In order to help parents and students understand how Carleton makes financial aid decisions and to acquaint families with the principles of our need analysis, we offer the following explanation of the major factors involved with this process. We assume that both the parent(s) and student will contribute toward college expenses. To arrive at equitable and objective contribution figures, we utilize a standard analysis of the family's financial data provided on the CSS Profile. There are two calculations that are done. One is called the Federal Methodology, which is used to qualify for Federal and State funds, and the other is the Institutional Methodology (IM), which Carleton uses to determine overall aid eligibility and need for assistance. Our awards primarily use IM since we believe it produces a more refined, accurate and equitable assessment of a family’s need and their requirement for funding from Carleton. Following is an explanation of Institutional Methodology developed by the College Board.

Institutional Methodology (IM) is a formula developed by financial aid professionals, in consultation with economists, to measure a family’s ability to pay for college. The result of the formula is an expected family contribution (EFC)—the family’s share of college costs. The EFC produced by the IM is not the same as the figure calculated by the federal government to determine eligibility for federal student aid dollars. The family contribution is not something most families can realistically take out of one year’s income—most families finance their share of college costs through a combination of saving, paying out of current income, and borrowing.

A basic principle of IM is the idea that a family’s capacity to pay is a function of income and assets. The first step in calculating the family contribution is to define income in a reasonable way. After subtracting appropriate allowances from income, a portion of the remainder is available to pay college costs. The same process takes place for assets.

How Does the IM Define Income?
IM uses adjusted gross income (AGI) from the federal income tax form as a basis to determine family income. However, IM adjusts the parents’ AGI, disallowing certain losses and adjustments permitted in the federal tax system, but ones that don’t affect a family’s ability to pay for college. Untaxed income from social security, child support, tax deferred savings or retirement plans, food and housing allowances, depreciation and amortization, repayment of loans from shareholders, untaxed portions of pensions or annuities, workers’ compensation benefits and other sources is also considered in determining a family’s total income. Both the parents’ and the student’s incomes are taken into account.

The AGI used will be two years prior to the student’s enrollment year (e.g. 2020 AGI for the 2022-23 year). It is assumed that a family’s income remains fairly stable over time and these previous income figures will be a good indicator for the current year. Using this data also allows for accurate reporting from already completed tax returns. The CSS Profile will also ask for estimates of income for the upcoming year.

Note that business deductions on federal tax returns are added back to income in the need analysis system. Losses from business, rental ventures, capital losses and losses carried forward from prior years are not allowed for need analysis purposes. Consequently, income used for Carleton’s need analysis can be significantly different than what the tax system uses to determine federal tax liability.

What Allowances Are Subtracted from Income?
IM subtracts the following five allowances from income before determining how much of the parents’ income should be earmarked for college expenses.

- Mandatory taxes
  - Federal income taxes paid
  - Allowance for state and local income, sales and property taxes
  - FICA tax

- Medical and dental expense allowance to account for exceptionally high medical and dental expenses reported by the family.

- Annual Education Savings Allowance (AESA) recognizes that a family must save for the educational expenses of younger children at the same time they are sending older children to college. The allowance is designed so that families that save the specified fraction of their income each year—currently about 1.55 percent—will have accumulated about one-third of their expected parent contribution for a private four-year college by the time their child enrolls. IM assumes that the family will finance the remaining expected contribution from current income, assets, and/or borrowing.

- Income Protection Allowance (IPA) represents the median expenses of families living at the lower living standard defined by the U.S. Bureau of Labor Statistics. The IPA does not define the amount of money required by most families to cover their living expenses—however, it is much lower than that. Instead, it represents the income level below which a family has no discretion about how it spends its income. Parents with incomes at or below the IPA are not asked to make any contribution at all to their children’s educational costs. Those with higher incomes have more choices about how they spend their income and are expected to use some fraction of their discretionary income to pay for their children’s education.

- Elementary/Secondary Tuition Allowance to account for expenses paid by the family for private elementary or secondary school tuition.

How Much of Their Income Are Families Expected to Contribute?
After subtracting taxes and other appropriate allowances from total income, a portion of the remaining available income is tapped for college expenses. Similar to the federal income tax rate structure, the IM assessment rate structure applies a lower rate—19 percent—to the first dollars of available income and progressively higher rates to additional dollars of discretionary income. Even families subject to the highest rate—51 percent—are asked to pay that rate only on their last dollars of available income.

The student’s income is assessed at the same marginal rates as their parents. The IM assumes that all students work during the summer and term breaks and save a majority of their earnings for college expenses. Carleton expects a minimum of $2,000 from freshmen and $2,100 from upper class students each year.
How Does the IM Define Assets?
IM considers assets in determining a family’s ability to pay for education because families with assets are in a stronger financial position than families with the same income but no assets. This is true whether a family’s assets are liquid or tied up in the family’s home. While no one wants a family to sell their home in order to pay for college, a homeowner is in a stronger financial position than is a renter. A homeowner pays lower income taxes, has stable mortgage payments, and may be able to tap into the equity in the home to finance a portion of college expenses.

It is true that a family’s expected contribution is somewhat higher if there are assets than it would be if the family had not saved at all. However, a family who has saved is in a much better position than a family who must finance the expected contribution out of current income and loans. IM considers only a very small percentage of a family’s assets as available to pay for college.

It is not practical for IM to include all categories of assets, but the definition is as comprehensive as possible. Savings and investments, including parents’ assets held in the names of the student’s siblings, are taken into account, as is the equity in other financial assets such as the home, other real estate and business and farm assets. It is important to remember that IM does not expect a family to deplete its assets, but assets are important in measuring the family’s overall financial strength.

Retirement assets are not considered in the need analysis computation. However, questions about the value of pensions and retirement savings are asked to determine a family’s ability to divert income to college costs if necessary.

What Allowances Are Subtracted from Assets?
Two major allowances—Emergency Reserve Allowance and Cumulative Education Savings Protection Allowance—are subtracted from assets before determining how much of a family’s net worth should be assessed to pay for college expenses.

- **Emergency Reserve Allowance (ERA)** protects assets for unanticipated expenses such as illness or unemployment. The amount is based on family size and represents six months of average family expenses as reported in the federal Consumer Expenditure Survey.

- **Cumulative Education Savings Protection Allowance (CESA)** recognizes a family’s need to save to finance their children’s college expenses. The CESA protects an amount of assets equal to the amount the family would have accumulated if they had saved a specified percentage of their income each year for each child. The CESA is designed to prevent a family’s expected contribution from increasing as a result of saving conscientiously for college.

- **Low Income Asset Allowance** recognizes that a family with very low income needs additional asset protection because that family may need to draw on assets to cover basic living expenses.

What Portion of Assets Are Families Expected to Contribute?
Only a small portion of a family’s net assets is expected for college expenses. Assets are assessed using a graduated rate structure as is income. IM asks families to contribute between 3 and 5 percent of their adjusted net worth (total assets worth minus appropriate allowances).

Student’s Assets
Student’s assets are assessed more heavily than parents’ assets. Because education should be the first priority for students, they are expected to contribute 25 percent of the value of their assets to pay for educational expenses.

Is the Contribution the Same If More Than One Child Is Enrolled?
Families who have more than one child, regardless of the spacing of those children, have to pay more for college over time than families who have only one child. However, the system recognizes the particular strain on families who have two children in college at the same time and reduces the expected contribution for each child when more than one is enrolled. If two children are enrolled, the IM expects the family to pay only 60 percent of the parent contribution for each child; if three children are enrolled, the IM expects the family to pay 45 percent of the parent contribution for each child.

Who Makes the Final Determination of How Much the Family Will Be Asked to Pay?
IM cannot account for all of the circumstances affecting a particular family, but it can provide the best available indicator of how each family’s financial strength compares to that of other families in the applicant pool. Responsibility for the final determination of the family’s share of college expenses rests with the college financial aid administrator, after taking into account all available information about the family’s income, assets, and circumstances. Carleton’s aid award, composed of student employment, loan, and grant/scholarship, complements the family’s contribution to meet total costs of attendance for the award year. Our need analysis policies and procedures are based on fairness and equal treatment of all aid applicants.

Divorced, Separated or Single Parent Families
In cases of never married, separated, or divorced parents, the parent with whom the student resides (and that parent’s current spouse/domestic partner) is responsible for completing the financial aid applications. The other natural/biological parent (and current spouse, if any) should complete their own CSS Profile for the student.

Although separate households may affect the extent to which one or both parents can contribute, a change in family structure does not absolve either parent from consideration within the need analysis process. Our belief is that both parents (or a custodial parent and stepparent/domestic partner) remain responsible for the support and education of dependent children to the extent that they are financially able to contribute.

In summary, we believe the IM system provides the most fair and equitable treatment of a family’s financial situation. We also know that this system is not perfect and may not address special circumstances due to data not reported on the CSS Profile or considered in the IM formula. In those cases, student/parents may wish to request a review of an Aid Award, after providing pertinent and updated information. However, we cannot make adjustments that would require exceptions to the standard principles and practices we use for all families.

Questions should be addressed to:
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