

Impact of the Update to the Federal Needs Analysis on Minnesota Students

About the Higher Education Services Office

The Minnesota Higher Education Services Office is a cabinet-level state agency providing students with financial aid programs and information to help them gain access to post-secondary education. The agency serves as the state's clearinghouse for data, research and analysis on post-secondary enrollment, financial aid, finance and trends.

The Minnesota State Grant program, which is administered by the agency, is a need-based tuition assistance program for Minnesota students. The agency also oversees tuition reciprocity programs, a student loan program, Minnesota's 529 college savings program, licensing and an early awareness outreach initiative for youth. Through collaboration with systems and institutions, the agency assists in the development of the state's education technology infrastructure and shared library resources.

Authors

Gerald Setter
Research Staff
Tel: 651-642-0590
setter@heso.state.mn.us

Mark Misukanis
Director of Fiscal Policy and Research
Tel: 651-642-0581
misukanis@heso.state.mn.us

Introduction

In December 2004, the U.S. Department of Education announced that it will update the amount it allows families to deduct for state and other tax payments when applying for financial aid. These changes affect the way both the Federal Pell Grant and the Minnesota State Grant programs calculate a family's ability to pay. Larger assigned family responsibilities generally translate into smaller state and federal grants for students.

The Higher Education Services Office has prepared this report estimating the aggregate projected impact of the update on Minnesota residents.

In summary, Minnesota residents attending Minnesota institutions are expected to see an estimated \$12.37 million less in federal and state grants, or about 4.5 percent less, than they would have without the update in the Federal Needs Analysis.

About half of the impact in FY 2006, or \$6.71 million, is derived from reduced awards in the Minnesota State Grant program. An estimated 35,802 of Minnesota's projected 79,676 State Grant recipients will receive smaller awards, while about 18,960 state grant recipients will receive slightly larger awards. An estimated 35,406 of the projected 64,382 students receiving a Federal Pell Grant will receive a smaller grant award.¹ On net, an estimated 55,774 students will receive smaller awards. Hardest hit by the change in both programs generally are students and families with higher incomes.

An online financial aid estimator is available at www.mheso.state.mn.us for students to use to calculate their estimated financial aid package.

A family's ability to pay for college is one important factor in calculating financial aid awards. When determining a family's ability to pay, both the Federal Pell Grant program and the Minnesota State Grant program refer to the same Federal formula, called Federal Needs Analysis. The Tax tables applied in the Federal Needs Analysis were updated in December 2004. Because the tables had not been updated for the Federal Needs Analysis for more than 15 years, the changes are significant. Some families will be expected to pay a greater share of their college expenses based on their ability to pay. In Minnesota, this expectation is referred to as the "assigned family responsibility" in calculating state grants.

¹ The report does not take into account students receiving Federal Pell Grants who do not meet the program eligibility requirements for the Minnesota State Grant Program.

Overall Results

The differences between the projections for Fiscal Year 2006:

| Projection | Number of Minnesota State Grant Recipients | Combined Federal Pell and Minnesota State Grants Received (million) | Minnesota State Grants Received (million) |
|-----------------------------------|--|---|---|
| 1 FY 2006 projection | 79,676 | \$270.09 | \$143.45 |
| 2 FY 2006 with the New Tax Tables | 76,793 | \$257.72 | \$136.75 |
| Difference | (2,883) | \$(12.37) | \$(6.71) |
| Percentage Change | -3.6% | -4.6% | -4.7% |

The differences between the projections for Fiscal Year 2007:

| Projection | Number of Minnesota State Grant Recipients | Combined Federal Pell and Minnesota State Grants Received (million) | Minnesota State Grants Received (million) |
|-----------------------------------|--|---|---|
| 1 FY 2007 projection | 84,450 | \$288.55 | \$153.88 |
| 2 FY 2007 with the New Tax Tables | 81,439 | \$275.45 | \$146.79 |
| Difference | (3,011) | \$(13.10) | \$(7.09) |
| Percentage Change | -3.6% | -4.5% | -4.6% |

About 36,000 Minnesota State Grant applicants were projected to receive, on average, a Minnesota State Grant in Fiscal Year 2006 that will be about \$175 less and about 19,000 receive a small increase due to the changes in the Federal Need Analysis, as shown in the following table:

| | Projected to Receive Smaller Minnesota State Grants | Projected to Receive Larger Minnesota State Grants |
|------------------------------------|---|--|
| Number | 35,802 | 18,960 |
| Average (Median) Change | \$172 | \$39 |
| 75 th Percentile Change | \$366 | \$82 |

About 3,000 of those projected to receive smaller awards would have their awards go to zero.

About 35,000 Minnesota State Grant applicants were projected to receive, on average, a Federal Pell Grant in Fiscal Year 2006 that will be about \$150 less due to the changes in the Federal Need Analysis, as shown in the following table:

| | Projected to Receive Smaller Federal Pell Grants |
|------------------------------------|--|
| Number | 35,406 |
| Average (Median) Change | \$150 |
| 75 th Percentile Change | \$200 |

Of these, about 2,300 are projected to have their Federal Pell Grants reduced to zero.

About 56,000 of the students eligible for Minnesota State Grants were projected to receive smaller grants, as shown in the following table. The population of applicants was split into two groups in the table. The first group is those projected not to receive a Minnesota State Grant but would receive a Federal Pell Grant. About 5,000 students in this group would receive smaller Federal Pell Grants averaging \$100. The second group is those projected to receive a Minnesota State Grant. About 51,000 students in the second group would receive smaller combined Federal Pell and Minnesota State Grants averaging \$184. In this second group, the smaller awards could be a result of a smaller Federal Pell Grant, a smaller Minnesota State Grant, or a combination of the two.

| | Projected to Receive a Smaller Federal Pell Grant | Projected to Receive Smaller Combined Federal Pell and Minnesota State Grants |
|------------------------------------|---|---|
| Number | 5,044 | 50,730 |
| Average (Median) Change | \$100 | \$184 |
| 75 th Percentile Change | \$150 | \$305 |

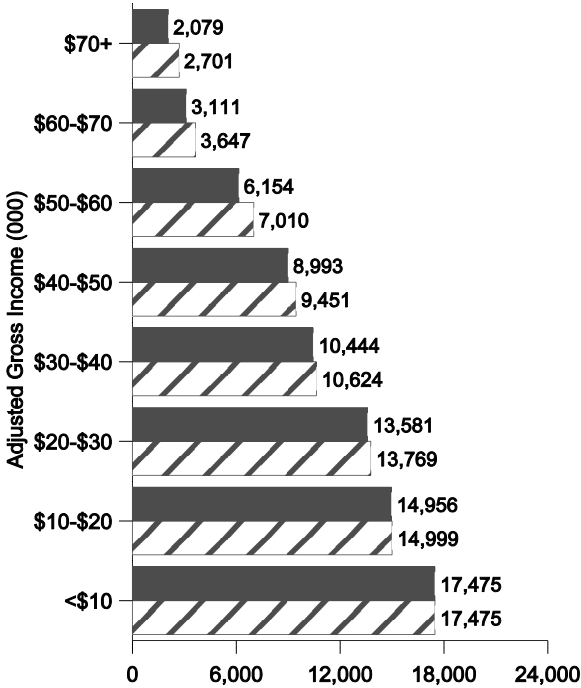
Many financial variables are used in calculating Minnesota State Grants but for purposes of presenting statistical distributions of program statistics, only an income associated with the recipient is used.

- For dependent students, income in the following charts is the Adjusted Gross Income reported by the parent or parents on their 2002 personal federal income tax returns.
- For independent students, income is the Adjusted Gross Income reported by the student (and spouse) on his or her 2002 personal federal income tax return.

Chart 1. Projected Minnesota State Grant Statistics

Low-income students are affected least by the changes.

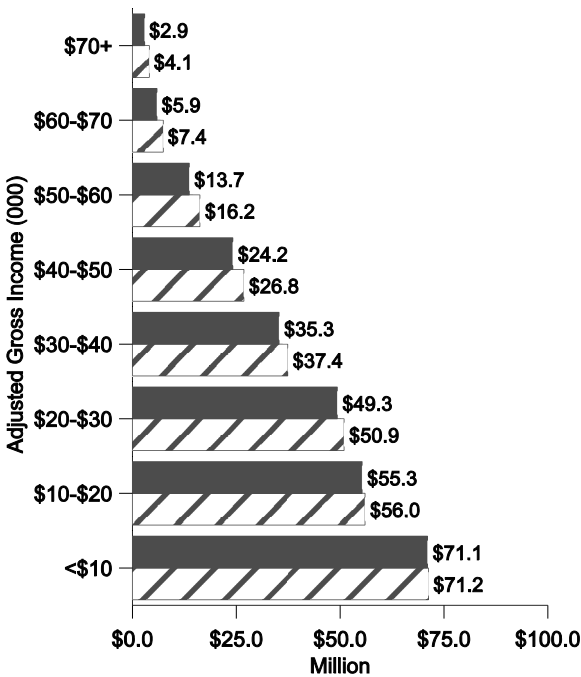
Minnesota State Grant Recipients



■ Projection 2: FY 2006 with the US Department of Education's adjustments to the table for state and other taxes

▨ Projection 1: FY 2006

Combined Federal Pell and Minnesota State Grants



Minnesota State Grants

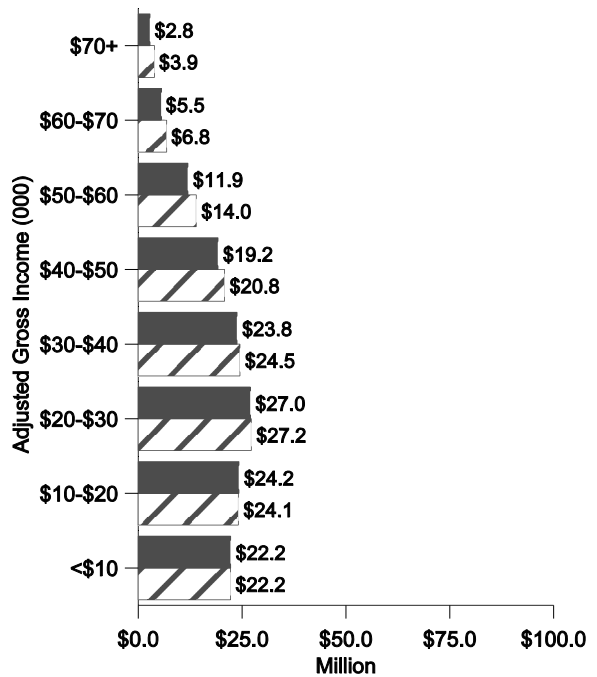
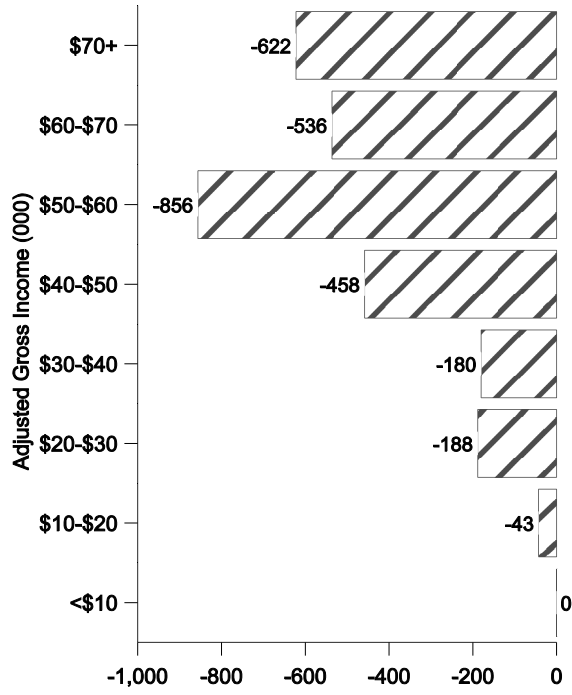
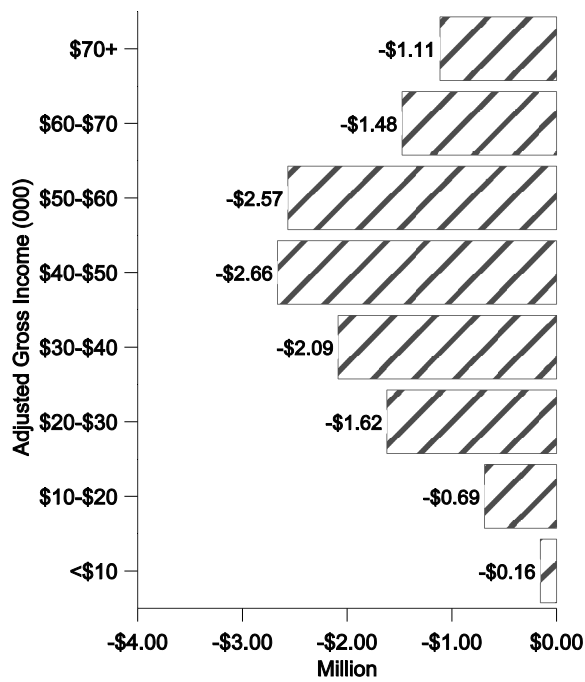


Chart 2. Projected Minnesota State Grant Statistics
Differences between projections shown in Chart 1

Minnesota State Grant Recipients



Combined Federal Pell and Minnesota State Grants



Minnesota State Grants

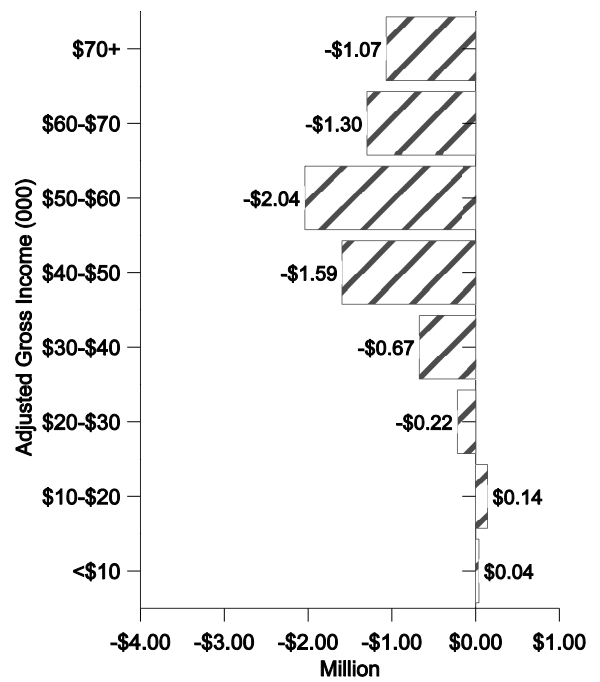
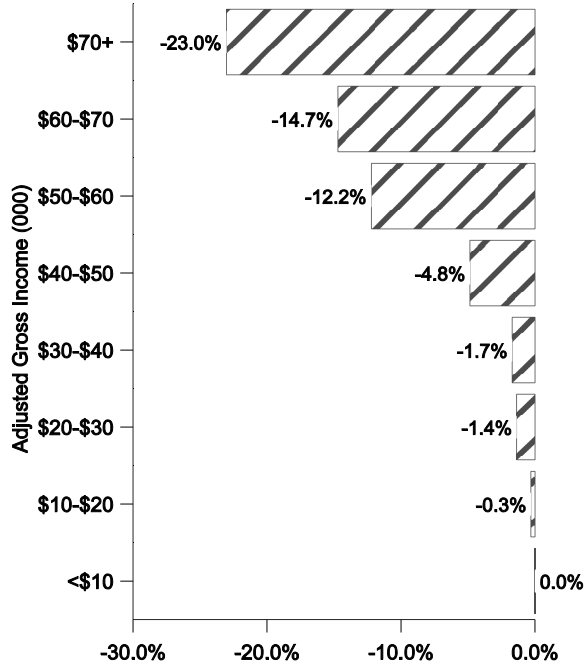
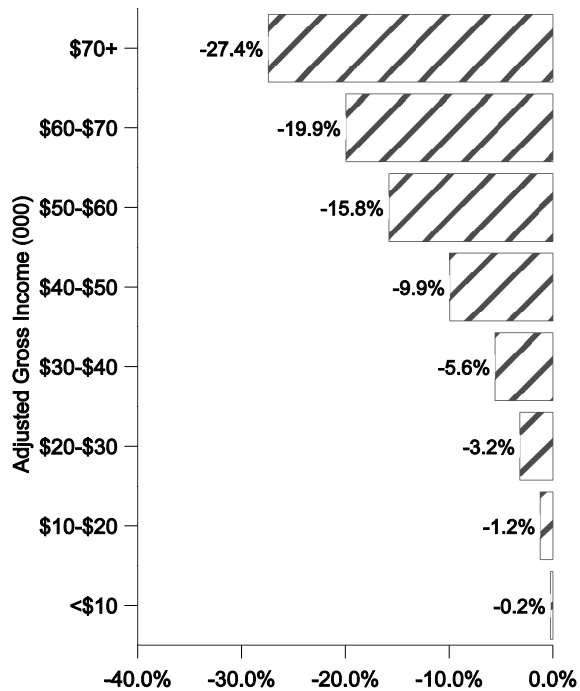


Chart 3. Projected Minnesota State Grant Statistics
Differences between projections shown in Chart 1

Minnesota State Grant Recipients



Combined Federal Pell and Minnesota State Grants



Minnesota State Grants

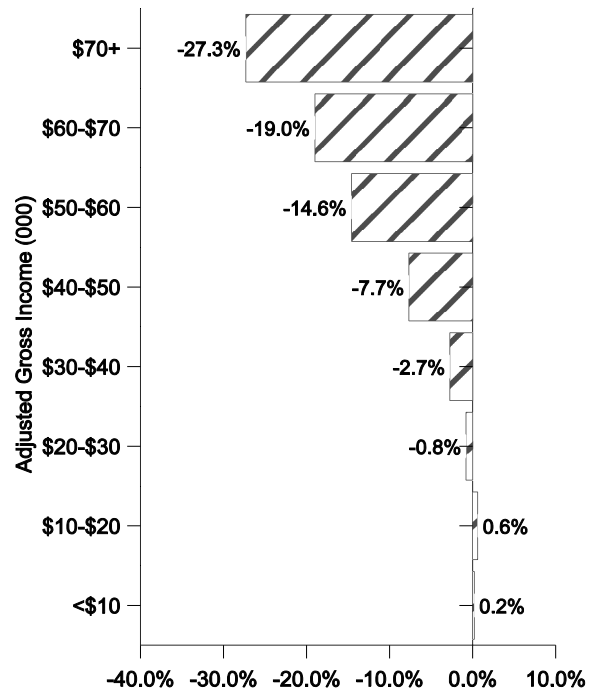
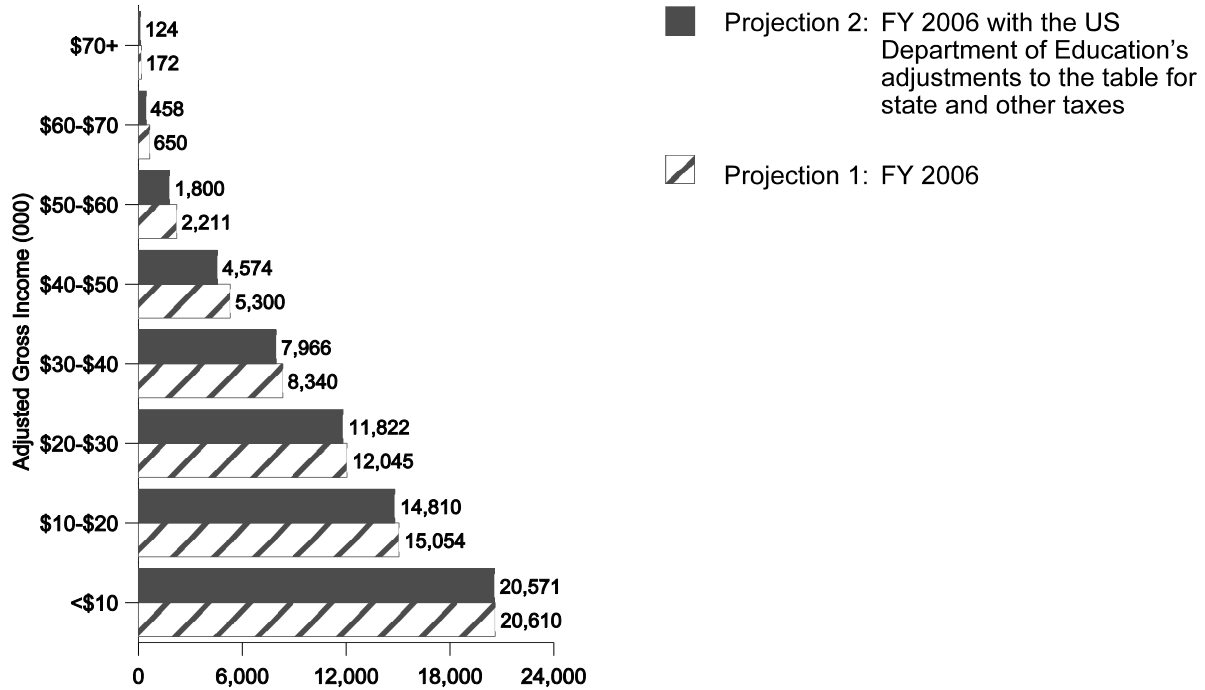


Chart 4. Projected Federal Pell Grant Statistics (Based on Population of Reported Minnesota State Grant Applicants)

Federal Pell Grant Recipients



Federal Pell Grants

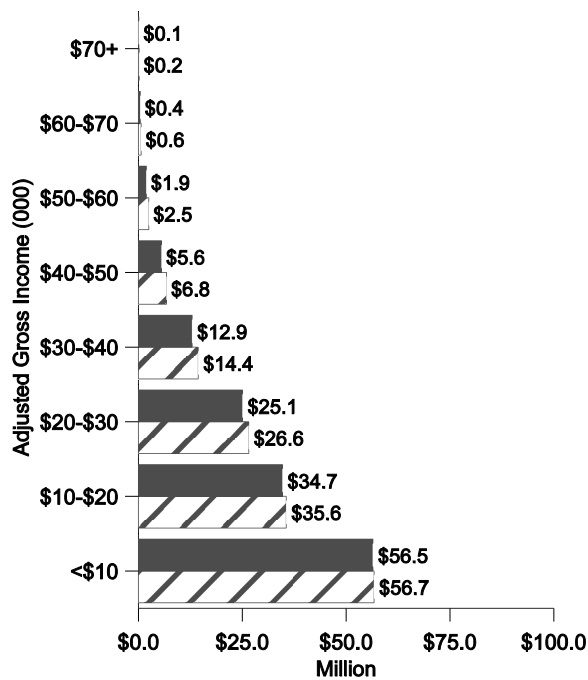
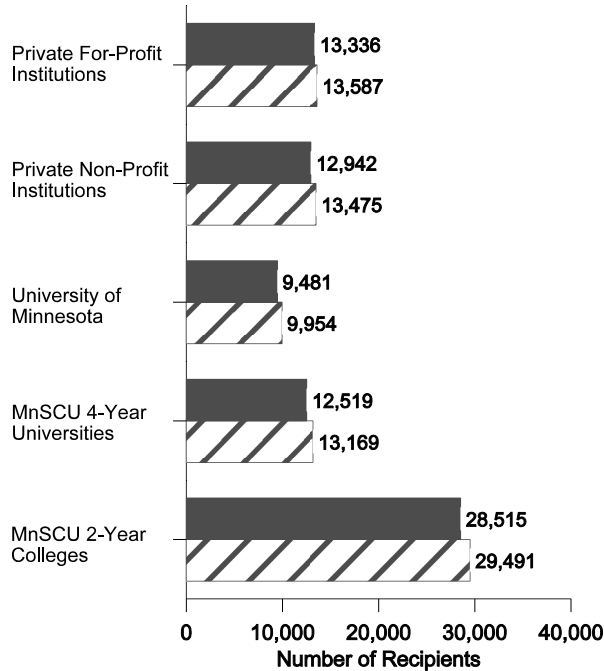


Chart 5. Projected Minnesota State Grant Statistics

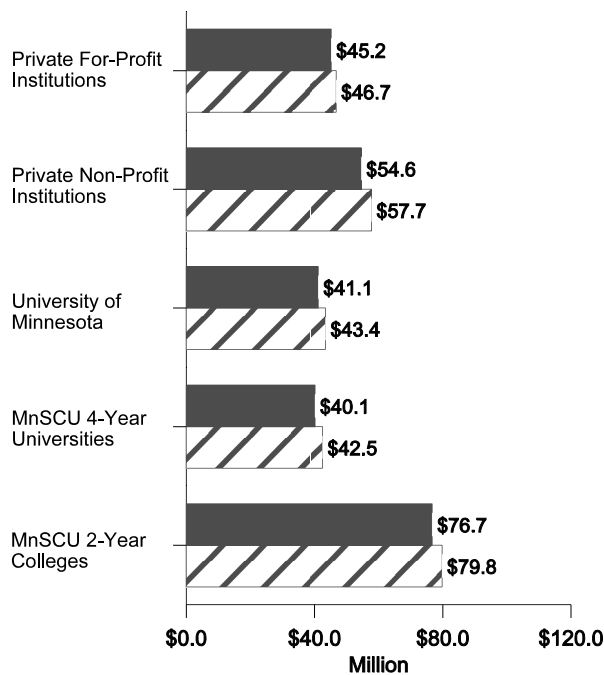
Minnesota State Grant Recipients



■ Projection 2: FY 2006 with the US Department of Education's adjustments to the table for state and other taxes

▨ Projection 1: FY 2006

Combined Federal Pell and Minnesota State Grants



Minnesota State Grants

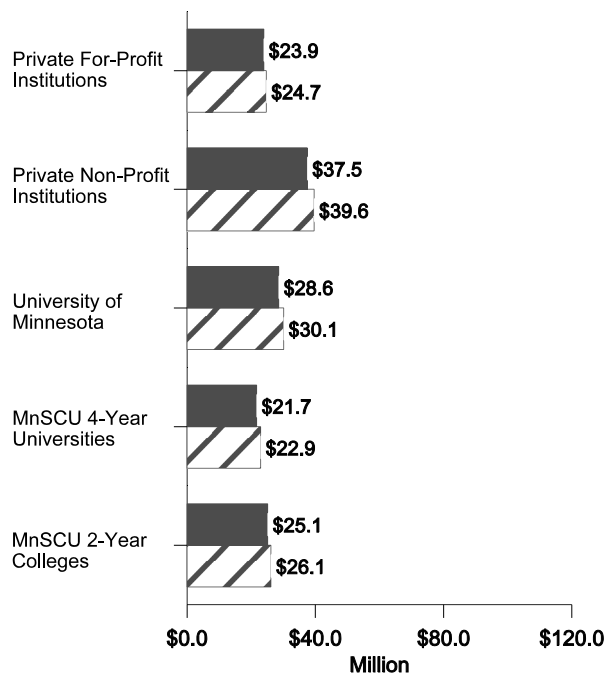
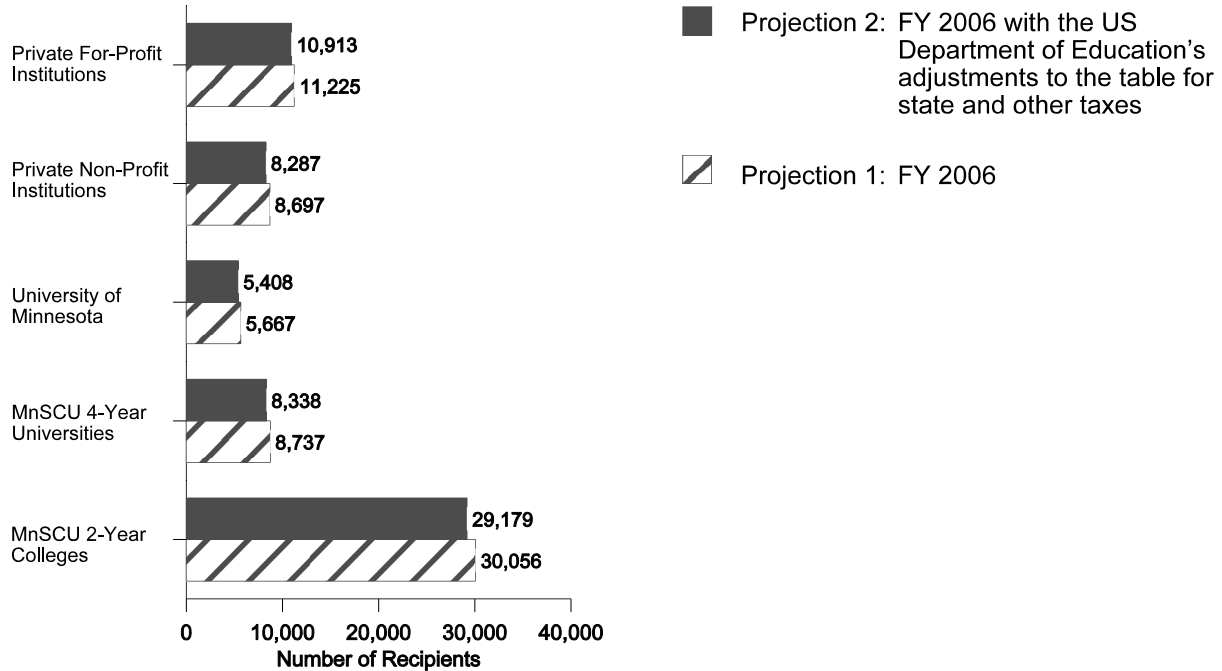
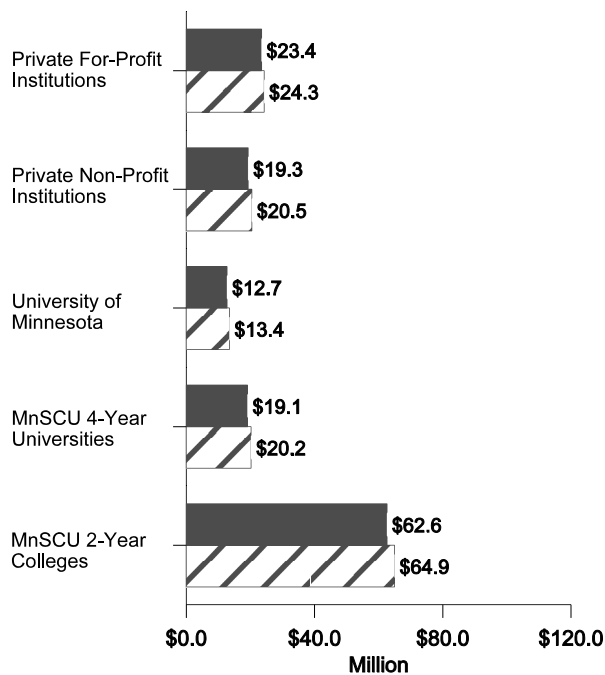


Chart 6. Projected Federal Pell Grant Statistics (Based on Population of Reported Minnesota State Grant Applicants)

Federal Pell Grant Recipients



Federal Pell Grants



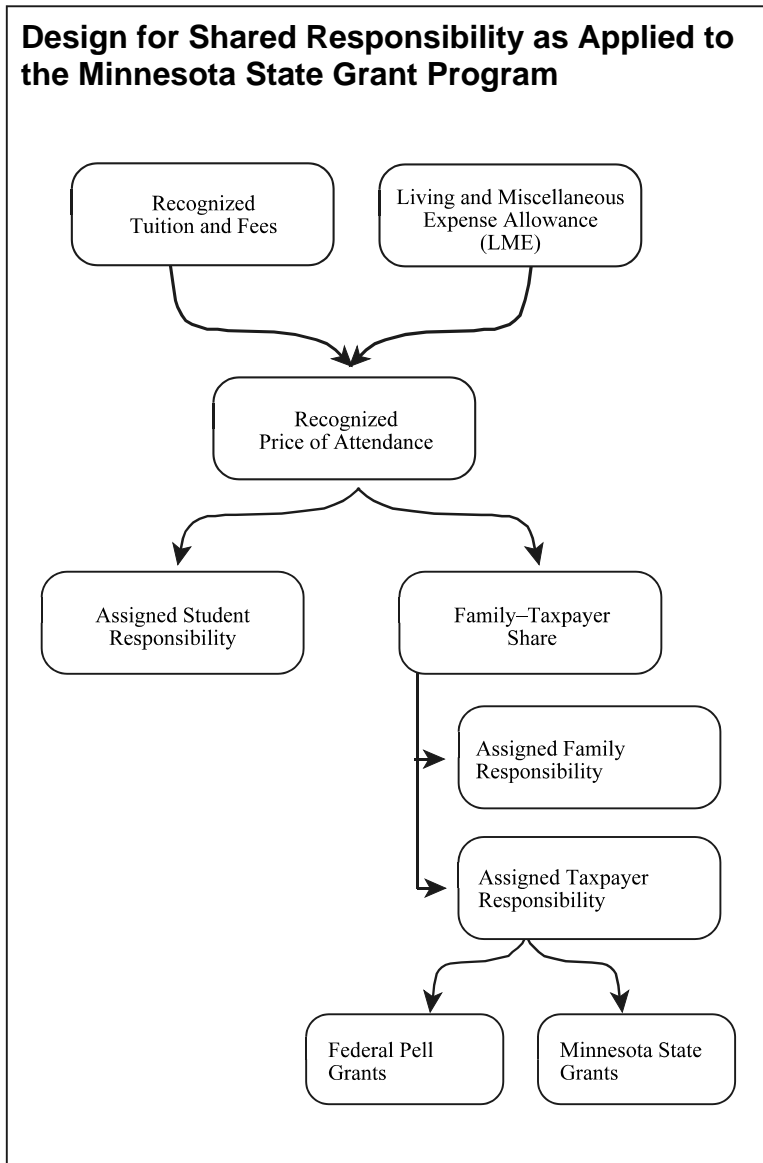
Design for Shared Responsibility

To provide a context for the projections that follow, a quick review of the Design for Shared Responsibility is provided in this section.

Students determine the price of investing in their post-secondary educations by the choices they make, such as decisions of where to attend and size of their registration loads.

The Design for Shared Responsibility, as applied to Minnesota State Grants, distributes the price of post-secondary education based on family circumstances and attendance choices among students, families, and taxpayers, as shown on the chart to the right. Projections of Minnesota State Grants make assumptions about all the steps shown on the chart.

- The state expects *students* to make a significant personal investment in their own post-secondary educations up front, called Assigned Student Responsibilities.
- The state expects *families* to invest in their students' post-secondary educations based on their ability to pay, called Assigned Family Responsibilities.
- The state leverages *taxpayers'* federal tax dollars (Federal Pell Grants) to work with state tax dollars (Minnesota State Grants) to meet the state policy of helping to cover the price for families whose ability to pay (Assigned Family Responsibility) does not provide full coverage of their Family-Taxpayer Share.



All of these steps affect the projections reported above.