

FAFSA[®]

FREE APPLICATION for FEDERAL ST

Step One (Student): For questions 1

Your full name (exactly as it appears)

Exploring Ways to Enhance FAFSA Efficiency:

Executive Summary

Number and street
(include apt. number)

City (and country if
not U.S.)

Your Social Security Number

See Notes page 9. Y



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The National Association of Student Financial Aid Administrators (NASFAA) is a nonprofit membership organization representing more than 20,000 financial aid professionals at nearly 3,000 colleges, universities, and career schools across the country. NASFAA member institutions serve nine out of every 10 undergraduates in the United States. Based in Washington, D.C., NASFAA is the only national association with a primary focus on student aid legislation, regulatory analysis, and training for financial aid administrators. For more information, visit <https://www.nasfaa.org>.

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Introduction

As we move toward the next reauthorization of the Higher Education Act, Congress and the higher education community have identified a need for simplification, particularly as it relates to the federal student aid application process. While no one can precisely predict when we will have a final reauthorization, it is unlikely to occur in 2020 given the pandemic and presidential election, allowing more time to advocate for simplification of the Free Application for Federal Student Aid (FAFSA). The overall goal of FAFSA simplification is to make the process easier for students and schools while also maintaining program integrity.

In summer 2019, the National Association of Student Financial Aid Administrators (NASFAA), with generous funding from the Bill & Melinda Gates Foundation, commissioned a 10-paper series written by FAFSA experts that explores ways to make the FAFSA and the overall federal student aid process more efficient and streamlined for applicants and their families. These papers were designed to update previous work on FAFSA efficiency and determine its validity in 2020.

The papers in this series explored:

1. The impact of new federal tax returns on a FAFSA simplification proposal.
2. The struggle between FAFSA completion and verification.
3. Using means-tested benefits to reduce paperwork and maximize student aid.
4. Using federal tax returns in place of the FAFSA.
5. Different FAFSA simplification methods and their effects.
6. The impact of verification on the enrollment of low-income college students.
7. The effects of allowing a negative expected family contribution (EFC).
8. Free college programs and their impact on the FAFSA.
9. The implications of using a one-time FAFSA.
10. The effectiveness of Federal Methodology (FM) in assessing a family's ability to contribute.

NASFAA reviewed the recommendations and ideas presented in each of these papers to determine which to support and incorporate into its own official FAFSA recommendations. We based the 13 recommendations in this executive summary on those recommendations from the individual papers that specifically aligned with NASFAA's policy and advocacy work. As a result, these recommendations do not reflect all of the views expressed in all of the papers in this series. We encourage readers to read the individually authored papers to learn more about each paper's topic and the recommendations of its authors.

Recommendations

2020 NASFAA FAFSA Simplification Proposal Update

Individual paper authored by the National Association of Student Financial Aid Administrators (NASFAA)

Recommendation 1: Implement and expand direct data sharing between the IRS and ED.

Rationale: NASFAA predicated its updated FAFSA simplification proposal on the implementation and expansion of the direct data sharing permitted by the FUTURE Act, enacted in December 2019. We recommend expanding data sharing to include information about the filing of specific IRS forms and schedules as well as specific line items.

We also recommend exploring the feasibility of including information from W-2 forms in data sharing, which would permit retrieval of income earned from work for non tax filers.

Generally speaking, the goals of simplicity and accuracy/program integrity are at odds with each other; creating a highly accurate need analysis system is not simple. However, using more information obtained directly from the IRS would allow for a simpler application and reduce burden for applicants while retaining a high standard of accuracy.

Recommendation 2: Institute a three-level application process where, after answering demographic and dependency status questions, applicants would be steered down one of three paths based on screening questions and the results of the IRS/ED direct data sharing.

Rationale: NASFAA's 2015 FAFSA simplification proposal included a three-level application process. The updated proposal maintains the same basic framework with changes to reflect new information and new IRS tax forms.

Recommendation 3: Adjust the adjusted gross income (AGI) reported through IRS/ED data sharing to account for any negative income reported on Schedule 1 and use that adjusted AGI in need analysis.

Rationale: As federal budgets have tightened and Congress has instituted eligibility changes solely to save money, aid administrators have become increasingly concerned about FAFSA applicants who can claim a loss for tax purposes even though that loss does not indicate a reduction in the family's actual financial strength. Under the current formula, many of these applicants appear to be much needier than they actually are. Prohibiting negative figures from Schedule 1 (specifically lines 3 – 6 and line 8) levels the playing field somewhat while still allowing financial aid administrators to retain their ability to consider a family's special circumstances under their professional judgment authority in situations where a family's losses on the tax return do reflect an actual loss in financial strength.

Recommendation 4: Eliminate the term "expected family contribution" (EFC) and replace it with a term that reflects an indexing of financial strength.

Rationale: NASFAA's FAFSA Working Group felt strongly that because FM has been modified over the years to accommodate political whims and cost concerns, the term "expected family contribution" is now a misnomer that misleads and confuses students and families. Rather than representing a financial contribution by the applicant, the results of the FM function more as an index that ranks applicants according to their financial strength. The name of the index should be changed to reflect that reality.

Exploring the Relationship Between FAFSA Verification and Pell Grant Award Change

Individual paper authored by Raymond AlQaisi, Bill DeBaun, and Carrie Warick, National College Attainment Network

Recommendation 5: ED should explain why verifying 22% of all FAFSA filers is the most appropriate percentage.¹

Rationale: Considering the relatively low IRS audit rate in comparison to the large numbers of students selected annually for verification without resulting in a change to their Federal Pell Grant award, ED's Office of Federal Student Aid (FSA) should publicly inform the higher education community why this high percentage is necessary. Providing that information without sharing proprietary information about the specific factors included in selection for verification is possible and appropriate.

Recommendation 6: ED should consider substantial changes to verification of financial information based on the implementation of the FUTURE Act.

Rationale: After implementation of the FUTURE Act, a much higher percentage of FAFSA filers will have information directly reported from the IRS. FSA must consider closely whether any of these individuals' applications warrant financial information verification. This may require a change in the categories for which FSA selects students for verification.

Recommendation 7: ED should select an even smaller proportion of auto-zero EFC applicants for verification.

Rationale: Given this group's very low rate of post-verification changes to Pell Grant award size, as demonstrated in the evidence from award years 2018-19 and 2019-20, FSA should instead focus on other applicants whose characteristics better align with groups more likely to have award changes.

Using Public Benefits as an Indicator to Reduce Paperwork and Maximize Student Financial Aid

Individual paper authored by Lauren Walizer and Elizabeth Lower-Basch, Center for Law and Social Policy

Recommendation 8: Include as part of the FAFSA on the Web (FOTW) a pop-up that explains three key details related to public benefits.

Rationale: Asking students about their use of public benefits presents several challenges:

- Students may be reluctant to disclose that their family accesses public benefits to support their basic needs. The reasons may vary from general stigma around using such benefits to concerns about potential verification requirements. Students may also hold an incorrect belief that using public benefits will be counted as income in the financial aid calculation and limit the financial aid they will receive, or they may fear the information will be used against them in some other way.

¹ NASFAA suggests coupling Recommendation 5 with Recommendation 10.

- Lack of an explicit rationale for asking about public benefit programs and related privacy concerns may keep students from responding. The FAFSA does not explain why it asks students about receiving public benefits, which may contribute to underreporting. Without assurances that the FAFSA only uses their response to make the process simpler for them—not to be collected and used elsewhere—some students may be hesitant to report such information.
- Emerging restrictions associated with public benefit programs may cause students to skip the question or abandon the FAFSA process. A new concern that could keep students from applying for financial aid is the recent “public charge” regulation. This federal rule change makes it harder for some people seeking U.S. residence to get a green card or lawful permanent residency. Although this regulation does not impact federal student financial aid, along with other anti-immigrant policies of recent years, the public charge rule has created a climate of fear around using public benefit programs. It may contribute to some students’ belief that applying for financial aid is more of a risk than a benefit. It is also true that, for some students, accessing TANF, SSI, SNAP, or Medicaid can potentially be taken into account for immigration purposes.

Therefore, we recommend a pop-up on the FOTW to explain why the public benefits questions are asked, confirm that the benefits are not counted as income for determining federal financial aid eligibility, and state that the data will not be used for purposes other than determining the student’s eligibility.

Applying for Student Aid: Can Federal Tax Returns Take the Place of the FAFSA?

Individual paper authored by Kim Rueben, Erin Huffer, and Sandy Baum, Urban Institute

Recommendation 9: Add the negative AGI back into income in the need analysis formula.

Rationale: In 2008, the Rethinking Student Aid study group recommended eliminating the FAFSA and replacing it with a new form that would collect simple demographic information and include an authorization for the IRS to release tax information to ED. The group’s report included data indicating that very small shares of tax units with AGI between \$0 and \$40,000 reported either business losses or capital gains or losses, although a much larger share of those with negative AGI reported these circumstances.² Information from the IRS could, however, close another loophole in the FM that reduces EFCs for families with significant resources. Currently, negative AGI does not trigger any adjustments in the FM or for Pell eligibility. In contrast, the College Board’s Institutional Methodology, which some institutions use to calculate EFCs for the distribution of their own funds, adds losses back to income to avoid this problem. Adopting this strategy would more accurately distinguish among families with different levels of resources.

Making better use of tax data is a logical and vital component of solving these problems. The evidence is clear that allocating Pell Grants by relying only on a few data elements from the IRS would have minimal impact on the distribution of these foundational federal grants for low- and moderate-income students. Recent changes in the federal income tax do not substantively change the feasibility of this approach. A simple formula for Pell Grants based on AGI and household size, for example, might be strengthened by using tax information such as negative AGI to exclude students whose financial circumstances are not consistent with the appropriate targeting of Pell Grants. Congress should implement this system in the next reauthorization of the Higher Education Act.

² Rethinking Student Aid Study Group, *Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid*, (College Board, 2008): <https://secure-media.collegeboard.org/digitalServices/pdf/advocacy/homeorg/rethinking-student-aid-fulfilling-commitment-recommendations.pdf>.

Understanding the Impact of Different Methods for FAFSA Simplification

Individual paper authored by Sandy Baum, Urban Institute

Recommendation 10: Eliminate FAFSA questions not relevant to aid eligibility.³

Rationale: Eliminating questions not directly relevant to aid eligibility, such as those relating to drug offenses and Selective Service registration as proposed in several bills currently in Congress, would mitigate part of the problem of FAFSA complexity.

A Stumbling Block on the Road to College: How FAFSA Verification Hinders Low-Income Students

Individual paper authored by Mark Wiederspan and Meghan Oster, Iowa College Aid, and Stephen DesJardins, University of Michigan

Recommendation 11: Make the formula used to define verification selection criteria more transparent.

Rationale: More transparent information is needed on the criteria or formula CPS uses to select students for verification. Making this information public could not only help students understand why they were selected, but it could also assist institutions in developing procedures that help students complete the verification process.

Examining the Distribution of Negative Expected Family Contributions

Individual paper authored by Robert Kelchen, Seton Hall University

Recommendation 12: Allow independent students without dependents to be eligible for the auto-zero EFC.

Rationale: Independent students without dependents other than a spouse are ineligible for the auto-zero EFC. In the 2017-18 year, 64% of independent students without dependents who were Pell Grant recipients (almost one million students) had a zero EFC. That number would be even higher if it included graduate students without dependents other than a spouse. As the momentum grows for a simplified FAFSA application process, there is no logical reason to exclude such a large portion of FAFSA applicants from accessing a simpler FAFSA completion process.

Recommendation 13: ED should explore calculating negative EFCs alongside the current EFC formula.

Rationale: Calculating a negative EFC alongside the current EFC formula is an immediate step ED could take that would give colleges and states more nuanced information about students' financial needs. This is also important to help colleges best allocate scarce campus-based aid dollars from the Federal Work-Study and Federal Supplemental Educational Opportunity Grant programs.

³ NASFAA suggests coupling Recommendation 5 with Recommendation 10.

Areas for Future Research

NASFAA has identified the following ideas, either reproduced or paraphrased from the individual papers, that we were not able to put forth as recommendations but nonetheless feel warrant additional exploration. The following suggestions describe ways to further explore these topics.

FAFSA and the Free College Movement

Individual paper authored by Jen Mishory, Anthony Walsh, and Peter Granville, The Century Foundation

Ideas for additional exploration

- Require schools participating in the Title IV programs to run a data match with state databases (with student permission) to automatically determine if students would qualify for the maximum Pell Grant even if they do not complete the FAFSA.
 - ▶ Future work could:
 - Explore state databases, including their similarities, differences, and potential compatibility with institutional systems; and
 - Determine the feasibility of schools working with databases from potentially 50 different states.
- Allow families to provide current income amounts via self-attestation, to be reconciled during tax time.
 - ▶ Future analysis could provide further detail on how this reconciliation would work, including implications for students' eligibility if the reconciliation reveals a discrepancy.
- Drastically reduce the number of questions on the FAFSA. Instead of choosing just one approach to simplification, a federal free college program should use every tool in the toolbox to make the process as seamless and predictable as possible. Drastic simplification provisions could:
 - Remove most application questions to create a three-factor application form requesting only income, number of dependents, and number of dependents in college; and
 - Increase the cut-off for students who are automatically deemed to have a zero EFC and thus qualify for the maximum Pell Grant.
 - ▶ Future work could include consulting with states and institutions to explore implications for state and institutional aid eligibility determinations.
- Fix the American Opportunity Tax Credit (AOTC) to streamline with Pell Grant aid. With tuition covered under a free college model, federal proposals should also reconcile the new FAFSA process with the AOTC by using unclaimed AOTC dollars to expand the Pell Grant. Short of making that change, proposals should reform the AOTC to cover non-tuition costs and include an optional checkbox for families earning incomes below the AOTC maximum to confirm their wish to receive their AOTC (currently only available at tax time) through an advanceable credit during the federal aid disbursement process.⁴
 - ▶ Future research could further explore the operational details of how a potential advanceable credit would work, including timing, flow of dollars, and reconciliation.

⁴ Steve Holt, "Help When It's Needed: Advancing The AOTC," Center for Postsecondary and Economic Success, (Washington, DC: The Center for Law and Social Policy, June 2014), <https://www.clasp.org/sites/default/files/public/resources-and-publications/publication-1/Help-When-Its-Needed-Advancing-the-AOTC.pdf>.

- Leverage state support for simplification. Assuming the trend of states pursuing last-dollar, free college programs continues, states will continue to rely heavily on federal grant aid to meet their promise—which means federal advocates for reform should have a short-term ally in the fight. State-level actors have a range of reasons to become leading advocates for simplification. A complicated application and verification process may result in fewer students enrolling, limiting the effectiveness of the state grant program.⁵ In some states, students may be deemed ineligible for the state grant program if the student was projected to qualify for federal aid but does not actually make it through the FAFSA process. But in other cases, states may be making up the difference that they projected federal dollars would cover. This is particularly true in a state like California, where the free tuition benefit at community colleges is not contingent on completing the FAFSA, but where its students could benefit from unclaimed Pell dollars.
 - Future work could further analyze and describe how state support for simplification can be leveraged.
- Address verification barriers through state policy design. State free college programs that require students to finalize the verification process before qualifying for a state promise grant are effectively creating additional barriers for their low-income students. In theory, students enrolling in a state with an uncapped free college program should qualify for their state grant regardless of their income. However, by requiring students to complete the verification process and submit new documents (e.g., income tax returns, 1099s, and W-2s), these states are requiring applicants to prove their income.⁶ Short of redesigning existing programs to provide first-dollar benefits—which would be, unquestionably, a positive shift for low-income students—states should create an off-ramp from having to complete the FAFSA process for students who run into barriers to verifying their income to ensure they can still receive the full state grant.
 - Future work could investigate rationales behind such state policy designs, examine whether their processes are effective at achieving state goals, and further explore other, less burdensome pathways to determining state grant eligibility.

Analyzing a One-Time FAFSA

Individual paper authored by Ben Miller, Center for American Progress

Idea for additional exploration

- Adopt a one-time FAFSA.
 - Future work would involve further research to find answers to the questions raised by this paper to inform and enrich the debate over the feasibility of a one-time FAFSA. Research demonstrating that Pell Grant recipients largely have stable financial circumstances over time motivates the need for further exploration of this idea. However, we recognize the need to address some challenges, such as non-Pell recipients having more variable EFCs and institutions/states potentially creating additional forms if students aren't submitting a FAFSA each year.

⁵Eric P. Bettinger, Bridget Terry Long, Philip Oreopoulos, and Lisa Sanbonmatsu, "The Role of Application Assistance and Information in College Decisions: Results from the H&R Block FAFSA Experiment," *The Quarterly Journal of Economics*, 127, no. 3, (August 2012): 1205–1242. <https://academic.oup.com/qje/article-abstract/127/3/1205/1921970?redirectedFrom=fulltext>.

⁶The FUTURE Act, enacted in 2019, will upon implementation allow documents directly imported from the IRS to satisfy verification. This is expected to reduce the number of students who must upload documents such as 1099s and W-2s. However, students from families that did not file taxes will not benefit from these changes. See Michele Streeter, Rachel Gentry, and Raymond AlQaisi, "How the FUTURE Act Improves the Federal Financial Aid System," (blog post), The Institute for College Access and Success, December 2019, <https://ticas.org/affordability-2/how-the-future-act-improves-the-federal-financial-aid-system/>.

The Federal Methodology: Is It a Good Measure of Ability to Contribute Toward Educational Expenses?

Individual paper authored by **Sandy Baum, Urban Institute**

Ideas for additional exploration

- To make FM more equitable, update the formula so it no longer adjusts for the number of students in college.
 - ▶ Future work could involve further discussions with institutions about the effects of such a change on requests for professional judgment and awarding institutional aid.

- A more realistic measure of a family's ability to pay would look at income over a longer period of time. The optimal system would rely on data directly from the IRS and would come closer to looking at financial capacity over the years leading up to the time of college enrollment. It would continue to rely on the judgment of financial aid professionals to modify the approach when appropriate.
 - ▶ Future research could take a deeper dive into changes in income over various longer periods of time and perform a cost–benefit analysis of looking at income over multiple years.

Applying for Student Aid: Can Federal Tax Returns Take the Place of the FAFSA?

Individual paper by **Kim Rueben, Erin Huffer, and Sandy Baum, Urban Institute**

Idea for additional exploration

- Information from federal tax forms or certification of not being required to file income taxes would be sufficient for awarding Pell Grants.
 - ▶ Future research could perform a detailed analysis of how this would work from an operational and timing perspective, including:
 - How general student eligibility criteria would be documented.
 - How students indicate a desire to apply for Title IV aid given the use of prior-year income.
 - How students indicate the school at which they intend to enroll.
 - How the formula would account for family size.
 - How non tax filers would be considered for Title IV aid.
 - How the application process would account for changes in circumstances from the time of tax filing.

Understanding the Impact of Different Methods for FAFSA Simplification

Individual paper by Sandy Baum, Urban Institute

Ideas for additional exploration

- One way to simplify the federal student aid application process is to allow students to complete the FAFSA once and not require renewal applications unless there is a significant change in circumstances.
 - ▶ Potential future work would be similar as that listed under the “Analyzing a One-Time FAFSA” paper above.
- Simplification should include better coordination of the auto-zero EFC and the simplified needs test with the EFC formula.
 - ▶ Future work, as the author suggests, could model the EFC levels for families in different circumstances and develop a compatible method of setting the appropriate cut-off for both the auto-zero and simplified needs test eligibility.
- Explore the possibility of including the resources of non-custodial parents in the calculations of EFC used for purposes other than the distribution of federal need-based aid.
 - ▶ Future work could model the impact of requiring information from both parents, as the author suggests. If the formula relies on IRS data, the most straightforward practice would be to define the relevant parent as the one who claims the child as a dependent, and this possibility and the implications should be further explored. However, it would be helpful to know whether considering the resources of both parents of non-Pell-eligible students would make a significant difference in the allocation of need-based aid to students in the upper half of the income distribution.
- Use a simple look-up table for Pell eligibility based on a very small number of data elements available from the IRS.
 - ▶ Future work could be built on evidence, described by the author, indicating that moving to a simple look-up table for Pell eligibility based on a very small number of data elements available from the IRS would not have a major impact on the distribution of awards or the total cost of the program. Research could examine how adjustments to the parameters embodied in the table could affect total expenditures.

Examining the Distribution of Negative Expected Family Contributions

Individual paper authored by Robert Kelchen

Idea for additional exploration

- Financial aid administrators could develop and produce a template to allow their colleagues to easily calculate negative EFCs for all students.
 - ▶ Future work could involve further discussion and research to explore possible uses of a negative EFC by financial aid administrators and analysis of some of the potential unintended consequences of FAFSA simplification when combined with a negative EFC.

A Stumbling Block on the Road to College: How FAFSA Verification Hinders Low-Income Students

Individual paper authored by Mark Wiederspan and Meghan Oster, Iowa College Aid, and Stephen DesJardins, University of Michigan

Idea for additional exploration

- Continue to explore the connection between the FAFSA application and verification burden.
 - ▶ Future research should evaluate whether making the FAFSA easier to file reduces administrative burden for both students and institutions and eliminates a barrier to enrollment for college-bound students with the greatest financial need.

Using Public Benefits as an Indicator to Reduce Paperwork and Maximize Student Financial Aid

Individual paper authored by Lauren Walizer and Elizabeth Lower-Basch, Center for Law and Social Policy

Ideas for additional exploration

- Eliminate the burden that verifying use of public benefit programs creates for students. Schools should be discouraged from requiring verification by students and families—particularly the use of public benefits—except when ED has selected the application. In addition, schools should accept a wide variety of documents for verification, including screenshots of online eligibility systems.
 - ▶ Future work could involve further discussion with financial aid administrators about discretionary verification, including current practices, frequency, and targeting, as well as a cost–benefit analysis.
- Expand the use of the auto-zero EFC to additional families.
 - ▶ Future research could examine the incidence of students who receive means-tested benefits but are not eligible for a maximum Pell Grant award. Also, research could investigate various options for establishing an appropriate self-adjusting income cut-off for auto-zero EFC from a policy perspective.

Conclusion

NASFAA's 10-paper series compiled perspectives from thought leaders on federal student aid on the best ways to make the FAFSA and the overall federal student aid process more efficient and streamlined for applicants and their families. By virtue of their background and expertise, each author addressed the topic from a different angle, adding to the depth and richness of the discussions around FAFSA simplification. We look forward to continuing the conversations and research on this issue as we move toward the next reauthorization of the Higher Education Act.

