

## PROFESSIONAL JUDGMENT TIP SHEET

### Topic: Exceptional Expenses

#### What?

Standard Institutional Methodology (IM) and Federal Methodology (FM) include an Income Protection Allowance (IPA) that recognizes a base level of living expenses. The philosophy behind the IPA is to ensure that all families are measured against a defined point called the *point of zero contribution*. This is the point at which all resources are being used to support the family, leaving no room for discretionary<sup>1</sup> choices. A family may experience unusual expenses, not recognized in the methodology, which might require additional consideration.

#### Why?

While the philosophical approach to assessing a family's financial need does not consider the expenses a family might voluntarily incur, there are times where a family may have experienced an exceptional, non-discretionary expense. Examples include, but are not limited to, support of extended family, uninsured casualty losses, some types of bankruptcies, natural disasters, funerals, certain expenses related to divorces or other types of legal fees, and unusual medical expenses (see the Medical/Dental Expenses Tip Sheet).

#### How do I...

##### Collect information?

A written statement should be collected from the family clearly stating the reason they are faced with the exceptional expense. Third-party documentation could also be collected, such as copies of bills, tax documents, insurance claims, etc.

##### Analyze the information?

Depending on the type of expense, the aid administrator could make an adjustment against the income or assets. If the expense impacts the family for more than one year, the aid administrator may consider making adjustments in subsequent application years.

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<sup>1</sup> Discretionary are those expenses a family can decide to incur rather than expenses a family must incur. Housing, food, utilities are all considered required for living, but even these could involve levels of choice. IM uses Consumer Expenditure Survey data to set a base level of living according to family size, and assesses only income which exceeds that amount.

## **Treatment in IM and FM**

Similar approaches can be used in both IM and FM. However, the aid administrator should ensure the adjusted data elements are appropriate for each methodology. For example, home equity is included in standard IM but excluded in FM.

## **IM Options Available in Software**

The financial aid administrator can incorporate the exceptional expenses into the IM needs analysis by entering the amount into the additional or other allowance field on the calculation page (FNAR). These fields are provided for both the income and asset allowances.

## **Additional Considerations**

The aid administrator should consider the expenses actually paid within the year under review and make sure that the allowed expenses do not include amounts covered by insurance.

The aid administrator may want to evaluate how the current exceptional expense relates to the base year, recent year and anticipated year income. For example if the family's anticipated year income is significantly different than the base year income, it may be more appropriate to consider the exceptional expense against the anticipated year income.

### Case Study: Exceptional Expenses

The Pollard family appealed their financial aid award for their son. Ms. Pollard submitted a letter explaining that in the late winter, heavy snows created significant drifts against their house. Warming temperatures and rain a few days later melted the snow which flooded their unfinished basement. The Pollard's homeowner's insurance claim was denied because the source of the water was exterior to the home. As a result, the Pollards had to pay for the repair and replacement costs out-of-pocket.

Along with the letter, Ms. Pollard submitted a copy of the homeowner's insurance denial letter, an itemized list of repair and replacement expenses, and the receipts for each item.

REPAIRS	EXPENSE
Flood clean-up	\$1,660
Mold remediation	\$1,410
Electrician	\$980
Plumber	\$1,200
<b>TOTAL</b>	<b>\$5,250</b>

REPLACEMENTS	EXPENSE
Furnace	\$3,940
Water heater	\$1,850
Washer and dryer	\$1,172
Interior door	\$355
Holiday decorations	\$525
Camping supplies	\$890
<b>TOTAL</b>	<b>\$8,732</b>
Total Repair Expenses	\$5,250
Total Replacement Expenses	\$8,732
<b>TOTAL EXPENSES</b>	<b>\$13,982</b>

### Decision

After reviewing the appeal, the financial aid administrator allowed the entire repair costs of \$5,250 and \$7,317 of the replacement costs for a total of \$12,567. Per institutional policy, only the cost to replace essential items (furnace, water heater, washer and dryer, and interior door) were allowed.

The financial aid administrator entered \$12,567 into the financial aid management system as an additional allowance against income. The student's eligibility for aid increased as a result.

## **Treatment in the Methodologies**

### **IM Treatment**

Standard IM allows for normal maintenance upkeep and repair of the home in the Income Protection Allowance (IPA). If the family is faced with unanticipated expenses, it may be appropriate based on institutional policy to consider additional costs beyond the standard.

The financial aid administrator could accommodate the \$12,567 in repair and replacement expenses in IM in one of the following ways:

- Enter the expense as a parent income allowance override (the option selected by this institution).
- Add the expense to the parent federal taxes paid.
- Reduce assets by the allowed expenses.

### **FM Treatment**

The financial aid administrator could accommodate the \$12,567 in repair and replacement expenses in FM in one of the following ways:

- Add the expense to the parent federal taxes paid.
- Remove the expense from the parent Adjusted Gross Income (AGI).
- Reduce assets by the allowed expenses.