GREAT EXPECTATIONS:

IMPLICATIONS OF IMPLEMENTING PRIOR-PRIOR YEAR INCOME DATA FOR THE FAFSA

NASFAA RESOURCES
PUBLISHED MAY 2015

NASFAA
NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Acknowledgements

This work was made possible through a consortium of the National Association of Student Financial Aid Administrators along with the National College Access Network (NCAN) and The Education Trust. It is the result of a collaborative effort on the part of several individuals, organizations and institutions. Without the willingness to share their time, expertise and resources, this work would not have been possible. You have our most sincere gratitude.

Working group: Richard Heath (Anne Arundel Community College), Doug Severs (Oregon State University), Rick Shipman (Michigan State University), Francisco Valines (Florida International University), & Christine Zuzack (Pennsylvania Higher Education Assistance Agency).

Partner organizations: Jorge Martinez (The Council for Opportunity in Education), Todd Rinehart (National Association of College Admission Counseling) & The National Association of State Student Grant and Aid Programs.

The Bill & Melinda Gates Foundation.

NASFAA staff: including, NASFAA President & CEO Justin Draeger, Joan Berkes, Karen McCarthy, Megan McClean, Jesse O'Connell, Charlotte Etier, and Justin Riley.

NASFAA

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

NASFAA is the largest postsecondary education association with institutional membership in Washington, D.C., and the only national association with a primary focus on student aid legislation, regulatory analysis, and training for financial aid administrators in all sectors of post-secondary education. No other national association serves the needs of the financial aid community better or more effectively.

Introduction

Following the release of "A Tale of Two Income Years: Comparing Prior-prior Year and Prior-year Through Pell Grant Awards" (Kelchen & Jones, 2013), the National Association of Student Financial Aid Administrators (NASFAA) continued exploring the potential implications of implementing prior-prior year (PPY) in earnest. Throughout the course of the collective PPY conversation there have been myriad questions raised concerning the specifics, mechanics and far-reaching impacts of such a significant change to the foundational instrument of determining eligibility for federal student aid, in addition to state and institutional assistance. Those questions range from concerns regarding increased administrative burden for financial aid administrators, to federal and state budgetary impacts, to how the overall annual timetable for Free Application for Federal Student Aid (FAFSA) development and release might change the face of the recruitment and admissions cycle for institutions. In addition to those concerns, however, the numerous potential advantages which have surfaced, in NASFAA's opinion, far outweigh the concerns. The advantages include:

- Earlier and more accurate financial aid award information which would allow first-time students and their families to make better-informed decisions about institutional selection;
- Improved reliability of student/family data for eligibility determination; and
- The potential for increased access to postsecondary education by way of increased FAFSA completions.

What follows in this paper is a summary of those implications and responses to them gleaned from a working group of representative higher education professionals. This work represents only a portion of the efforts being coordinated through a broader consortium along with the National College Access Network (NCAN) and The Education Trust to explore and advocate for increased access and success in higher education. The Bill & Melinda Gates Foundation generously funded this project as part of their Reimagining Aid Design and Delivery initiative. We are grateful to our consortium partners and the Gates Foundation for their support.

Background

The FAFSA is the Department of Education's (ED) official tool for determining eligibility for federal student aid. The FAFSA uses conditional and skip logic along with algorithmic calculations to determine an Expected Family Contribution (EFC) based on financial information regarding the student's financial circumstances for the household. The EFC amount is ultimately derived from taxed and untaxed income, assets, and factors such as geographical location, size of the household, and number in college. Currently, the financial information collected on the FAFSA is from the tax year immediately preceding the award year for which the student is applying. For example, the 2014 tax returns and associated data are used for completing the 2015-16 FAFSA.

While the FAFSA and calculated EFC serve as the primary basis for determining award eligibility and amounts for the purposes of federal student aid, this information also informs the awarding process for many states and institutions which offer their own financial assistance. Much of the non-federal aid funds are awarded on a first-come, first-served basis, therefore creating an urgency to complete the FAFSA as early as possible after it becomes available on January 1 in order to have the best chance of receiving some of that aid. While some states set their deadline for FAFSA completion in February or March, this window of time is typically insufficient to provide students and their families an opportunity to have their taxes filed prior to beginning the FAFSA filing process. The result is that at least the initial FAFSA filing is frequently done without having the most accurate information available, so it will require the student to return to their application to update it once their taxes have been filed. Additionally, ED introduced the Internal Revenue Service's (IRS) Data Retrieval Tool (DRT) in 2010 in an effort to minimize the length of time it takes to complete the FAFSA as well as improve the accuracy of the data collected. While this utility has proven very valuable in reducing errors as well as the burden on applicants and schools, it is only effective when it is available and works as designed, and it is generally not available for use before February 1.

The challenges regarding the accuracy and timeliness of FAFSA completion, as well as inherent barriers such as the length and complexity of the application, have led to the exploration of potential changes to the process. The most promising of these potential changes is the proposition to move to using prior-prior year income data when completing the FAFSA. Under this methodology, for instance, the 2015-16 FAFSA would draw from 2013 year tax filing data. This is significant because, in this example, 2013 tax filing data would be available for retrieval using the DRT starting from the first day that the 2015-16 FAFSA is available for completion. This would greatly improve the accuracy of information used to determine eligibility for financial aid. Simultaneously, the change could potentially allow for access to the FAFSA earlier than the current rollout date of January 1 since the PPY tax returns would already have been filed. This would afford institutions the ability to create and deliver a more timely and accurate award package to prospective students and their families, providing them the tools to make the best informed enrollment decisions regarding cost and affordability. It is worth noting that this proposed change to use prior-prior year income data would not require congressional action; Education Secretary Arne Duncan presently has the authority to enact a change to implement PPY.

In an effort to best understand the potential effects of PPY implementation, NASFAA solicited feedback from a working group of financial aid professionals from around the country in addition to consulting with representatives from The Council for Opportunity in Education and the National Association of College Admission Counseling. Over the course of four months and through numerous collaborative discussions, this feedback was gleaned and has been categorized into three sections: expressed concerns, benefits, and considerations. It is the hope of NASFAA that the responses and information included in this paper will provide reasonable and demonstrable evidence to address those concerns and support the recommendation to implement PPY.

Expressed Concerns

Concern: PPY is going to result in increased Pell Grant spending

Response: While it is impossible to forecast exact implications to Pell Grant spending, NASFAA's research indicates that Pell Grant spending would not significantly increase as a result of professional judgments, but may see an increase due to the broadened pool of FAFSA applicants. The latter scenario would represent a mark of success for a move toward PPY.

While the precise changes in Pell Grant spending on the basis of the volume of professional judgments cannot be forecasted with full certainty, it is the belief of NASFAA that significant changes to EFCs, and subsequently material increases to Pell Grant spending, would be minimal. This belief is rooted in the findings, shared in NASFAA's "A Tale of Two Income Years: Comparing Prior-prior Year and Prior-year Through Pell Grant Awards," that only about 16-18 percent of students would see major changes in their Pell Grant awards (more than $1,000 in either direction), while 12-14 percent would experience a very minimal change (less than $1,000 in either direction), and the remaining 68-71 percent would see no change at all (Kelchen & Jones, 2013). Additionally, there are a substantial number of circumstances that are reviewed via the professional judgment process that result in no changes being made to the EFC or where the change in EFC does not result in a change to the student's financial aid eligibility.

Concern: PPY is going to negatively impact state funding

Response: Results of the NASFAA working group research suggest that the vast majority of states who have some form of grant aid will experience minimal challenges as a result of PPY. This is based, at least in part, on a National Association of State Student Grant & Aid Programs (NASSGAP) survey of state grant agencies which sought to better understand the perceived changes that might be necessitated as a result of PPY implementation (see Appendix A). Based on data collected from 29 respondents out of 47 states which have need-based grant programs, 86.2 percent indicated that there would be "no issues related to following the FAFSA information based on a shift to PPY" (National Association of State Student Grant and Aid Programs, 2014). Individual states, if deciding not to align with PPY, would have to develop an alternative and equitable solution for calculating and determining an EFC following similar logic to the existing calculation. While there may be some variation introduced in terms of methodology in state allocation determinations due to individual states autonomously deciding to continue their current practices of determining need and eligibility and others following the federal use of PPY, the majority do not foresee obstacles being created as a result of a move to using PPY data. According to NASSGAP's survey, 96.4 percent of the responding states do not foresee needing to create their own, new need analysis mechanism based on a change to PPY (National Association of State Student Grant and Aid Programs, 2014). Some states currently have a particular methodology specified in their statutes that dictates more precisely the tax and income information to be used for applicants. For a few states, a state statutory change would be necessary in order to align with the use of PPY while others would not require legislative action.

Concern: PPY is going to increase administrative burden

Response: One of the chief concerns related to the implementation of PPY is the administrative burden related to the expected increase in the number of professional judgment adjustments that may be requested. Whenever a student or a student's family has experienced a significant change in their financial situation, subsequent to completing a FAFSA, financial aid administrators are permitted to collect all necessary documentation and execute a professional judgment adjustment to certain data elements in the EFC formula, including income, to more accurately represent the family's current ability to pay educational expenses. Since income earned in the prior-prior year is one year further removed from present day, some believe that the potential for income discrepancies is greater and could lead to more requests for professional judgment considerations.

Even if the implementation of PPY results in an initial increased number of professional judgment requests, the projected increased availability and utilization of the IRS DRT will significantly decrease the total number of verifications. While the process of addressing files selected for verification increases the amount of work required by financial aid administrators and their staffs, and also creates additional effort for students and their families, the volume of files selected for verification appears to be trending downward. In December 2014, ED shared the following at the annual Federal Student Aid training conference: "For the 2013-14 cycle, approximately 6.9 million applicants (32.4%) were selected for verification; to date [through November 2014] for 2014-15, approximately 4.7 million applicants (25.7%) have been selected" (Coghlan, Fortelny, & McCullough, 2014). The overall effect is expected to be that financial aid administrators will be spending their time and resources focused more on the student and family circumstances in which reviews are most warranted. In short, there is likely to be shift in time and resources spent on verification to time and resources spent on professional judgments, but on the whole this shift would not result in an increase in administrative burden. In addition, given that the FAFSA would likely become available earlier under PPY, financial aid administrators would have even more time to complete professional judgment evaluations.

In order to proactively identify and better define situations in which greater scrutiny of an individual student or family's economic situation directly impacting their ability to pay for educational costs is necessary, NASFAA recommends that applicants be able to check a box on the FAFSA if any significant change in their income occurred between when they are completing the FAFSA and the tax year being reported. In order to be effective, this indicator would need to be accompanied by text that provides the applicant with some context and a definition of what qualifies as a "significant change" in their circumstances. On the institutional side, this indicator would provide a direct line-of-sight to those students potentially needing a deeper look into their circumstances while affording institutions and ED an opportunity to track those populations and volumes.

Concern: PPY is going to cause disruption of systems

Response: While there will likely be some unique technical challenges associated with an initiative as substantial as PPY, NASFAA believes that these challenges will be contained within a 1-2 year window immediately surrounding the award year of implementation. Both the schedules for developing necessary modifications for software vendors supporting student information systems, as well as ED systems, would require significant consideration. Although the initial requirements gathering and development cycle for the implementation of PPY is believed to be substantial, there is a reasonable expectation that the changes can be made with ample advanced notice. It is also believed that once the initial development and transition year are past, the ongoing technical and functional resource commitments would normalize. Overall, the concerns surrounding the disruption of systems can be minimized, if not mitigated entirely, with adequate lead time. See a comparison of the existing FAFSA development and release timeline and the proposed, shifted timeline in Appendix B.

Considerations

Question: Would institutional awarding methodologies change?

Response: Similar to the potential changes to the mechanism for determining awards of state funding as a result of PPY implementation, consideration should be made by individual institutions in their methodology for determining eligibility and award amounts for institutional funds. Regardless of whether they make use of an alternative need analysis application or maintain their own mechanism for awarding institutional aid, both the approach and the tools used will need to be taken into account in light of changes to the FAFSA data using PPY.

Question: How would PPY affect institutional policies regarding need awareness?

Response: Currently, some institutions have an admissions policy that is need-blind, meaning they do not consider a student's financial circumstances in the decision-making process of whether to admit them or not. Other institutions, however, have a need-aware (or need-sensitive) admissions policy whereby they may reserve a certain allotment of admissions for students who do not exhibit a need for financial assistance. Implementation of PPY may provide an opportunity for an institution to change its policy based on the fact that more complete information regarding a student's financial need could be available earlier in the admissions process, assuming the adoption of PPY allows for the FAFSA availability date to be moved up earlier than January 1. While the opinions of the rectitude of need-blind versus need-aware policies are wide-ranging, the possibility of PPY implementation influencing an institution's policy in this regard should be considered.

Benefits

Earlier FAFSA Release

With a move to implement PPY, NASFAA proposes a FAFSA release date of as early as September 1. This earlier date would significantly extend the amount of time students and families have to make decisions regarding what institution to attend based on more accurate, complete, and timely information. By adding four months to the FAFSA cycle at the beginning, financial aid offices would have more time to work with students who are selected for verification or who may have indicated a significant change in their economic circumstances and need additional attention in the form of a professional judgment. Not only does this take some pressure off of students and families who are so rushed to get through the financial aid process that they fail to complete all the necessary steps and subsequently drop out, it also lends itself to reducing the intensity of administrative burden on institutions. For first-time college students coming out of high school, this extension allows for institutions to be able to provide a more accurate financial aid package much earlier in the decision-making process for students and families.

The possibility of earlier FAFSA completion also allows for much better alignment with existing recruiting and admissions schedules and practices. Under current admissions schedules, families often have to consider an institution without having a concrete sense for their ability to pay, but students and their families could make more confident enrollment decisions if they were able to consider an accurate estimate of cost and financial aid offered. Ultimately, students being able to make informed enrollment decisions based on financial aid packages and true pictures of affordability would likely lead to greater persistence and completion by establishing good student-institution matches from the outset. These advantages are best illustrated in the context of students who meet the eligibility criteria of the TRIO program, those who have demonstrated profound financial need, who are first generation college goers, and who bear various other risk factors which might present barriers to college attendance and completion.

Accuracy of Data

PPY implementation serves the purpose of collecting, reviewing, and ultimately awarding Title IV Aid based on the most accurate student/family data possible. The shift to PPY would mean that all required federal tax returns would have been filed for the tax year being used to complete the FAFSA. In principle, that implies that nearly all tax-filing students and their parents should be eligible to use the DRT with few exceptions. ED information shared at the 2014 FSA Training Conference indicates that for the 2014-15 cycle (data to date through October 2014) 76 percent of independent students and 62 percent of dependent students who were ineligible to use the DRT were ineligible on the basis of either having not completed their taxes or because the DRT was not yet available (Fortelny & Parkinson, 2014). Reducing or eliminating these two common barriers of not having taxes completed and not being able to use the DRT would mean that relatively few students would fall into an exception category and that the vast majority of FAFSAs would have an EFC calculated on true and confirmed tax filer data. The relatively few FAFSA records which fall into an exception category requiring additional follow up and collection of information would be limited to those student and family situations for which the time and resources of financial aid administrators is best spent.

Conclusion

The myriad conversations from which this paper was derived incorporated the expertise of financial aid and other higher education professionals representing a broad range of institution types and higher education organizations. Namely, representation by the National Association of College Admission Counselors (NACAC) and a TRIO program coordinator were most relevant in shaping the expected impacts and advantages, particularly when considering implications to the broader admissions process and potentially disadvantaged student populations. Ultimately, it has been concluded that while it is impossible to accurately account for all potential impacts, the financial aid community and higher education community at large is in favor of implementing PPY and perceives the benefits and advantages to far outweigh any potential drawbacks. What can be posited with greater certainty is that the implementation of PPY stands to revolutionize the FAFSA application process and along with it the effectiveness of financial aid and admissions processes for institutions.

References

Coghlan, R., Fortelny, G., & McCullough, C. (2014). *Verification and Unusual Enrollment History. 2014 FSA Training Conference for Financial Aid Professionals* (pp. 30-31). U.S. Department of Education.

Fortelny, G., & Parkinson, M. (2014). *FAFSA® and Application Processing System Update. 2014 FSA Training Conference for Financial Aid Professionals* (pp. 37-39). U.S. Department of Education.

Kelchen, R. J., & Jones, G. (2013). *A Tale of Two Income Years: Comparing Prior-prior Year and Prior-year through Pell Grant Awards.* Washington, DC: National Association of Student Financial Aid Administrators.

National Association of State Student Grant and Aid Programs. (2014). *Use of prior-prior year income as FAFSA base: A survey of state grant agencies.* (Aggregate data file). Retrieved from https://www.nassgap.org/vo/vo_poll_results.aspx?surveyId=76

Appendix A

Aggregate Results of a NASSGAP Poll

Question: Sen. Booker from NJ has introduced a bill that would authorize prior-prior year income as the basis for FAFSA completion.

Would your state have any statutory or regulatory issues in using prior-prior year income in the FAFSA process? In other words, would you accept and utilize a Federally determined EFC or income information reported on the FAFSA that was based on prior-prior year income in award eligibility determination?

Please answer "Yes" to indicate there would be no issues and you would be able to utilize prior-prior information.

Please answer "No" to indicate there might be issues and you might not be able to utilize prior-prior information.

Results: 29 people responded.

Response	#of votes	% of Total
Yes	25	86.2%
No.: [Total]	[4]	[13.8%]

Question: Would the use of prior-prior year income in the Federal needs analysis process lead to your state implementing a needs analysis process based on prior-year income? In other words, would your state need to create a new financial aid assessment form or process?

Results: 28 people responded.

Response	#of votes	% of Total
No	27	96.4%
Yes	1	3.6%

Question: If you already collect additional information (state specific questions, asset information, additional income information), would a FAFSA process based on prior-prior year income require changes to those processes?

Results: 28 people responded.

Response	#of votes	% of Total
No	25	89.3%
Yes	3	10.7%

Question: If you have state specific questions or questions specific to the use of the API - would mapping 'prior-prior' data into your state grant application create added complexity for students and families (because they would presumably have to input prior-year data when available)?

Results: 28 people responded.

Response	#of votes	% of Total
No	23	82.1%
Yes	5	17.9%

Question: Should NASSGAP support this legislation?

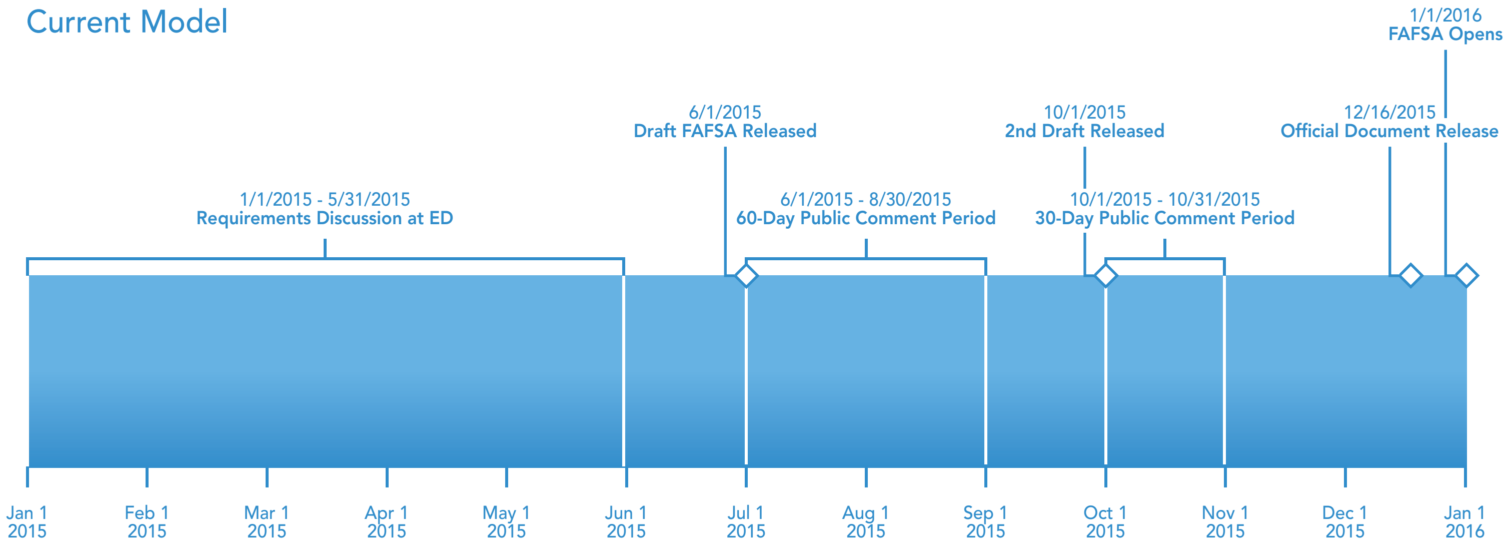
Results: 28 people responded.

Response	#of votes	% of Total
Yes	24	85.7%
No	4	14.3%

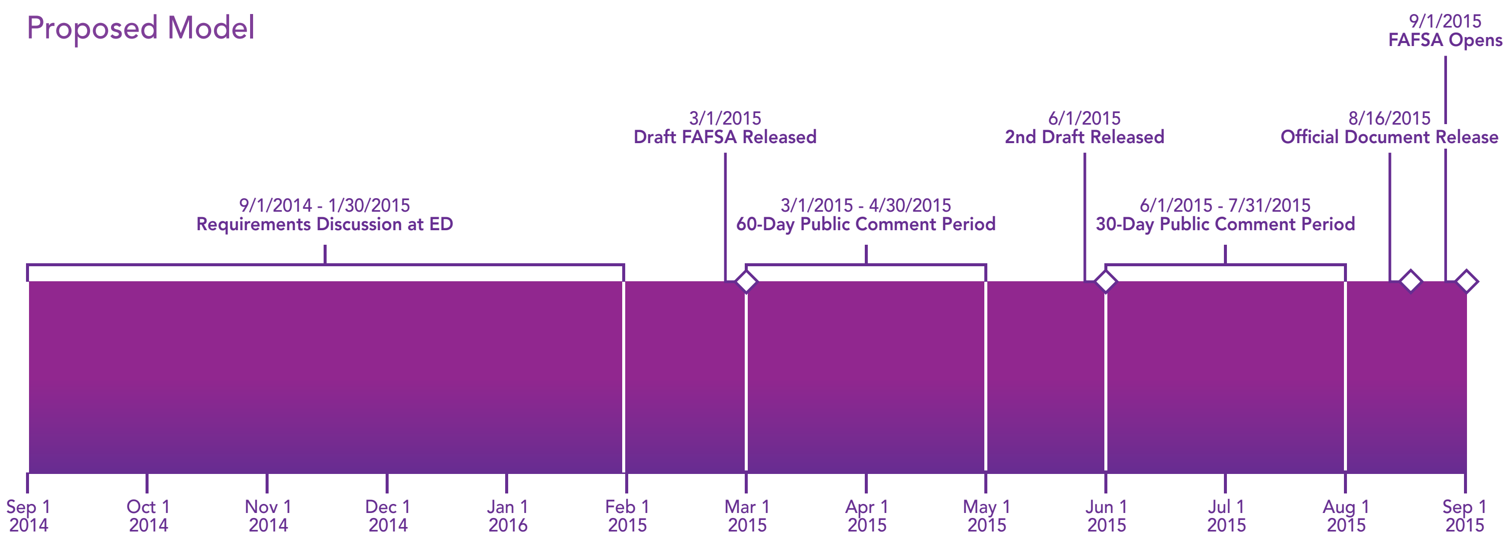
Appendix B

Proposed Changes to the FAFSA Development Timeline

Current Model



Proposed Model



The National Association of Student Financial Aid Administrators (NASFAA) provides professional development for financial aid administrators; advocates for public policies that increase student access and success; serves as a forum on student financial aid issues, and is committed to diversity throughout all activities.

NASFAA
NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

1101 CONNECTICUT AVENUE NW, SUITE 1100
WASHINGTON, DC 20036-4303
202.785.0453 FAX. 202.785.1487 WWW.NASFAA.ORG