

*Students*

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# The Modern Family: a Challenge for Student Aid

## Divorce, remarriage, pre-nups, and same-sex parents lead to technicalities and tough calls

By ELIZABETH F. FARRELL

Los Angeles

The job has never been easy. But these days, Maureen McRae Levy says her role as director of financial aid at Occidental College here requires her to wear more hats than ever before.

"I have to be a tax-enforcement agent, lawyer, accountant, and social worker," she says.

Many other student-aid professionals describe their jobs in similar terms. Determining how much families can pay for college has become more complex as the very definition of family has evolved. A growing number of students are coming from nontraditional families, and many college officials are scrambling to accurately evaluate their financial situations.

Students whose divorced parents have remarried bring complex financial profiles, as do students with unmarried parents who live together. "The days when the typical situation was the mom, dad, kids, station wagon, and dog are long gone," says Ms. McRae Levy.

Colleges face more and more tough questions that they cannot answer by looking at checked boxes on tax returns or financial-aid forms.

For instance, how should a college assess a family's ability to pay if a remarried couple has signed a prenuptial agreement stating that one spouse is not responsible for the college costs of the other's children? Should tax forms from both members of a same-sex couple be evaluated, even though the Defense of Marriage Act prevents them from being legally recognized as married?

There are no rules of thumb for dealing with questions like those, and at different institutions, the answers vary.

Recent changes in federal regulations have further complicated the picture. In the 2004-5 academic year, the U.S. Education Department asked financial-aid administrators to do more than ever before to ensure that families were correctly claiming exemptions and filing the appropriate tax returns.

Many student-aid administrators say the Education Department set forth the guidelines without

specifying how and when to enforce them.

"I get the sense that many financial-aid offices feel overwhelmed by this," says Jim Briggs, an accountant known as the Tax Detective, who specializes in training financial-aid officers to read tax forms. "A lot of them tell me they are concerned about acting as more or less agents of tax compliance."

### **Forms and Information**

The Department of Education clearly states in its instructions to financial-aid officers that the government does not expect them to be tax experts, but Mr. Briggs often jokes that it does expect them to be "advanced intermediates."

Like accountants, they need to know how families should report adjusted gross income and claim tax exemptions. The Education Department typically asks a college to verify the accuracy of information in between 20 percent to 50 percent of the financial-aid requests it receives. The department, however, does not require an institution to verify more than 30 percent of them, out of recognition of the limited resources available to most financial-aid offices. To comply, aid officers must review the financial-aid forms that families submit to the college as well as their federal income-tax returns, to ensure that there are no discrepancies between the two.

At many small private colleges, the financial-aid office verifies 100 percent of its aid requests. One reason: Families often have to submit financial-aid forms before they complete their tax returns, and the information they provide in advance is only an estimate. Colleges also do a lot of double-checking because families often have an incomplete or inaccurate understanding of their own finances, according to many financial-aid officers.

And even the most conscientious family can make mistakes because there are discrepancies between how they should report information on their tax returns and on financial-aid forms. Consider the issue of marital status for recently divorced parents. If the parents were divorced in January 2008, they would be correct to list themselves as such on the Free Application for Federal Student Aid, or Fafsa, because the form is typically not available until that month. However, the same parents would also send the college a 2007 tax return indicating accurately that they were married.

The IRS and the Fafsa also use different standards for determining how many dependents a parent can claim. The Fafsa formula counts a 25-year-old college student whose parents are paying for his education as a dependent. Federal tax forms do not.

Further muddying the equation is the CSS/Financial Aid Profile, a more in-depth application that more than 350 colleges require in addition to the Fafsa. Institutions that use only the Fafsa do not consider the income of a noncustodial parent when calculating financial aid, but those with the CSS Profile do consider it.

### **Lack of Guidance**

While the Education Department expects college financial-aid offices to ensure that families report their income correctly on tax forms, the IRS has been lax in enforcing those regulations over the last decade, says Mr. Briggs, who is a former IRS agent.

As a result, many accountants have advised families to use questionable loopholes in reporting their income. When a parent gets a call from a student-aid officer about a tax return, he or she can become

defensive.

"The common response is, Who are you, financial-aid officer, to question the wisdom of my tax preparer?" says Mr. Briggs.

Though many financial-aid administrators lament the lack of guidance they receive from the Education Department on how to enforce the rules, the department has made some changes in its financial-aid form that reflect how the modern family has changed.

The Fafsa now includes instructions on how students with parents who are unmarried but living together should fill out the form. The College Board, which owns the CSS Profile, has also changed the language on the form from "Name of Mother" and "Name of Father" to "Parent 1" and "Parent 2," in acknowledgment of same-sex couples.

Yet those changes provide little guidance for financial-aid officers in more complicated scenarios. Take a remarried mother who signs a prenuptial agreement stipulating that her new husband does not have to pay for his stepchild's college education. Most colleges respond by telling families that such personal agreements, though they are legal documents, do not trump the institution's assessment of a stepparent's ability to help pay.

Financial-aid offices have leeway to make such determinations, and some colleges will discount the spouse's income if they learn the stepparent would refuse to pay even if the college counted him or her in the aid calculation.

Federal guidelines state only that financial-aid officers should use their best professional judgment and be consistent with all families when determining the ability to pay.

For that reason, many colleges are looking outside for help. John E. Gudvangen, associate director of financial aid at Colorado College, says he hopes to hire an accountant soon to help him and his staff make tricky determinations.

"It seems more often than not we need to research federal law and our own policies for the situations we see," Mr. Gudvangen says. "That's not always easy."

### **Delicate Questions**

But no accounting question is as complex as some of the delicate subjects aid officers must broach with families. Financial issues are emotional issues. They are inextricably linked to philosophies of child rearing, choices families make, and the stress of filing taxes. The questions financial-aid officers often have to ask can seem nosy, at best.

"It's not always so fun dealing with families that are facing these issues," Mr. Gudvangen says. "They have to be handled very carefully."

Mr. Gudvangen cites one student whom his office had classified as financially independent from her parents because they were abusive. As an independent adult, the student was eligible for a lot more financial aid than she would have been if her parents' income were factored into the calculation. During her time as a student, however, she reconciled with her parents, and the office had to decide whether to reduce her aid package.

Mr. Gudvangen and his colleagues decided to keep the student's independent status.

"Contact and reconciliation does not equal financial support," he says.

Another prickly predicament arises when colleges must deal with parents who are embroiled in legal battles over child support. Kathryn P. Blaisdell, director of Mount Holyoke College's student financial services, says such parents are often wary of handing over their financial information, for fear that their former spouses will obtain it.

Though she assures them that their information will remain confidential, she must often justify why her office needs the information in the first place.

"We try to tell them how we need both the numbers and family story to get an accurate picture," she says.

Ms. McRae Levy, at Occidental, says she deals with particularly obstinate families by gently reminding them that if they really want to keep their finances private, they always have the option of not applying for financial aid.

"We have to be a little cynical by nature because we're giving away other people's money," she says.

Though college financial-aid officers say they want more guidance from the Education Department, none said they expected to receive it anytime soon. Some private institutions with large endowments can allocate the bulk of their aid freely, but most colleges will remain largely dependent on the federal standards because so much of the aid their students receive is financed by Uncle Sam.

Though the situation is not ideal, Ms. McRae Levy said that the lack of specific protocols set forth by the Education Department may have some advantages for colleges.

"When guidance is called for, it usually comes with restrictions, which is not what is necessarily needed in these family situations," she says. "At the moment, we are able to handle these families on a one-on-one basis. We will lose flexibility to meet their real needs if a one-size-fits-all rule is thrust upon us."

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