FAFSA Is Changing…
What Should I Expect?

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Thanks to the FAFSA Simplification Act, college financing for the 2024–2025 academic year may be tougher to get for some, so families should start thinking about the application process now.

Passed in 2020, the Simplification Act changed the formula used to determine the amount of aid a student is eligible for as of July 1, 2023. The changes affect anyone filing the 2024–2025 Free Application for Federal Student Aid, or FAFSA.

Students overall will gain billions in funds under the new regulations, but some students already in college could see a reduction in financial aid.

To apply for financial aid, you must complete a FAFSA each year. In the past, filing opened annually on October 1. However, the new form won't be available until December 2023.

The personal and financial details provided on the FAFSA are used to estimate how much a family can afford to pay for the student to attend college. Previously, the estimate was called the Expected Family Contribution (EFC). It was not the exact amount you would pay, but rather a baseline to calculate financial need. The EFC was used by colleges to determine eligibility for financial aid, including grants, loans, and work-study.

The EFC was based on factors such as income, assets, household size, and more. It was calculated using a formula and varied based on dependency status.

On the 2024–2025 application, the EFC will be replaced by the Student Aid Index (SAI).

What are some of the changes?

The formula is broken down as follows:

EFC (Old) = Cost of Attendance

[22% to 47% of parent income + 5.64% of parent assets] + [50% of student income + 20% of student assets].

SAI (New) = Cost of Attendance

[25% of parent gross income + 6% of parent assets] + [50% of student income + 20% of student assets].

The SAI may be lower than the current EFC for many families, making students eligible for higher amounts of aid. However, other families may receive less in financial aid. The table below compares some of the major changes between the old EFC and the new SAI formulas.

	Old EFC	New SAI
Definition of gross income	Based upon modified adjusted gross income (MAGI), which excludes 401k/403b, HSA, IRA, and pension contributions.	Uses gross income, adding back in 401k/403b, HSA, IRA, and pension contributions.
Other children currently in college	The final EFC number is divided by the number of children enrolled for that year, resulting in a student discount.	No reduction for other children attending college simultaneously.
529 accounts held by other relatives for the benefit of the child	Not included under parent or student assets. However, any distributions from those accounts included as untaxed income to the child at the 50% inclusion rate for two years following the distribution.	Not included under parent or student assets. Distributions from those accounts are not included as untaxed income to the child.
Family farm or small business	Excluded from parent assets.	Included in parent assets.
Separated or divorced parents	Includes only the income and assets of the custodial parent — the one the child lives with the most.	Includes only the income and assets of the parent who provides the most financial support.
	Child support classified as untaxed income.	Child support classified as an asset.

Who are the biggest losers?

Families with siblings in college could receive the largest decreases in aid. The reductions are the result of the elimination of what's called the sibling discount. The EFC was previously reduced proportionally by the number of that student's siblings who were enrolled in college. The SAI doesn't consider siblings.

For example, let's consider a family with two members in college and an EFC of $5,000. That total was split between the two students. Under the SAI formula, that contribution would be for each family member in college, increasing the financial burden for families with more than one college student. In addition, it may affect their eligibility for some financial aid programs.

Families with an adjusted gross income of $60,000 or more who own farms or small businesses with fewer than 100 employees also will be negatively affected. The government will now consider those as financial assets that could be used to pay for college. Currently, those assets are exempt on the FAFSA.

For example, a family with a farm valued at $1 million would be expected to contribute more than $7,600 toward an education under the previous EFC plan. Under the new rules, that same family would be responsible for more than $41,000. This might also make those students ineligible for some federal and state aid programs and more reliant on student loans.

Also, students with divorced or separated parents may not fare as well under the new rules. Previously, dependents of separated or divorced parents included the income and assets of the custodial parent, the one the child lives with most of the time. In some cases, this could be the lower-earning spouse. Under the new rules, the SAI would be based on the income and assets of the parent who provides the most financial support.

Who are the winners?

Overall, the new formula is more generous for most households, providing larger income protection allowances (IPAs). IPAs cover a family's basic daily living expenses and are excluded from the financial aid eligibility formula. Larger IPAs lower the income students and parents can contribute to college expenses, which will increase their financial aid eligibility. IPAs will increase by 20% for parents, up to about $2,400 (35%) for most students and up to about $6,500 (60%) for students who are single parents.

There will also be a change to automatic Pell Grants based on income and household size. Families making less than 175% and single parents making less than 225% of the federal poverty level will receive the maximum award. Minimum grants will be guaranteed to students from households earning below 275%, 325%, 350%, or 400% of the poverty level, depending on the household structure.

The Pell Grant is the federal government's primary grant aimed at low- and middle-income students. The grants helped more than 6 million students afford college in the 2021–2022 school year, according to the US Department of Education. Current projections show 42.9% of students who were previously ineligible for a Pell Grant may become eligible under the new calculation. That's approximately 2.1 million more students than under the old formula.

What steps can I take to prepare?

File as soon as possible

The simpler FAFSA application for 2024–2025 will be pared down from 108 questions to just 36, and it will be easier to import income data from tax records. You can utilize KeyBank's digital platform to download account statements or make an appointment with your KeyBank advisor to assemble your most recent documents before filing.

Minimize base-year income

Income for FAFSA purposes is calculated using the base-year income. This is generally the tax return from two years prior. So, the 2024–2025 filing would be based on the 2022 income tax return. However, for future years, you can still take these proactive steps to minimize reportable income:

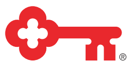
- Avoid realizing capital gains in the base year.
- Offset capital gains in the base year by selling other investments at a loss.
- Avoid retirement plan distributions in the base year. If possible, avoid making retirement plan distributions and rely on other savings instead. Distributions from retirement accounts are considered reportable income for FAFSA purposes.
- Reduce reportable assets by paying down debt. FAFSA looks at both income and assets when calculating financial aid eligibility. The assets owned by students and their families will count toward financial aid awards.
- Save in a parent's (rather than the student's) name. Savings owned by the student count for more than savings owned by the parent.

Before implementing any of these strategies, consult your KeyBank advisor to review the impacts on your financial plan. If you don't have a plan, reach out to a KeyBank advisor to schedule an appointment today.

For more information, please contact your advisor.

About the Author

Mathew Bound is the Regional Director of Planning, KPC. In this role, Mathew is responsible for coaching, training teams on the latest planning software, and delivering complex planning strategies to our mass affluent clients. Mathew is dedicated to improving the planning acumen of his team of advisors. His goal is to instill confidence that Key can provide the best advice to our clients with a comprehensive financial plan. Mathew is a CFP® and he also hold his Series 7, 66, and Ohio Life and Health license. Mathew earned his bachelor's degree from the College of Business Administration at the University of Akron with a minor in Economics. He also received his Financial Planning Certificate from Boston University.



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