DOCUMENT RESUME

ED 053 659 | HE 002 391

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TITLE	On the Determination of Effective Income in CSS Needs Analysis Procedures.
INSTITUTION	Educational Testing Service, Princeton, N.J.
PUB DATE	Dec 69
NOTE	23p.
AVAILABLE FROM	College Scholarship Service, Educational Testing Service, Princeton, New Jersey 08540
EDRS PRICE	EDRS Price MF-$0.65 HC Not Available from EDRS.
DESCRIPTORS	*Educational Finance, *Financial Needs, *Financial Support, Higher Education, *Student Needs

ABSTRACT

This paper sets forth a critique of the effective income concept currently (1969) in use by the College Scholarship Service in its needs analysis system, and proposes certain changes in the allowance structure. Basically, the proposed changes are: (1) that provision be made for including state income and sales taxes as an allowance in computing effective income; (2) that a variable housekeeping allowance based on size of income for working mothers be substituted for the current allowance of 25% of income; (3) that a variable base amount for medical expenditures based upon income be substituted for the current base amount of $600; (4) that provision be made for including ALL debt (excepting automobile debt) as an allowance in computing effective income; (5) that the provision of an allowance for tuition expenses at feecharging elementary and secondary schools be discontinued. (JS)

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COLLEGE SCHOLARSHIP SERVICE · EDUCATIONAL TESTING SERVICE · PRINCETON, NEW JERSEY

COLLEGE SCHOLARSHIP SERVICE

On the Determination of Effective Income in CSS Needs Analysis Procedures

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December 1969

The purpose of this paper is to set forth - somewhat briefly - a critique of the effective income concept currently being used by the College Scholarship Service (CSS) in its needs analysis system and to propose certain changes in the allowance structure. As a critique of the present rationale, it will treat only lightly previous methodology relating to income and allowances. Although the paper will review both the income and allowance side of the effective income thesis - changes in the current system are proposed only in the case of certain allowances. In essence, these changes are:

1. That provision be made for including state income and sales taxes as an allowance in computing effective income.
2. That a variable housekeeping allowance based upon size of income for working mothers be substituted for the current housekeeping allowance of 25 percent of income.
3. That a variable base amount for medical expenditures based upon income be substituted for the current base amount of $600.
4. That provision be made for including ALL debt (with the exception of automobile debt) as an allowance in computing effective income.
5. That the provision of an allowance for tuition expenses at fee charging elementary and secondary schools be discontinued.

Prior to consideration of the income and allowances structure it may be beneficial to review the basic concepts of the CSS needs analysis system as

it applies to ability to pay. Essentially, the system is based upon and has been influenced by the following assumptions:

1. Parents have an obligation to pay for the education of their children to the extent that they are able to do so. Parents are expected to continue to provide, as well as they are able, the basic essentials of life whether the student lives at home or on the college campus. These essentials include meals, room, clothing, and medical care. If their means permit contributions beyond the essentials, they are expected to assist in the payment of tuition and other direct educational expenses.
2. A family's income is the primary source of support for college education, but its accumulated assets must also be considered. Income and assets, combined, produce the most complete index of a family's financial strength and therefore its ability to pay.
3. In determining a family's ability to pay for college, the computation system must consider the size of the family and the extraordinary expenses that the family may have. The system must consider special family circumstances such as age, marital status, and the working mother as these factors alter a family's financial strength.

These assumpations have been among the basic principles of CSS since its inception in 1954 and have remained relatively unchanged to this time.[1]

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1 Manual for Financial Aid Officers, College Scholarship Service, New York, 1968, p. 5-2.

In general, then, expected parental contributions toward the educational costs of their children are derived from the interaction of income, unusual circumstances, asset holdings and the "taxing rates" established by CSS for education. In determining ability to pay, the family is considered as it appears at the moment of time it files a Parents' Confidential Statement (PCS). Evaluation is not made of past economic occurrences (except to the extent that residual effects affect the current financial situation) nor is the economic future considered except in a very minor sense.

With the above information as a form of background, the individual components of the CSS effective income concept may be reviewed.

Family Income

Orinarily, the income used by CSS in its analysis is the estimate by the family of cash income (for the year in which the student enters college) from wages, salaries, and self-employment income for the mother and father, and income from other sources such as interest on savings, cash dividends and/or interest from investments. In addition, the estimated value of rent-free housing normally furnished ministers and many independent school teachers is included in the estimated family income. Expenses of earning the income are allowed by CSS to the extent that they are allowed for Federal Income Tax programs.

With the exception of certain farm families, the CSS does not impute income for other non-cash benefits which may be enjoyed by some families and increase their "real income." For example, meals furnished as a part

of the employment, use of company automobiles, employment fringe benefits, the rental value of owner-occupied housing, etc. In the cases of farm families who indicate that they receive free housing or consume beef, milk or pork from the farm, the CSS will increase the reported net income by $400 for free housing, $200 for beef consumption and $100 each for milk and pork consumption.

This methodology of measuring family income does present several problems with respect to equitable treatment for both the parent and the using institutions. In most cases, the income used by CSS to measure ability to pay will be an estimate for the year in which the student enters college, an estimate made anywhere from 4 to 15 months in advance of its receipt - this often raises questions as to its accuracy. The use of a single year (for measurement purposes) vis-a-vis an averaging system also provides the basis for possible inequities with respect to timing. Estimated income in the college-going year substantially above or below the preceding years can lead to different expected contributions from college costs. It has been generally found that parents are pessimistic when it comes to estimating future income. For example, a father may have enjoyed substantial overtime earnings in the two preceding years, but in the year on which the calculation is based the statement usually appears on the PCS "no overtime can be expected." This problem could be ameliorated by an averaging procedure similar to that currently used in the case of farm families.

Failure to take into account non-cash benefits also provides the basis for violation of the equal sacrifice doctrine. Ceteris paribus, the family with non-cash benefits has a greater "real income" and hence

a stronger ability to pay; yet based on reported estimated income alone, the expected contribution toward educational costs would be the same. While there are a variety of shortcomings with respect to the measurement of family income in the current CSS system, no changes are being proposed at this time. It is anticipated that the Cartter panel[2] reviewing CSS procedures will suggest substantial changes in determining family income and as a consequence action on the current system is being deferred.

Adjustments to Income to Derive Effective Income

Current CSS procedures provide for a variety of adjustments to family income to allow for federal income tax payments and for unusual expenses that a family has incurred. The amount that remains is considered to be the family's "effective income," income available to the family for food, housing, clothing, support of children, participation in social and community activities, and, to a greater or lesser extent, discretionary purchases.

Certain allowances against income for unusual expenses have been a part of CSS procedures since its inception, but the type of family expenditure that has been allowed as an adjustment to income has varied over the ensuing years.

Allowance for Taxes. One of the main adjustments to estimated family income is an allowance for federal income taxes estimated to be paid. Prior to 1964-65 the CSS used an estimated federal tax allowance based upon the then current tax rates and the use of a standard deduction.

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2 A panel composed of economists, educators and financial aid officers chaired by Allan Cartter, Chancellor and Executive Vice-President of New York University. This panel was convened by the College Scholarship Service to review its rationale and procedures.

Subsequent to that time, the CSS has employed a procedure whereby the estimated tax allowance is based upon the preceding year's actual tax. This procedure provides a more realistic estimate of the tax to be paid for it takes into consideration the actual deduction that a family takes for tax purposes rather than the flat 10 per cent or $1,000 allowed under the use of the standard deduction.[3]

A serious shortcoming in the present procedures is the failure to provide an allowance for other taxes paid by the family. No direct allowance is provided for the payments of State or local income taxes, sales taxes, real estate and personal property taxes, etc. In view of the general regressive nature of such taxes with respect to income, failure to provide an allowance imposes an added burden on families in the middle-class income levels and below.

The general regressivity of the present taxing structure may be seen in the table below which shows taxes paid as a percentage of total income:

Taxes as Percent of Income[4]

	Takes		
Income Classes	Federal	State and Local	Total
Under $2,000	19	25	44
$2,000 - $4,000	16	11	27
4,000 - 6,000	17	10	27
6,000 - 8,000	17	9	26
8,000 - 10,000	18	9	27
10,000 - 15,000	19	9	27
15,000 and over	32	7	38

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3 Manual for Financial Aid Officers, op. cit., pp. 5-12 - 5-14.

4 Joseph Pechman, "The Rich, The Poor, and The Taxes They Pay", The Public Interest, Number 17, Fall, 1969, page 33.

As can be readily seen, the total tax structure is highly regressive for the low-income groups, generally proportioned for the middle income groups, and progressive in the upper income groups. The state and local taxes are highly recessive with respect to income. State and local taxes represent some 25 per cent of the income of income classes of under $2,000, but for those with incomes of $15,000 and over, such taxes represent only about 7 per cent of income. It is very likely that the regressivity trend will grow in the future. At the present time, 42 states have both an income and a general sales tax and the number increases each year. While the federal government has been able to reduce income tax rates in the last fifteen years, state governments continue to enact new taxes and to raise the rates of old taxes to keep up with their increasing and urgent revenue needs; meanwhile, local governments keep raising the already excessively burdened property tax.

Generally, the sumptuary or sales taxes tend to vary but little from state to state and fall within a range of about 3 to 5 per cent. In the case of state income taxes, a wide variation in rates occurs. For the most part, the rating structure is progressive in nature, but the tax rates differ significantly. As an example, the rates range from a low of 1 to 5 per cent in Arkansas to a high of 2 to 14 per cent in New York.[5]

While it is true that state and local income taxes and general sales taxes may be deducted from the federal income tax, this does not give a

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5 State Tax Guide, All States, Commerce Clearing House, Inc., Chicago, New York, Washington, 1969, pp. 1531 ff.

parent any relief with respect to the expectation of payment of college costs. In fact, the allowance against federal income tax provides only a fractional reduction due to the use of a marginal taxing rate on deductions. For example, $8,000 of taxable income would result in a federal tax of $1,380. If we assume $600 in state income taxes, the federal tax would be reduced by $114. Since the CSS allows full deductibility for federal tax paid and nothing for state or local sales taxes, the absurd result of paying taxes and increasing your ability to pay educational costs results!! In the assumed case, the $600 in state or local taxes increases the expected contribution by an average of $35.

The main component of the financing of local governments is the property tax, and here again CSS does not make an allowance against income for a major expenditure of homeowners. It is also true that renters have no means of deducting the property taxes which they pay in an indirect manner through rental payments. It may well be that failure to provide for real estate taxes is not too significant a burden since no imputation of income is made to the homeowner. For example, an individual who rents a home and invests, say, $20,000 in securities yielding 5 per cent is taxed by CSS on the $1,000 of interest and dividends he receives. Another who invests the $20,000 in an identical home is not taxable on its rental value (which is income to him, even though he does not actually receive any cash) and deducts his property taxes and mortgage interest.

Although it may be argued that failure to provide for real estate taxes is offset by the fact that rental income of owner-occupied housing is not imputed, no such argument extends to the lack of provision of an allowance

for state and local income and general sales taxes. Consequently, it is recommended that consideration be given to the inclusion of such taxes as an allowable deduction under CSS needs analysis procedures.

Allowance for Working Mothers. An allowance against income is made in those cases where both the father and mother are working on the grounds that it costs more for two people to earn a given income than it would one person. This allowance has varied in the history of CSS, ranging from 50 per cent of the mother's income to a maximum of $1,000 in 1955-56 to the allowance of 25 per cent of the mother's income to a maximum of $1,500 at the current time.

There is little doubt that additional expenses are generated when two people are working, yet the amount of additional expense involved has not been developed in an objective manner.

The source of the working wife problem is the failure to impute an income for the services of the housewife. Were such an imputation feasible and made, then the discrimination against the wife who chooses to earn income in the form of wages or salary by working outside the home would be eliminated. In the absence of imputation of this sort, the allowance of an expense deduction for the working mother tends to reduce the discrimination. The 25 per cent/$1,500 rule, which has evolved as a rule of thumb by subjective determination of financial aid officers over the years, lets important discrimination remain. Use of such a measure ignores real differences that may occur in actual cases due to types of occupation, age of children, transportation requirements, etc. The working mother with pre-school children at home faces a very different expense pattern than does the one

with high school age children, yet no distinction is made in the allowance structure.

A mother who works part-time may be able to claim the maximum deduction, if her rate of pay is high enough, and still benefit from the imputed income of continuing with part-time housework. A second mother who may work full-time and hire full-time help for her housework may find the cost of help exceeds the ceiling, and hence her income will be over-assessed. Relating the deduction to the mother's earnings discriminates in general against the mother who works at lower rates of pay since she will require just as much help in the home as the higher paid mother so long as she works the same number of hours.

In general then, the additional expense generated by a working mother is more a condition of the special circumstances surrounding each case rather than a function of the income earned. For most working mothers the additional costs will be relatively fixed, rather than vary substantially as a percentage of income.

In the 1968-69 CSS filing population the following distribution of mothers' incomes resulted:

Mother's Income	Number	Per Cent
None	226,735	53.3%
\$1 < \$2,000	50,094	12.1
\$2,000 < \$4,000	62,429	14.8
\$4,000 < \$6,000	50,022	11.9
\$6,000 or more	36,265	7.9

As can be seen, over half the CSS filing population had no mother's income and an additional 27 per cent had mother's income of less than \$4,000. The

mother's average income when compared with all income classes ranged from about $580 to about $3,300.

While no definite studies have been undertaken on the income and expenses of working mothers, it would appear from data published by the Social Security Administration[6] and a review of expenditure patterns of households having income levels approximating father/mother earnings[7] that the additional costs of a second wage earner approximate $1,200 to $1,500 a year and are generally unrelated to the amount of income earned. Rather, the expenses are more associated with the employment status of the person, a part-time person incurring somewhat less expenses than one employed full-time.

Since total earnings are most directly related to employment status, it may be assumed that substantially lower earnings are the result of part-time employment. It is felt that, while an allowance structure does provide some imperfection, in the absence of detailed information regarding hours of employment, pre-school children at home, transportation costs, etc., it does provide an estimate of actual expenses that is not too far out of line with average costs. It is recommended that consideration be given to a varying allowance against income in the case of the working mother. It is proposed that the allowance for the working mother be computed in the

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6 Some Facts About the Employment of Widowed Mothers, Research and Statistics Note No. 15-1969. Social Security Administration, Washington, August, 1969.

7 Consumer Expenditures and Income, BLS Report 237-38, Bureau of Labor Statistics, Washington, 1964.

following manner:

Mother's Income	Housekeeping Allowance
$1 < 2,000	50 per cent of mother's income
2,000+	$1,000 plus 25 per cent of income over $2,000 to a maximum allowance of $1,500

This methodology will provide for an allowance more in keeping with the actual expenses of a working mother than does the current system.

Medical and Dental Expenses. Under procedures effective with the 1969-70 processing year, the CSS will provide an allowance for medical and dental expenses that exceed $600. The $600 base figure has been adopted as representing the average expenditure by a four-person family in the Bureau of Labor Statistics moderate standard of living adjusted for current price levels.[8]

One of the main problems associated with this allowance is that no distinction is made in the base amount due to variation in family size or income. While CSS assumes that the amount of income required to support a family at a moderate level varies by family size (from an effective income of $6,600 for a three-person family to $13,930 for a twelve-person family) the same base amount of $600 is used. The same objection can be made with respect to similar size families but with different incomes. Medical expenditures of $600 may be quite extraordinary to a family earning $4,000 but would not have quite the same impact to a similar family earning $15,000.

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[8] Preliminary Draft: 1969 Revisions of Manual for Financial Aid Officers, Chapters 23 and 24, College Scholarship Service. Technical Report 69-3, October, 1969, p. 3.

There is little doubt that expenditures on health continue to increase at a growing rate. Between 1966 and 1968 medical care expenditures increased some 27 per cent, rising from $36 billion in 1966 to an estimated $47 billion in 1968.[9] Much of this represents an increase in the general price level rather than an expansion in the services actually received for during this same period the Consumer Price Index for medical care increased by some 23 per cent.[10]

A review of medical expenditures by families included in the Bureau of Labor Statistics Survey of Consumer Expenditures indicates that substantial variation in medical expenditures occurs when considering family size and income differences. The greatest difference in expenditures results when considering income. In 1961, medical expenditures based on family size ranged from $173 for the single consumer to some $426 for a family with three children. However, when income was considered, the range was from $151 for those with incomes under $2,000 to $925 for those with incomes of $15,000 or more.[11] A review of CSS filers in 1967-68 also indicates a substantial variation by various income classes. For this population, the average expenditure ranged from $182 for those with incomes under $3,000 to $852 for those with incomes over $27,500.

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9 Outlays for Medical Care of Aged and Nonaged Persons, 1966-1968, Research and Statistics Note No. 12-1969, Social Security Administration, Washington, July, 1969, p. 3.

10 Medical Care Prices Fact Sheet, Research and Statistics Note No. 6-1969, Social Security Administration, Washington, May, 1969, p. 7.

11 Consumers Expenditures and Income, op. cit.

It would appear, therefore, that a revision in the current procedures for allowing unusual medical expenses would be appropriate. Two alternatives are possible. One would be to provide a series of base amounts determined by family size; the other would view the base amount as determined by a percentage of income. Since a greater variation in expenditures occurs due to income than due to family size, the use of a percentage factor would more closely relate to the extraordinary aspect of unusual medical expenses.

At a moderate level of income, the expenditures for medical costs amounted to some $520 at Spring 1968 prices and represented about 5 per cent of before-tax income. If variations are made in the base medical expenditures by the family size differentials used to equate the moderate standard to families of various sizes, a continuation of an approximate ratio of 5 per cent of after-tax income is observed.

It is recommended that consideration be given to revising the base amount of the medical deduction for the current $600 base to a variable base amount determined by using 5 per cent of before-tax income as a normal expenditure. This technique would provide a consistency in average expenditures for medical expenses at a moderate level of income adjusted for various family sizes. In addition, it would provide a sliding scale of extraordinality based upon the size of income.

Emergency Expenses. Special allowances are made for certain extraordinary expenditures that are not normal expenses of family life and do reduce a family's usable income. In general, these are expenditures of a non-recurring nature usually characterized as "Acts of God." Expenditures of a discretionary nature are not considered extraordinary and no allowance is provided.

The classification of expenditures into allowable and non-allowable categories is highly subjective and reflects the changing values of the member institutions over time. For example, until recently, expenses associated with Confirmation, Bar Mitzvah (but not Bas Mitzvah) and weddings were considered unusual expenses and an allowance was given. However, there does not appear to be any reason for modification of this procedure at this time.

Debt Repayment. Ordinarily, an allowance against income is not made for estimated personal debt repayment. In those cases where personal indebtedness exceeds assets, an allowance is made in the amount of one-third of the total allowable personal debt. The same rules governing allowable and non-allowable expenditures apply to debt repayment. If the expenditure for which debt was incurred would have been allowed as an extraordinary expense, the repayment associated with it will also be allowable. In other cases such as automobile debt, durable consumer goods debt, educational debt (except for parents' education), etc., no allowance is made. It is proposed that consideration be given to revision of the debt policy regarding allowable and non-allowable debt.

In general, debts are allowed against assets in determining net worth, which, be definition, is the fair market value of family assets less any indebtedness which the family has outstanding. This includes indebtedness against the assets themselves as well as general indebtedness of the family. Under current CSS procedures, this concept is not treated uniformly through all income ranges or family types. For example, "... also, if the total indebtedness, if allowed, reduces assets to the extent that the parents' contribution is reduced by $100 or more, a SIR is produced and the item is

reviewed for allowable debt."[12] Debt associated with expenditures in previous periods for unusual or extraordinary expenses is considered allowable; but debt associated with expenditures for items of consumer choice is not allowable. Such a procedure is not logical nor equitable. The extinguishment of debt requires that the purchase of goods and services in some future periods be diminished. Since the family stock of assets is ultimately converted to supplementary income flows which can be used for a variety of consumption expenditures in future periods, it is necessary to reduce the assets to the extent that they are not available for this purpose. A dollar of debt is a dollar of debt - whether it previously financed expenditures associated with an unexpected illness or a family vacation - it must be repaid by reducing consumption expenditures in future periods.

One exception to this general procedure of measuring net worth is reccommended: that the value of automobiles and other durable consumer goods (i.e., stoves, refrigerators, television sets, furniture, etc.) not be considered. Ownership of automobiles is widespread over all income ranges and family types. In spite of the widespread ownership, the value of equity in automobiles - that is, market value less automobile debt - is very little compared with other forms of wealth. In the Federal Reserve System's survey of consumers it was found that of the total wealth reported only 3 per cent was equity in automobiles.[13] In view of the relative insignificance of automobile equity in comparison with other forms of wealth, continued

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[12] Preliminary Draft: 1969 Revisions for Manual for Financial Aid Officers, op. cit., pp. 43-44.

[13] Dorothy S. Projector and Gertrude S. Weiss, Survey of Financial Characteristics of Consumers, Board of Governors of Federal Reserve System, Washington, 1966.

exclusion by CSS of the fair market value of automobiles and concomitant automobile debt is recommended.

In the case of other consumer durables, such as stoves, refrigerators, washers, etc., several problems arise with respect to valuation and equitable treatment of families. The exclusion of the fair market value of such durables is required due to the very difficult problem of attempting to value them. Unlike automobiles, no broad national market is available to measure resale value. In fact, the real value of such appliances rests in its provision of service over time - a value to which a dollar amount cannot readily be attached. However, in order to provide equity among family types, any outstanding debt associated with such durables should be allowed in determining family net worth. Families who are homeowners have generally acquired homes where consumer durable goods are included in the purchase price of the home, and may, as a result, be included in the mortgage debt outstanding. Since mortgage debt is deducted from asset value in determining family net worth, such families are able to exclude consumer durable debt. Families who are renters and have purchased similar durables are excluded from deducting such debt under current CSS procedures. Consequently, in order that a more equitable treatment of family types may result, a change in CSS procedures relative to debt for consumer durables is required.

The impact that these changes would have on family net worth is not known at this time nor is the information by which it could be derived readily available. It is felt that only a small proportion of the population filing Parents' Confidential Statements (PCS) would be affected.

During the 1968-69 processing year, 86 per cent of PCS filers indicated personal indebtedness of $1,000 or less and 73 per cent indicated no personal indebtedness. Debt not associated with assets of a type normally considered in measuring net worth is relatively small. For example, the Federal Reserve Survey previously mentioned found, "... Debt not secured by the assets covered in the survey accounted for 12 per cent of the debt reported. The largest share of this unsecured debt was personal non-installment debt, which includes a variety of kinds of debt ... Next largest in total amount was installment debt for purchases other than automobiles, such as household goods, clothing, and services bought on the installment plan ...".[14] While the overall impact will be relatively small, the changes in an individual case may be quite high. However, in order that the basic concept be logical and to provide for horizontal equity between family types, the suggested changes are required.

It should be noted that the primary impact will be on reducing family net worth. In those cases where assets are insufficient, deductions for debt estimated to be paid should be allowed against income on the same basis that it would have been allowed against the family asset holdings.

Schooling Expenses. At the present time, CSS procedures provide for an allowance for the tuition expenses of other siblings attending fee charging elementary and/or secondary schools up to a maximum amount of $1,800. Tuition expenses of siblings attending institutions of higher education are not allowed as a deduction to income in determining effective income. Such cases are treated in a different manner under

[14] Ibid., p. 16.

current CSS procedures.

The provision of an allowance for tuition expenses of other children at fee-charging schools is at variance with one of the basic concepts of CSS, "... An objective system of financial need analysis ... should not make adjustments in its estimates of financial strength because of differences in family situations which result from family choice ...".[15] Certainly the decision to send children to parochial or independent schools, rather than the public school system, is a family choice matter. The number of families with children in fee-charging elementary or secondary schools is unknown at this time (although such information will be available at the end of the 1968-69 processing year) but it is felt that elimination of this allowance will have a relatively minor impact on the total CSS population. The number of families in the CSS population with children in fee-charging elementary or secondary schools is relatively small. In 1968-69, some 21.6 per cent of the population indicated some tuition expense, but as can be seen from the following figures, the bulk of the schooling expense was relatively minor.

Amount of Expense	Number	Percent
$ -0-	333,442	78.4
$ 1 < 249	53,908	12.7
$250 < 499	19,864	4.7
$500 or more	18,331	4.2

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[15] Manual for Financial Aid Officers, op. cit., p. 5-1.

The average expenditure for schooling bears a direct relationship to income (confirming the aspect of consumer choice) ranging from about $20 for incomes under $3,000 to $280 for incomes in excess of $30,000. This is also seen when comparing average incomes for certain levels of schooling expenses. For schooling expenses falling between $1 and $500, the average income is about $11,000. For schooling expenses of $3,000 or more, the average income is about $19,600.

A review of the Committee minutes regarding needs analysis procedures in CSS since 1954 does not provide any insight as to a specific rationale for the inclusion of fee charging secondary or elementary schools into the schooling allowance procedure (as a matter of historical interest, it might be noted that the Chairman of the original Subcommittee on Computation was from an independent secondary school!). In view of the fact that other provisions are made for siblings attending post-secondary institutions; that attendance at a fee-charging elementary or secondary school is certainly a matter of family choice and not necessity; it is recommended that the provision of a schooling allowance for tuition paid to fee-charging elementary and secondary schools be discontinued.

Recommendations

It is recommended that the following revisions in the current CSS procedures relative to the determination of effective income be implemented in order to provide a more responsive and equitable system in light of current conditions in the economy:

1. That provision be made for including State income and sales taxes as an allowance item in computing effective income.

2. That the current housekeeping allowance provided in those cases where the mother is employed be changed to provide for the following allowance:

For Mother's Income of:	An Allowance of:
$ 1 < $2,000	50 per cent of income
$2,000 or more	$1,000 plus 25 per cent of income over $2,000

and that the maximum allowance be retained at $1,500.

3. That a variable base amount for medical expenditures, determined as 5 per cent of before-tax income, be substituted for the current $600 base amount.

4. That the current procedures relative to the treatment of personal indebtedness be modified to provide that <u>all</u> personal debt be allowable with the exception of automobile debt.

5. That the provision of an allowance for tuition expenses at fee charging elementary and secondary schools be discontinued.