



# NASFAA ISSUE BRIEF

## ADMINISTRATIVE COST ALLOWANCE

SEPTEMBER 2017

### KEY TAKEAWAYS

1. THE ADMINISTRATIVE COST ALLOWANCE (ACA) SUPPORTS THE ADMINISTRATION OF THE FEDERAL STUDENT AID PROGRAMS BY OFFSETTING THE COST OF COMPLIANCE WITH FEDERAL LAW AND REGULATION.
2. CONGRESS SHOULD MAINTAIN THE ACA, A VALUABLE RESOURCE THAT, IF ELIMINATED, COULD RESULT IN DEPLETED OPERATIONAL CAPACITY AND DIMINISHED ABILITY TO SERVE STUDENTS AND FAMILIES NAVIGATING THE COMPLEX STUDENT FINANCIAL AID SYSTEM.

*"As requirements and administrative burden from increased regulation continue to plague institutions, institutions as a whole use this money to offset the tremendous cost of personnel, IT programming/software updates, student disclosure publications, and campus-wide training related to consumer information, gainful employment, and Title IX. To reduce or eliminate ACA would end up hurting students, as already-scarce funding would be pulled from student support programs that help completion into financial aid operational budgets."*

Aid administrator from a public two-year institution

## THE ADMINISTRATIVE COST ALLOWANCE

Due to the decentralized nature of the administration of federal student aid, financial aid offices at colleges and universities must dedicate significant resources toward ensuring their students benefit from the aid for which they are eligible. The federal student aid programs have grown in complexity since their inception in the Higher Education Act of 1965 (HEA) and require full-time compliance, counseling, and support staff, up-to-date software, and regular staff training due to ever-changing regulatory requirements.

Institutions of higher education that participate in the Federal Pell Grant Program and/or the Federal Campus-Based Aid Programs (Federal Work-Study (FWS), Federal Supplemental Educational Opportunity Grant (FSEOG), and Federal Perkins Loan) are eligible for an Administrative Cost Allowance. The ACA may be used to cover costs for administering these programs, including complying with consumer information requirements, conducting a school's FWS community service program, paying staff salaries, acquiring aid administration software, or covering training costs for financial aid staff. **ACA funds support critical operational components of the financial aid office.**

## HOW THE ACA WORKS

For the Federal Pell Grant Program, the Department of Education reimburses institutions at \$5.00 per Pell Grant recipient per year. For campus-based aid, the ACA originates from the institution's federal allocation. Each institution has discretion for how much to draw down, with a maximum allowance of up to five percent of the sum of disbursements in each of the campus-based aid programs the school administers. ACA funds are not separate line items in the federal budget. Instead, ACA support comes from congressional allocations for the Pell Grant, FSEOG, and FWS programs. Since Congress has not appropriated funds for the Federal Perkins Loan Program since fiscal year 2006, participating Perkins institutions can draw-down ACA funds to support operation of the program from their existing revolving funds.

## WHAT CONGRESS CAN DO

**Maintain the Administrative Cost Allowance.** Identified for elimination in each budget resolution introduced by the Budget Committee in the House of Representatives since its fiscal year 2011 budget, the ACA provides meaningful support for financial aid offices. Its elimination would require institutions to reallocate limited resources or cut necessary student support.

*"It would be devastating for us to lose ACA. As a public institution that serves a high need population, having ACA allows us to have sufficient staff and outreach to our students. The level of service we provide would be threatened with a reduction or elimination of ACA."*

Aid administrator from a public four-year institution

## AN ON-THE-GROUND LOOK AT THE ACA

A January 2015 survey of financial aid administrators found that while seventy-four percent of those surveyed indicated the amount of financial aid disbursed has increased over the past five years, sixty-six percent of aid administrators noted their operating budgets have remained the same or decreased, and seventy-five percent said their staff size has remained constant or decreased in that same five-year span.<sup>1</sup> More than sixty percent of respondents identified "limited operating budget" as a long-term resource shortage, and approximately seventy-five percent of respondents noted "insufficient administrative cost allowances" as a cause of resource constraints.

With the increasing responsibilities of college and university financial aid offices to implement the federal financial aid programs, the administrative cost allowance remains more important than ever. A recent survey of financial aid offices at colleges and universities offers a closer look at how the ACA works on campus and why it matters to institutions.<sup>2</sup>

Seventy-four percent of institutions reported using both Pell ACA and campus-based aid ACA to support their implementation of the federal aid programs. Eighty-five percent of Pell ACA responses indicated dollars went to operational staff salaries (55%), staff training (54%), or office equipment (47%)—all essential elements for compliance and effective service for students and families—while sixty-three percent of campus-based ACA responses indicated funds went to staff salaries (42%), staff training (40%), or office equipment (38%).<sup>3</sup>

Financial aid offices reported an average campus-based aid ACA amount of about \$81,000 and an average Pell ACA of about \$14,850—small but meaningful amounts for an institution's financial aid and compliance operating budgets. With an aid administrator's median salary of \$47,455,<sup>4</sup> the elimination of Pell ACA is the equivalent of approximately one-third of a full-time staff member, while the campus-based aid ACA equates to approximately one and a half full-time staff members. Meanwhile, federal regulations require that schools provide an "adequate number of qualified persons to administer" programs authorized under Title IV of the HEA,<sup>5</sup> meaning eliminating ACA would put schools in a worse position to effectively administer the federal student aid programs and remain in compliance.

Because ACA funds support so many important objectives, its elimination has aid administrators concerned. Asked to consider how their institution would be affected if Pell ACA was eliminated, over half of surveyed financial aid administrators projected a reduction in the training budget for the financial aid office and/or a reduction in other campus services because funding would need to fill the hole left by the loss of the ACA. Respondents noted similar implications if the campus-based aid ACA was eliminated.

Financial aid administrators nationwide rely on the modest support from the Administrative Cost Allowance to effectively implement the federal student aid programs to ensure all eligible students have the support they need to pursue a higher education. 🌐

# 74%

*Institutions that reported using both Pell ACA and campus-based aid ACA to support their implementation of the federal aid programs.*

<sup>1</sup> NASFAA 2015 Administrative Burden Survey, Published April 2015

<sup>2</sup> NASAA surveyed financial aid offices about the administrative cost allowance (ACA) in June 2017. For more information on this survey please refer to our website: [https://www.nasfaa.org/FAA\\_Surveys](https://www.nasfaa.org/FAA_Surveys). Quotes from open-ended responses have been edited for clarity and length.

<sup>3</sup> Percentages for Pell ACA dollars and Campus-Based ACA dollars do not add up to 100%, as respondents were able to select more than one answer choice.

<sup>4</sup> NASFAA 2017 Annual Benchmarking Report, Published March 2017

<sup>5</sup> 34 CFR §668.16(b)(2)



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