

AGENDA ITEM 7.

FY2013 MONETARY AWARD PROGRAM (MAP) RECOMPUTE FORMULA

Submitted for: Action

Summary: At the January 2012 Commission Meeting, the Commission approved a start-up formula to calculate MAP eligibility for applicants planning to attend college in the 2012-13 academic year. Announcing a formula early enables financial aid advisors to package awards and helps applicants determine whether and where to enroll. Once the MAP appropriation is determined the Commission approves a recompute formula based on the new information.

The General Assembly recently approved the FY2013 budget, which included a FY2013 MAP appropriation of \$371 million, about 4 percent less than expected earlier this year. The March 20 suspense date was based on an assumed \$387 million, consistent with the initial FY12 MAP appropriation and direction from members of the House Higher Education Appropriations Committee. Although FY2012 is not final, claim rates are lower than FY2011 so the \$371 million appropriation may sufficiently cover claims.

Currently the demand for MAP is lower than last year. In mid-March, announced application volume (undergraduate Illinois residents planning to attend MAP-eligible schools) was up 14 percent, but by the end of May FY2013 announced volume was about 2 percent lower than last year, indicating a trend of students filing earlier.

The trend toward earlier filing complicates ISAC's goal of spending but not over-spending the MAP appropriation in two ways. First, the suspense cut-off can only be done in daily increments. Until recent years suspense dates were typically in August, when daily claims were around \$1 million. In the days leading up to this year's March 20 suspense date, projected daily claims ranged from \$4 to \$7 million, so cutting off at a day is less precise than in the past.

Also, as alluded to earlier, previous year claim rates are proving less accurate for projecting current claims. In years past, earlier filers were more likely to claim and to attend full-time, while later filers were more likely to attend part-time or not show up at all. Now more applicants are filing earlier and bringing their attendance behavior with them. FY2013 claims are \$12 million lower when projected using near-final FY2012 claim rates compared to projections using FY2011 claim rates. When the March 20 suspense date was determined, the second-term claim deadline for FY2012 MAP claims had not passed so FY2012 rates could not be used yet.

To help deal with these uncertainties and administer MAP as efficiently as possible, in FY2011 the Commission approved the idea of reducing second- and third-term claims, if necessary, to ensure spending as much of the appropriation as possible without exceeding it. That year, second-term claims were reduced 5 percent; had action been taken at recompute instead of after first-term claims were received the reduction would have been larger. A reduction in FY2013 would likely be smaller than 5 percent, if needed at all.

Action requested: Staff requests the Commission approve the FY2013 recompute formula to be the same as the FY2013 MAP start-up formula. In addition, the Commission is being asked to approve reducing second- and third-term awards to stay within the appropriation, if determined necessary following receipt of first-term claims.

**ILLINOIS STUDENT ASSISTANCE COMMISSION
FY2013 MONETARY AWARD PROGRAM RECOMPUTE FORMULA**

Background

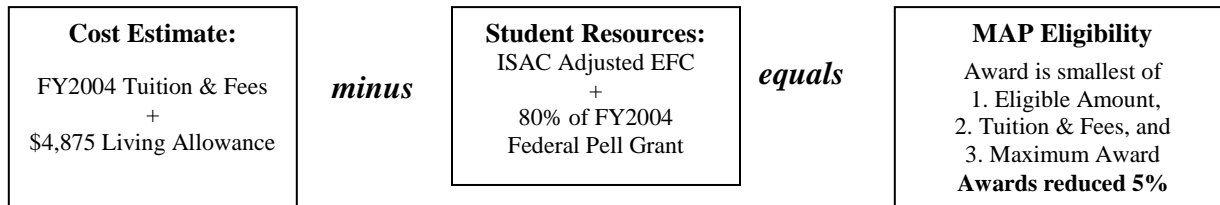
In January the Commission approved a start-up formula to calculate Monetary Award Program (MAP) eligibility for students planning to attend college in academic year 2012-13. The formula is determined early in the program cycle so financial aid advisors can give prospective students an idea of the amount of aid they may receive. When the appropriation is (ideally) final the Commission reviews and approves a recompute formula, which may or may not differ from the start-up formula. The FY2013 MAP appropriation is \$371 million – about 4 percent less than was expected when the suspense date was set in March. Nevertheless staff recommends the FY2013 MAP start-up formula be retained as the recompute formula with the option of reducing second- and third-term awards if determined necessary to keep claims within the \$371 million appropriation.

This item briefly reviews the start-up MAP formula, discusses current trends in application volume and recommends a FY2013 recompute formula designed to minimize the effects of these trends and to help ensure the appropriation is spent but not exceeded.

FY2013 Start-Up Formula

The MAP formula determines whether a student is eligible and calculates the amount of students' awards. Figure 1 shows the basic formula, which uses the difference between a cost of attendance figure and student resources to calculate maximum eligibility.

Figure 1: Basic FY2013 Start-up MAP Formula



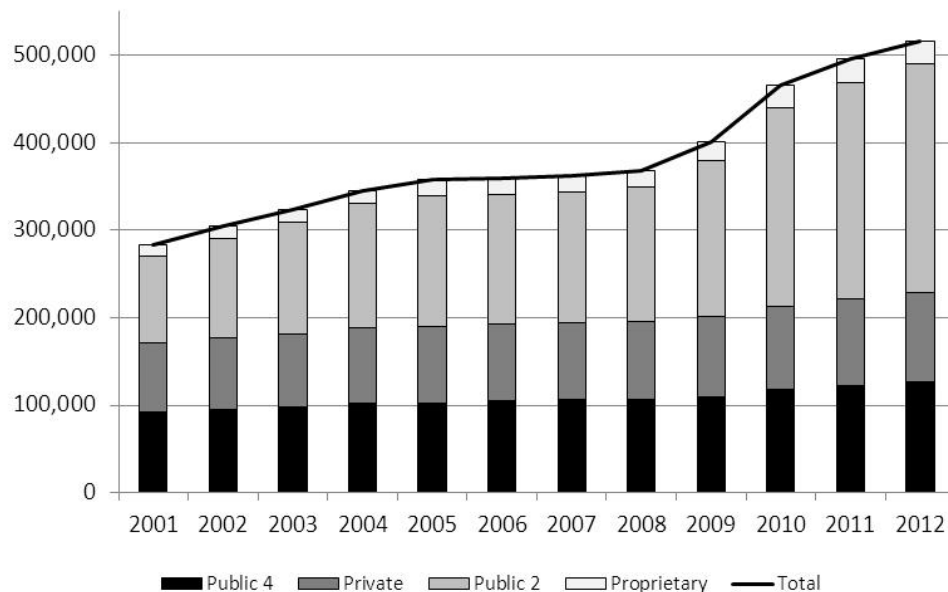
College costs used in the MAP formula include tuition and mandatory fees plus a \$4,875 living allowance. Between FY2002 and FY2012 announced application volume increased 70 percent. MAP funding has not increased accordingly and formula components have fallen behind. Current tuition and fees have not been used in the formula since FY2002; the FY2013 formula still uses FY2004 tuition and fees. Formula resources are based on an inflated federal expected family contribution (EFC) plus a portion of Pell grant eligibility. MAP eligibility is determined by subtracting resources from the cost figure. If costs exceed resources by \$300 or more and other criteria are met, the student is eligible for a MAP grant. Eligibility is capped at the lesser of the eligible amount, the tuition and fees used in the cost portion of the formula, or the statutory maximum award of \$4,968. MAP grants can only be applied to tuition and mandatory fees.

FY2013 Application Volume

MAP application volume is affected by demographic variables and economic conditions that vary over time. Illinois State Board of Education and National Center for Education Statistics data indicate the number of Illinois high school graduates increased about 13 percent between 2002 and 2012. At the same time, the proportion of Illinois students from low-income families is rising, so more students are qualifying for need-based financial aid. The number of independent students applying for aid typically depends on the economy. Although Illinois' unemployment rate is lower than a year ago, the most recent 8.6 percent in April 2012 is still significantly higher than 4.5 percent in April 2007, so there are still many "non-traditional" students attending college to improve their employment prospects. Increased outreach efforts, especially targeting high school students, have also affected the volume and timing of MAP application submissions.

Announced MAP application volume since FY2001 is shown in Figure 2. Annual increases through FY2004 were around 6 or 7 percent, then the increase slowed to 4 percent in FY2005. End of year numbers for FY2006 and FY2007 were within 1 percent of the previous year. FY2008 application volume started out lower than FY2007, but by June was even, and at the end of the year was 2 percent higher. Annual increases since then were 9% in FY2009, 16% in FY2010, more than 6% in FY2011, and 4% in FY2012. Although FY2013 may see a decrease in application volume, the large increases already experienced coupled with a lack of adequate funding result in much lower purchasing power of MAP.

Figure 2: Monetary Award Program Announced Application Volume, FY2001 – FY2012



MAP Appropriation

The FY2013 MAP appropriation is \$371 million, 4 percent lower than expected when the suspense date was chosen in March. Since it appears FY2012 claim rates will be significantly lower than FY2011, projected FY2013 claims may drop by \$12 million once FY2012 is final and those rates are applied to FY2013 applications to project FY2013 claims. It is quite possible that \$371 million will cover FY2013 claims for applicants through March 19 without reducing awards. However, once first-term claims have been made staff will determine whether a reduction to second- and third-term claims will be necessary to keep claims at or under \$371 million.

Uncertainties in Choosing a Suspense Date and Projecting Claims

MAP is now operating in somewhat uncharted territory. While projecting MAP claims months before the academic year starts has never been easy, effects of the poor economy and increased outreach efforts have added to the uncertainty. Uncertainty comes from projecting how much eligible MAP dollars will increase as a result of “corrections” as well as from projecting the claims that will be made by eligible MAP applicants. Correction rates and claim rates from previous years are used to project current year claims.

“Corrections” for the purpose of estimating MAP claims result from students filing subsequent FAFSAs that change their EFCs, resulting in different eligibility amounts. For MAP projection purposes corrections are also caused by students claiming MAP at schools that were not listed as first-choice on their FAFSAs. Percentage changes vary by timing, dependency type, and sector, but overall the corrections rate in FY2012 at 5 percent was substantially lower than in previous years. Each percentage difference can result in a roughly \$4 million change in MAP claims.

Once past correction rates are applied to current year data to project what eligible dollars might be at the end of the cycle given current eligible dollars and distribution by dependency type and sector, claim rates are then applied to the projected eligible dollars to help determine when suspense should occur. With the trend towards earlier FAFSA filings, previous-year rates are becoming less effective for projecting current-year claims. It is likely that intense outreach efforts both at the high school level and in general are encouraging people who would have filed a FAFSA later or perhaps not at all, to apply earlier, complicating projections. No one is complaining about more students applying for need-based aid, but it does complicate projections.

Recommended FY2013 Recompute Formula

The FY2012 program cycle is not quite final. But given the reduction in projected FY2013 claims based on nearly-final FY2012 claim rates compared to projections using FY2011 claim rates, and using the relatively low FY2012 corrections rates, it appears likely at this point that the \$371 million will cover claims for FY2013 applicants through March 19. Therefore staff recommends the Commission adopt the FY2013 start-up formula as the recompute formula; with the understanding that second- and third-term awards may be reduced if necessary to stay within the appropriation. The ILASFAA Formula Committee has agreed with this approach in the past.

Another option would be to incorporate a reduction factor at recompute then either increase later-term awards or release applications if it appears that claims would be lower than projected. However, the recommended approach has historically worked very well.

Staff recommends that the Commission adopt the formula described in Table 2 below as the FY2013 MAP recompute formula. Keeping the formula the same as the start-up formula, with the option to reduce second- and third-term awards if necessary is a prudent approach to maximizing the size of MAP awards while keeping claims within the appropriation.

Table 2: FY2013 Staff- Recommended MAP Recompute Formula

Budget	
1	Use 2003-2004 reported tuition and fees at all institutions, assessed at 100 percent at all institutions.
2	Use one living allowance for all applicants, set to \$4,875.
Resources	
1	Use 80 percent of Pell Grant eligibility as determined by the 2003-2004 Pell Grant Payment Schedule, which contains a \$4,050 maximum.
2	Calculate the ISAC adjusted EFC by inflating the Federal EFC. Adjusted Dependent Students' Expected Family Contribution: Adjustment Factor = $[(\text{Parent Contribution (PC)} / 11,000) + 1.10]$ rounded to 2 decimal places Adjusted PC = PC x Adjustment Factor Adjusted EFC = Adjusted PC + highest of Student Contribution or self-help expectation Adjusted Independent Expected Family Contribution: Adjustment Factor = $[\text{EFC} / 11,000 + 1.10]$ rounded to 2 decimal places Adjusted EFC = EFC x Adjustment Factor
3	Use a minimum self-help expectation of \$1,800 for all students.
Award Amounts	
1	Set the maximum award equal to the lesser of \$4,968 or the tuition and mandatory fees specified in the budget. Set the minimum award to \$300; round maximum eligibility in \$150 increments to calculate partial awards.
2	Applicants with an EFC of \$9,000 or above are not eligible.
3	Reduce awards by 5%.
4	If determined necessary after first-term claims are received, reduce second- and third-term awards to stay within the appropriation. Reduction factors would differ slightly for semester schools and quarter schools to keep the percentage award reduction equal whether applied to the second-term award for semester school students or second- and third-term awards for quarter school students.
5	Students who have used 75 or more MAP paid credit hours must be a junior or senior to be eligible for MAP. Students who have used 135 or more MAP paid credit hours are not eligible for MAP.