 30).

The amount of unusual expenses which may be deducted from effective family income (line 5 of this illustration) is that amount of unusual expenses (as defined above) in excess of 20 percent of effective family income. This exclusion is designed to confine claims for such expenses to those which are genuinely unusual.

8. *Employment expense offset (line 8).* In constructing budgets which recognize expenses for families, due provision must be made for the expenses of the breadwinner which occur as a result of employment itself. Some expenses for clothing, transportation, and other items are attributable to occupational needs. When both parents work, additional employment expenses are incurred. Also, if a household is headed by a single parent, the costs associated with that employment are greater than for a comparable worker who has the economic advantage of a nonemployed spouse. Therefore in the determination of family contribution an "Employment Expense Offset" has been constructed to treat more equitably the income of the two parent family where both parents work, or the single parent household. It is recognized that both of these types of families will occur frequently in the lower in-

come families where basic grant eligibility is greatest. The offset provides that 50 percent of the earnings of that parent with the lesser earnings, or 50 percent of the earnings of the single parent, will be protected from any contribution toward education. The maximum offset is \$1,500 and would thus assure that up to \$30 a week would be available for the additional expenses which these parents face.

9. *Total offsets against income (line 9).* The sum of line 6 (family size offset) plus line 7 (unusual expenses) plus line 8 (employment expense offset) is the total amount which can be deducted from effective family income (line 5) in order to determine discretionary parental income.

10. *Discretionary income (line 10).* The income which remains after allowance has been made for family living expenses, Federal income taxes, unusual expenses and the employment expense offset may be identified as discretionary income. This income is available for the purchases of goods and services which enhance the standard of living of the

family including the cost of postsecondary education.

11. *Standard income contribution rate (line 11).* A contribution of 20 percent is expected from the first \$5,000 of discretionary income. When discretionary income exceeds \$5,000, the expected income contribution is \$1,000 plus 30 percent of the amount in excess of \$5,000. The contribution rates will generally be at the 20 percent level for most of the income range where basic grant eligibility will occur.

These contribution rates appear reasonable in terms of the several demands made on family income especially in light of the fact that the cost of supporting the student for the academic year is included in the cost of education and does not have to be met from the general budget resources.

The illustrative chart below shows the expected family contribution from annual adjusted family income which does not reflect adjustments for Federal income taxes paid, unusual expenses, or employment expense offset.

CONTRIBUTION FROM ANNUAL ADJUSTED FAMILY INCOME FOR DEPENDENT STUDENTS

Annual adjusted* family income	Family Size									
	2	3	4	5	6	7	8	9	10	
\$3,000-----	\$34	0	0	0	0	0	0	0	0	0
4,000-----	216	\$117	0	0	0	0	0	0	0	0
5,000-----	375	289	\$120	0	0	0	0	0	0	0
6,000-----	543	458	291	\$163	\$64	0	0	0	0	0
7,000-----	708	625	460	354	236	\$127	0	0	0	0
8,000-----	870	789	623	502	406	289	\$180	\$60	0	0
9,000-----	1,022	953	791	660	576	469	353	236	\$116	0
10,000-----	1,303	1,181	959	838	746	642	526	410	292	0
11,000-----	1,555	1,432	1,190	1,008	914	812	698	583	467	0
12,000-----	1,800	1,684	1,442	1,259	1,122	980	868	755	640	0
13,000-----	2,049	1,928	1,693	1,511	1,374	1,221	1,054	925	811	0
14,000-----	2,281	2,166	1,930	1,755	1,620	1,467	1,300	1,133	977	0
15,000-----	2,515	2,400	2,164	1,989	1,858	1,710	1,543	1,376	1,209	0
16,000-----	2,745	2,634	2,398	2,223	2,092	1,947	1,786	1,619	1,452	0
17,000-----	2,970	2,861	2,632	2,457	2,326	2,181	2,020	1,860	1,695	0
18,000-----	3,169	3,066	2,857	2,688	2,560	2,415	2,254	2,094	1,933	0
19,000-----	3,420	3,311	3,082	2,913	2,790	2,649	2,488	2,328	2,167	0
20,000-----	3,640	3,536	3,307	3,138	3,016	2,876	2,722	2,562	2,401	0

\*Adjusted gross income plus nontaxable income.

12. *Net assets of parents (line 12).* For purposes of basic grants, the following types of assets will be considered: Equity in farm, business, home, other real estate, stocks, bonds, other investments, savings accounts, etc. Since equity is being measured, debts against the stated assets will be deducted in evaluating the net worth of these assets.

Consumer durables such as automobiles, furniture, and household appliances are not included for consideration in determining the asset holdings of the parents.

13. *Asset reserve (line 13).* Families accumulate assets for several purposes including retirement, future consumption, the postsecondary education of their children and the provision of an economic buffer in the event of catastrophe. These considerations indicate that some portion of assets should be reserved from any contribution toward postsecondary education, and that remaining assets be assessed at some rate less than 100 percent. After a review of the available data, it was decided that \$7,500 was an adequate asset reserve since it appears that average home equity for the basic grant target group may be in approximately this amount, if data from the Department of the Census is read in conjunction with the Survey of Economic Opportunity. In addition, the \$7,500 amount would allow for emergencies and retirement needs.

14. *Available parental assets (line 14).* In order to determine the amount of parental assets which can be assessed for contribution for educational purposes, the asset reserve (line 13) is subtracted from the net assets of parents (line 12).

15. *Asset assessment rate (line 15).* Once the available parental assets have been deter-

mined, a contribution rate of 5 percent will be assessed on the parents' net worth in excess of \$7,500. Because the value of assets grow, this rate of asset assessment will generally leave the family's asset position largely unimpaired.

16. *Parental contribution from assets (line 16).* The result of multiplying the available parental assets (line 14) by the assets assessment rate (line 15) is the expected parental contribution from assets.

17. *Standard parental contribution from income and assets (line 17).* The standard parental contribution (contribution before multiple student adjustment) from income and assets is determined by adding the contribution from income (line 11) and the contribution from assets (line 16).

18. *Multiple student adjustment (line 18).* Adding the Parental Income Contribution to the parental asset contribution results in the expected contribution from parents with one family member in postsecondary education. Some adjustment must then be made for those families in which more than one family member will be enrolled in postsecondary education for the academic year 1973-74.

Since each student has an allowance for costs of attendance, the family's discretionary income is effectively increased when there is more than one family member in postsecondary education. In order to determine the appropriate percentages, the contributions expected from different family sizes were compared. These investigations indicated that 140 percent of the contribution for one child would be a reasonable assessment against the family with two students. Thus, each student would receive 70

percent of the contribution which the family would make if there were only one student in the family. Similarly, 150 percent of the single student contribution seemed adequate for the family with three children in postsecondary education; each student could expect 50 percent of the single student contribution. For families with four or more students, each family will be assessed 40 percent of the single student contribution for each child in postsecondary education.

The following table summarizes the treatment of families with different numbers of family members in postsecondary education:

Number of students	Contribution per student as a percent of standard contribution		Family contribution for all students as a percent of standard contribution	
	Percent		Percent	
1.....	100		100	
2.....	70		140	
3.....	50		150	
4 or more.....	40		160+	

19. *Effective income of the student (line 19).* For purposes of the basic grants program effective income of the student is: That amount of social security benefits paid to or on behalf of a student because he is a student; and one-half of that amount of veteran's readjustment benefits and/or war orphan's benefits (exclusive of dependency allowances) paid to or on behalf of a student because he is a student. In both cases the amount is the total to be received during the academic year for which basic grant assistance is requested.

20. *Net assets of the student (line 20).* The applicant's net assets would be defined in the same fashion as the assets of the parents. That is, all assets except for consumer durables would be included and debts against these assets would be deducted. Trust funds in the student's name would be included.

21. *Student asset assessment rate (line 21).* In determining a fair treatment of student assets the theory of the major need analysis systems has been followed; i.e., that because the student himself is the direct beneficiary of postsecondary education, he should be expected to invest a greater portion of his resources in meeting his educational costs than should be expected from his parents.

Usual financial aid procedures divide a student's assets by the number of years remaining for a 4-year program of postsecondary education. The result of this division is considered to be the student's asset contribution.

For the basic grants program, a different treatment of student assets is employed. One-third of the student's assets (recalculated each year) would be expected. This method is simple, provides a modest reserve for the student, and avoids the assumption that all students are enrolled in a traditional 4-year program.

22. *Student's contribution from assets (line 22).* The result of multiplying the student's net assets (line 20) by the student asset assessment rate (line 21) is that amount expected from student assets for educational purposes.

23. *Total family contribution (line 23).* The total expected family contribution for a dependent student is determined by adding line 18 plus line 19 plus line 22.

EXPECTED FAMILY CONTRIBUTION FOR INDEPENDENT STUDENTS, ACADEMIC YEAR 1973-1974

Summary of calculations.

1. Effective income of student.....	=====
2. Adjusted gross income of applicant (and spouse).....	+
3. Other family income.....	+
4. Adjusted annual income of applicant (and spouse) (line 2 + line 3).....	=====

5. Federal income tax paid.....	-
6. Effective family income.....	=====
7. Family size offset.....	+
8. Unusual expenses.....	+
9. Employment expense offset.....	+
10. Total offsets against income (lines 7+8+9).....	=====
11. Discretionary income (line 6 minus line 10).....	=====
12. Multiply discretionary income by applicable rate to obtain contribution from income.....	=====
13. Determine net assets of applicant (and spouse).....	=====
14. Multiply assets of applicant (and spouse) by 0.33.....	× .33
15. Contribution from assets (line 13 × line 14).....	=====
16. Total expected family contribution (lines 1+12+15).....	=====

EXPECTED FAMILY CONTRIBUTION FOR INDEPENDENT STUDENTS ACADEMIC YEAR 1973-1974

*Explanation of calculations.*<sup>1</sup> For the purposes of the basic grants program, independent (self-supporting) student status may be claimed if the applicant:

(1) Has not been and will not be claimed as an exemption for Federal income tax purposes by any person except his or her spouse for the calendar year(s) in which aid is received and the calendar year prior to the academic year for which aid is requested, and

(2) Has not received and will not receive financial assistance of more than \$600 from his or her parent(s) in the calendar year(s) in which aid is received and the calendar year prior to the academic year for which aid is requested, and

(3) Has not lived or will not live in the home of a parent during the calendar year(s) in which aid is received and the calendar year prior to the academic year for which aid is requested.

Once a student has been determined to meet these criteria and is defined as an independent student, his expected family contribution is calculated according to the process outlined below.

1. *Effective income of student (line 1).* For purposes of the basic grants program. Effective income of the student is: That amount of social security benefits paid to or on behalf of the student because he is a student; and, one-half of the amount of veteran's readjustment benefits and/or war orphan's benefits (exclusive of dependency allowances) paid to or on behalf of a student because he is a student. In both cases, the amount is the total to be received during the academic year for which basic grant assistance is requested.

2. *Adjusted gross income of applicant (and spouse) (line 2).* All income which is available to the applicant (and spouse) should be considered in the evaluation of ability to support the cost of postsecondary education. The most valid reference for taxable income is the adjusted gross income item in the Federal income tax return. This information is readily available and can be verified by referring to the IRS forms actually filed.

The decision as to which year's income is to be considered is a difficult one for independent students. Traditionally, a student's income may vary considerably from year to year. While it may be preferable to ask the student to estimate his earnings for the cur-

<sup>1</sup>Reference numbers are keyed to line items of preceding summary.

rent year, obtaining realistic projections of earnings would not be possible without establishing counseling centers where students could be assisted in preparing this information.

Because this is not feasible at this time, it has been determined that the adjusted gross income to be considered is that amount entered on the previous year's Federal income tax form.

This also has the advantage of being consistent with the data collected for dependent students and assures that the family contribution of all students is determined from the same base.

3. *Other income of the independent student (line 3).* Information on other income of the independent student must also be collected since this income does clearly contribute to financial strength and may represent a considerable portion of the income of many basic grant recipients. Elements of other income are: Income from tax exempt bonds, that portion of pensions on which no Federal income tax is required, that portion of capital gains on which no Federal income tax is required, welfare benefits, social security retirement, child support payments, veteran's disability, income of persons who did not file income tax returns, etc.

4. *Adjusted annual income of applicant (and spouse) (line 4).* Adjusted annual income is the sum of adjusted gross income (line 2), and other family income (line 3).

5. *Federal income tax paid by applicant (and spouse) (line 5).* The legislation requires that a deduction be made, from adjusted annual income, for the amount of Federal income tax paid during the previous tax year.

6. *Effective family income (line 6).* The result of subtracting Federal income tax paid (line 5) from the adjusted annual income (line 4) is effective family income.

7. *Family size offset (line 7).* In addition to taxes, there are basic subsistence expenses which must be met before any contribution from income can be expected. These expenses will vary depending on the size of the family involved. For the single independent student, this offset is \$700 which covers the student's summer living expenses. Using the same base for deriving family size offsets as is used for multiple member families (weighted average thresholds at the low-income level) and adjusting for an estimated 4 percent inflation, the family size offset for a single member family is \$2,114 per year. Generally, a student is in school for approximately 65 percent of the year (two 16-week semesters plus a 2-week break between semesters). Since his expenses during this 34-week academic year are covered in his cost of attendance, the \$700 offset provides for his expenses during that period of time when he is not in school.

For married independent students and those with additional dependents, the family size offset is the same as that for the parent's of dependent students:

Family size	Family size offset
2.....	\$2,800
3.....	3,350
4.....	4,300
5.....	5,050
6.....	5,700
7.....	6,300
8.....	7,000
9.....	7,700
10.....	8,400

8. *Unusual expenses (line 8).* The basic grants program is required by law to take into consideration at least two kinds of unusual expenses, those arising from a "catastrophe" and "unusual medical expenses." It is proposed to use the Internal Revenue Service definitions for medical and dental expenses and casualty loss(es) to constitute "unusual expenses" for the basic grants program. The use of Internal Revenue Service definitions avoids the need for creating a

PROPOSED RULE MAKING

new definition of expenses which would be used only by the basic grants program. However, some distinction must be made between expenses which may be itemized for income tax purposes, and those itemized expenses which are "unusual" for basic grants.

For purposes of the basic grants program those items which may be included as unusual expenses are:

1. Those medical and dental expenses incurred during the base year (not compensated by insurance or otherwise) which may be listed as "medicine and drugs" on line 2 of Schedule A, Form 1040 of the Internal Revenue Service and those expenses which may be listed as "Other Medical and Dental Expenses" on line 6 of Schedule A, Form 1040. The gross amount of all medical, dental and drug expenses may be listed.

2. In addition, those casualty or theft loss(es) incurred during the base year permitted by the Internal Revenue Service (Form 1040, Schedule A, line 30).

The amount of unusual expenses which may be deducted is that amount of unusual expenses (as defined above) in excess of 20 percent of the effective family income. This exclusion is designed to confine claims for such expenses to those which are genuinely unusual.

9. *Employment expense offset (line 9).* In constructing budgets which recognize minimum expenses for families, provision must be made for the expenses of the breadwinner which occur as a result of employment itself. Some expenses for clothing, transportation, food, and other items are attributable to occupational needs. When two persons work, additional employment expenses are incurred. Also, if a household is headed by a single person, the costs associated with that employment are greater than for a comparable worker who has the economic advantage of a nonemployed spouse. Therefore, in the determination of family contribution an "Employment Expense Offset" has been constructed to treat more equitably the income of the two-person family where both persons work during the base year, or the single person who heads a household during the base year. It is recognized that both of these types of families will occur frequently in the lower income families where basic grant eligibility is greatest. The offset provides that 50 percent of the earnings of that person with the lesser earnings, or 50 percent the earnings of the single head of household, will be protected from any contribution toward education. The maximum offset would be \$1,500 and would thus assure that up to \$30 a week would be available for the additional expenses which these persons face.

10. *Total offsets from income (line 10).* The sum of line 7 (family size offset) plus line 8 (unusual expenses) plus line 9 (employment expense offset) is the total amount which can be deducted from effective family income (line 6) in order to determine discretionary income.

11. *Discretionary income (line 11).* The income which remains after adjustment has been made for family living expenses, Federal income taxes, unusual expenses and the employment expense offset may be identified as discretionary income. This income is available for the purchase of goods and services which enhance the standard of living of the family, including postsecondary education.

12. *Standard income contribution rate (line 12).* Because of the direct benefits of postsecondary education received by the independent student, the expected contribution rate for such students from income has traditionally been much greater than the rate applied to the discretionary income of the parents of dependent students. In fact, the independent student has usually been expected to use all of his discretionary income for educational purposes.

In developing a system for the basic grants program, it was felt that a 100 percent contribution rate was excessive, especially for independent students with family responsibilities.

The following income contribution schedule was developed to accommodate these responsibilities:

(a) 75 percent of discretionary income for the single independent student with no dependents.

(b) 50 percent of discretionary income for the married independent student with no dependents other than spouse.

(c) 40 percent of discretionary income for independent students who have dependents other than spouse.

The amount of expected contribution from annual adjusted family income is shown in the illustrative charts at the end of this paper. Annual adjusted family income does not reflect the adjustments for Federal income taxes paid, unusual expenses, or employment expense offset.

13. *Net assets of applicant (and spouse) (line 13).* For purposes of basic grants, the following types of assets will be considered: Equity in farm, business, home, other real estate, stocks, bonds, other investments, savings accounts, etc. Since equity is being measured, debts against the stated assets will be deducted in evaluating the net worth of these assets.

Consumer durables such as automobiles, furniture, and household appliances are not included for consideration in determining these asset holdings.

14. *Asset contribution rate (line 14).* In determining a fair treatment of student assets, it has been assumed that since a student is the direct beneficiary of postsecondary education, he should be expected to invest a greater portion of his resources in meeting his educational costs than would be expected from his parents.

Existing financial aid procedures divide a student's assets by the number of years remaining in a 4-year program of postsecondary education. The result of this division is considered to be the student asset contribution.

For the basic grants program, a different treatment of student assets is employed. One-third of the student's assets (recalculated each year) would be expected. This method is simple, provides a modest reserve for the student, and avoids the assumption that a student is enrolled in a traditional 4-year program.

15. *Contribution from assets (line 15).* The result of multiplying the student's net assets (line 13) by the student asset assessment

rate (line 14) is that amount expected from student assets for educational purposes.

16. *Total family contribution (line 16).* The total expected family contribution for an independent student is determined by adding line 1 plus line 12 plus line 15.

CONTRIBUTION FROM ANNUAL ADJUSTED INCOME FOR INDEPENDENT STUDENTS—NO DEPENDENTS

Annual adjusted family income <sup>1</sup>	
\$1,000	225
\$2,000	975
\$3,000	1,625
\$4,000	2,263
\$5,000	2,894
\$6,000	3,516
\$7,000	4,125
\$8,000	4,732
\$9,000	5,347
\$10,000	5,976
\$11,000	6,591
\$12,000	7,201
\$13,000	7,811
\$14,000	8,404
\$15,000	8,983
\$16,000	9,546
\$17,000	10,108
\$18,000	10,671
\$19,000	11,228
\$20,000	11,778

<sup>1</sup> Adjusted gross income plus nontaxable income.

MARRIED INDEPENDENT STUDENTS WITH NO OTHER DEPENDENTS (OTHER THAN SPOUSE)—CONTRIBUTION FROM INCOME

Annual adjusted family income <sup>1</sup>	
Less than:	
\$ 1,000	0
\$ 2,000	0
\$ 3,000	86
\$ 4,000	515
\$ 5,000	939
\$ 6,000	1,358
\$ 7,000	1,771
\$ 8,000	2,176
\$ 9,000	2,586
\$10,000	3,005
\$11,000	3,424
\$12,000	3,833
\$13,000	4,240
\$14,000	4,635
\$15,000	5,025
\$16,000	5,408
\$17,000	5,783
\$18,000	6,158
\$19,000	6,533
\$20,000	6,900

<sup>1</sup> Adjusted gross income plus non-taxable income.

INDEPENDENT STUDENTS WITH DEPENDENTS INCOME CONTRIBUTION TABLE

Annual adjusted family income <sup>1</sup>	Family size											
	2	3	4	5	6	7	8	9	10	11	12	
Less than:												
\$3,000	\$99	0	0	0	0	0	0	0	0	0	0	0
4,000	412	\$235	0	0	0	0	0	0	0	0	0	0
5,000	751	577	\$241	0	0	0	0	0	0	0	0	0
6,000	1,066	915	582	\$327	\$129	0	0	0	0	0	0	0
7,000	1,417	1,249	919	667	472	\$255	0	0	0	0	0	0
8,000	1,741	1,678	1,262	1,003	811	597	\$361	\$120	0	0	0	0
9,000	2,069	1,906	1,583	1,339	1,150	938	705	470	\$232	0	0	0
10,000	2,404	2,241	1,918	1,675	1,492	1,283	1,082	819	584	\$346	\$50	\$50
11,000	2,739	2,576	2,253	2,010	1,827	1,624	1,396	1,166	933	698	460	612
12,000	3,066	2,912	2,589	2,346	2,163	1,960	1,737	1,509	1,279	1,047	812	1,161
13,000	3,392	3,238	2,924	2,681	2,498	2,286	2,072	1,840	1,623	1,393	1,161	1,500
14,000	3,708	3,554	3,240	3,006	2,826	2,623	2,400	2,177	1,954	1,729	1,500	1,832
15,000	4,023	3,868	3,562	3,318	3,144	2,947	2,724	2,501	2,278	2,055	1,832	2,156
16,000	4,328	4,178	3,864	3,630	3,456	3,262	3,048	2,826	2,602	2,379	2,156	2,480
17,000	4,626	4,481	4,176	3,942	3,768	3,574	3,360	3,146	2,926	2,703	2,480	2,850
18,000	4,926	4,781	4,476	4,251	4,080	3,886	3,672	3,458	3,244	3,027	2,804	3,128
19,000	5,226	5,081	4,776	4,551	4,386	4,198	3,984	3,770	3,556	3,342	3,128	3,440
20,000	5,526	5,381	5,076	4,851	4,686	4,501	4,296	4,082	3,868	3,654	3,440	

<sup>1</sup> Adjusted gross income plus nontaxable income.

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