

FAFSA Formula 2019-2020



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Are you looking for the EFC Formula Guide for 2020-2021? If so, go [here](#).

The Department of Education has released the [EFC Formula Guide](#) for this fall's FAFSA. The Formula Guide is the detailed calculation behind Expected Family Contribution, FAFSA version. Families who will be completing the FAFSA this fall should take a look.

A brief highlight— more accurately, a low-light— the asset protection allowance continues to decrease for all filers. For example, a married couple where the oldest spouse is 50 would have received an asset protection allowance of \$22,300 last year. This year that same couple would only get \$12,500.

In an environment of rising inflation, rising interest rates, and a rising stock market, why would the asset protection allowance decline so dramatically? It's a result of the inputs to the formula for how the allowance is calculated. Per the [Higher Education Act of 1965's rules](#), the asset protection allowance “shall be developed by determining the present value cost, rounded to the nearest \$100, of an annuity that would provide, for each age cohort of 40 and above, a supplemental income at age 65 (adjusted for inflation) equal to the difference between the moderate family income (as most recently determined by the Bureau of Labor Statistics), and the current average social security retirement benefits.” Perhaps more importantly, the formula uses a 6% inflation rate and an 8% rate of return for the hypothetical annuity.

When moderate incomes stagnate and Social Security benefits— linked to CPI-W which has yielded a COLA of 2% the last two years— increase, the gap between income and Social Security benefits decreases. This means a smaller annuity would be needed to meet that gap— especially if it returned a guaranteed 8%— so less assets need to be “protected” to ensure retirement income.

If you're still reading after all that arcana, here's a practical data point: that \$9,800 decrease in the asset protection allowance would increase the family's EFC by \$553.