

# NASFAA FAFSA WORKING GROUP REPORT



# FAFSA SIMPLIFICATION



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**RESOURCES**

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NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

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# NASFAA FAFSA Working Group Report

*NASFAA – July 2015*

## Introduction and Background

As Congress and the higher education community work toward the reauthorization of the Higher Education Act, broad themes are beginning to emerge. While the specifics are yet to be determined, draft bills, hearings, and conversations have signaled that the upcoming reauthorization will have a strong focus on college cost and affordability, transparency and accountability, and simplification. Of these themes, the concept of simplification has been most pervasive, with a particular focus on the federal student aid application process.

NASFAA has long been interested in ways to make the Free Application for Federal Student Aid (FAFSA) and the overall application process more efficient and simple for students and families. Over the years, NASFAA has offered recommendations to simplify the form and has been generally pleased by the improvements over the past several years, including “smarter” skip-logic and the implementation of the IRS Data Retrieval Tool (DRT). Recent simplification proposals within the context of reauthorization have led NASFAA to revisit simplification with an eye toward making the application process more targeted and efficient through the expansion of existing technology.

Specifically, the impetus for NASFAA’s FAFSA Working Group (FWG) was the recent focus on the number of questions on the FAFSA. In the summer of 2014, Senators Alexander (R-TN) and Bennett (D-CO) released a proposal to eliminate the FAFSA and instead calculate federal financial aid eligibility by using a two-question postcard, asking applicants only about their family size and adjusted gross income (AGI). Similarly, around the same time the Obama Administration released a proposal to eliminate approximately 30 questions from the current form by eliminating many of the questions related to untaxed income and assets. Naturally, as a result of these proposals NASFAA was asked frequently about how many questions financial aid administrators think should be on the FAFSA form.

Concerned about the implications of a two question-FAFSA but at the same time acknowledging that there is always room for improvement, NASFAA’s FWG set to work on developing a model that would simplify the process while still ensuring program integrity and accurate targeting of federal funds. The following document outlines the proposed model and underlying assumptions.

## Working Group Members

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## The Solution: A Three-Level Application Process

Rather than a “one size fits all” simplification proposal, we recommend a tiered approach whereby applicants are steered down an application pathway based on their status as a federal means-tested benefit recipient and their tax filing status. Under this model, applicants who have low presumed financial strength based on means-tested benefits and tax filing status are presented with the bare minimum of FAFSA questions, and applicants with higher levels of presumed financial strength are presented with more questions. In this way, we can target FAFSA questions about certain types of income or assets to those populations who are most likely to have those income sources.

While on first glance, this approach seems to provide simplification only for our neediest applicants, by expanding utilizing existing technology even FAFSA applicants with more comprehensive tax returns will benefit.

### **Recommendation #1: Use prior-prior year income data to determine student aid eligibility.**

**Rationale:** The three tiered model is predicated on the use of prior-prior year (PPY) income. PPY data provides more accurate income data, due to a higher likelihood of availability from the IRS data retrieval tool (DRT). Increased usage of the DRT is a key component of our FAFSA simplification proposal, since it reduces burden on the applicant while still providing the same detailed tax return information directly from the IRS for need analysis purposes.

### **Recommendation #2: Expand the IRS Data Retrieval Tool (DRT) to include all line items of the 1040 and W2 information.**

**Rationale:** Along with PPY, the three tiered approach is also predicated on an expansion of IRS DRT. Generally speaking, the goals of “simplicity” and “accuracy/program integrity” are at odds with each other, i.e., a highly accurate need analysis system is not simple. However, use of more information obtained directly from the IRS would allow for a simpler application and reduced burden for applicants, but retain a high standard of accuracy.

The task force considered recommending that all information from tax forms and schedules also be retrievable using the DRT. However, they were concerned that most financial aid administrators (FAAs) would not want all of the information from the schedules. They also expressed concern that having all of the underlying schedule information may open up aid administrators to conflicting information requirements and an expectation from the Department of Education that FAAs have an understanding of tax schedules.

In the end, the task force recommendation is to expand the DRT to include all line items on the 1040, but not the schedules. If certain line items on the 1040 are populated, that would be an indicator that the tax filer may have completed the corresponding tax schedule. For example, if line 12 on the 1040, business income (or loss), is populated, then the school would know that the tax filer also filed Schedule C. Those institutions that would like to review the tax schedule can request a copy directly from the tax filer, as is current practice.

As a reminder, currently the DRT includes the following line items:

- Type of tax return filed
- Filing status
- Adjusted gross income
- Taxes paid
- Income earned from work
- Exemptions
- Education credits (1040 and 1040A only)
- IRA deductions (1040 and 1040A only)
- Tax-exempt interest income (1040 and 1040A only)
- Untaxed IRA distributions (1040 and 1040A only)
- Untaxed pensions (1040 and 1040A only)

Using PPY income data instead of prior-year data also presents the opportunity to explore expanding the DRT to include information from W2 forms, which would permit retrieval of income earned from work for non tax filers. Under our current prior-year system, W2 information from the prior year is not available from the IRS in a time frame that is useful for financial aid application purposes.

### **Recommendation #3: 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 their responses to screening questions.**

**Path #1:** After answering the initial questions on identifiers, demographics, and dependency status, all applicants would be asked if a parent (for dependent students) or anyone in their household (for independent students) was a recipient of Supplemental Nutrition Assistance Program (SNAP) and/or Supplemental Security Income (SSI) benefits.

If the answer is “yes,” the applicant would list the chosen school codes, sign and date the FAFSA, and the FAFSA would be complete. No further financial information would be gathered and the applicant would automatically be eligible for the maximum Pell Grant.

If the answer is “no,” then the FAFSA asks if the applicant filed a tax return or was required to file. For non filers, the FAFSA would ask about income earned from work and child support received only. All asset questions would be eliminated.

Tax filers would proceed further to path #2.

**Rationale for Path #1:** A high priority for the working group was to reduce application burden for the neediest FAFSA applicants, many of whom have already been determined to qualify for other federal means-tested benefit programs. While there was unanimous support in theory to rely on other government agencies' determinations of neediness, the working group was also concerned about program integrity and the desirability of a simple verification process (ideally a database match). With these priorities in mind, the working group engaged with the Center for Law and Social Policy and received a crash course in benefit programs, including free and reduced-price lunch, Temporary Aid for Needy Families (TANF), Medicaid, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Earned Income Tax Credit (EITC), and Supplemental Security Income (SSI). After learning about eligibility, take-up rates, verification of eligibility, and administration of these programs, the working group decided that SNAP and SSI were the most appropriate programs to use for this purpose.

Applicants who are very low-income non tax filers but are not SNAP nor SSI recipients will be presented with questions about income earned from work and child support received as discussed above in Path #1. It would still be possible for these applicants to receive a maximum Pell Grant.

All untaxed income questions would be eliminated under Path #1, except for child support received, which anecdotally is reported at a significantly higher rate than other untaxed income questions. Other untaxed income sources are reported at very low rates and therefore would be eliminated.

All asset questions would be eliminated under Path #1 across the board since these applicants are likely to have very few assets.

**Path #2:** Applicants who do not meet the conditions for path #1 would be directed to the IRS DRT. If the tax return is a 1040A, 1040EZ, or a 1040 without any line items that resulted from the completion of a form or schedule, then Path #2 applies.

Information retrieved via the DRT would include:

- Tax filing status
- Adjusted Gross Income
- Taxes paid
- Income earned from work
- IRA deductions and payments to self-employed SEP, SIMPLE, Keogh and other qualified plans
- Tax exempt interest income
- Untaxed portions of IRA distributions
- Untaxed portions of pensions
- Education tax credits
- Payments to tax-deferred pension and retirement savings plans

The question on child support received would be retained.

Related to assets, the FAFSA would ask only about cash, savings, and checking. This question would apply only to dependent students (not parents of dependent students), and independent students without dependents.

**Rationale for Path #2:** Path #2 retains more untaxed income questions than path #1. Although these questions are applicable to small percentages of FAFSA applicants, the working group believes that they are worth retaining as long as the data can be retrieved via the DRT.

By definition, applicants who file a 1040EZ, 1040A, or a 1040 without forms or schedules do not have significant assets. If they did, they would most likely be required to file 1040 forms or schedules. Given that, the task force recommends elimination of all asset questions for parents and independent students with dependents other than a spouse.

Assets have a much larger impact for dependent students, since they do not receive an asset protection allowance and their assets are assessed at a higher rate. For that reason, the working group recommends retaining the cash, savings, and checking question for dependent students.

Although the working group does not believe that independent students without dependents other than a spouse have significant assets as a group, historically the methodology for dependent students and independent students without dependents have been analogous and there was interest in retaining that alignment. Therefore, the working group also recommends retaining the cash, savings, and checking question for independent students without dependents other than a spouse.

**Path #3:** Having not qualified for paths #1 nor #2, applicants who filed a 1040 with forms and/or schedules will be steered toward Path #3.

All of the taxable and untaxed income questions are the same for Path #3 as for Path #2, along with the same expanded use of the DRT.

However, under Path #3, the following adjustments to income would be made:

- Negative numbers carried over from a schedule to the front of the 1040 will not be allowed. The AGI reported through the DRT will be adjusted to account for any negative income and that adjusted AGI will be used in need analysis.
- Any dollar amount listed in line 21 of the 1040 with “Form 2555,” for foreign income not subject to taxation, would be counted as untaxed income.

For assets, the cash, savings, and checking question would be asked of all applicants. The other existing asset questions on investments and business/farms would be presented if a specific line item on the 1040 is populated, which indicates the potential for assets. For example, if line 12 on the 1040 is populated, that may indicate a business that should be reported on the FAFSA, and the appropriate FAFSA question would then be presented to that applicant.

**Rationale for Path #3:** As federal budgets have tightened and eligibility changes have been instituted by Congress solely to save money, aid administrators have become increasingly concerned about FAFSA applicants who are able to claim a loss for tax purposes, but that loss does not indicate an actual loss in the family’s financial strength. Many of these applicants appear to be much needier than they actually are. Prohibiting negative figures on page 1 of the 1040 levels the playing field somewhat, and financial aid administrators would 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.

Foreign income reported on the 1040 but not subject to U.S. taxation is currently not included in FM. Although this affects a low percentage of applicants, the dollar amounts can be very significant and the omission of the “foreign income exclusion” from FM oftentimes makes affected applicants appear to be needier than they actually are. Including this foreign income as untaxed income is a fair treatment.

**Recommendation #4: The result of the Federal Methodology would be an index that ranks applicants according to their financial strength, rather than an expected financial contribution.**

**Rationale:** The working group feels strongly that, because the Federal Methodology (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 result of the FM functions more as an index that ranks applicants according to their financial strength. The name of the index should be changed to reflect that reality.

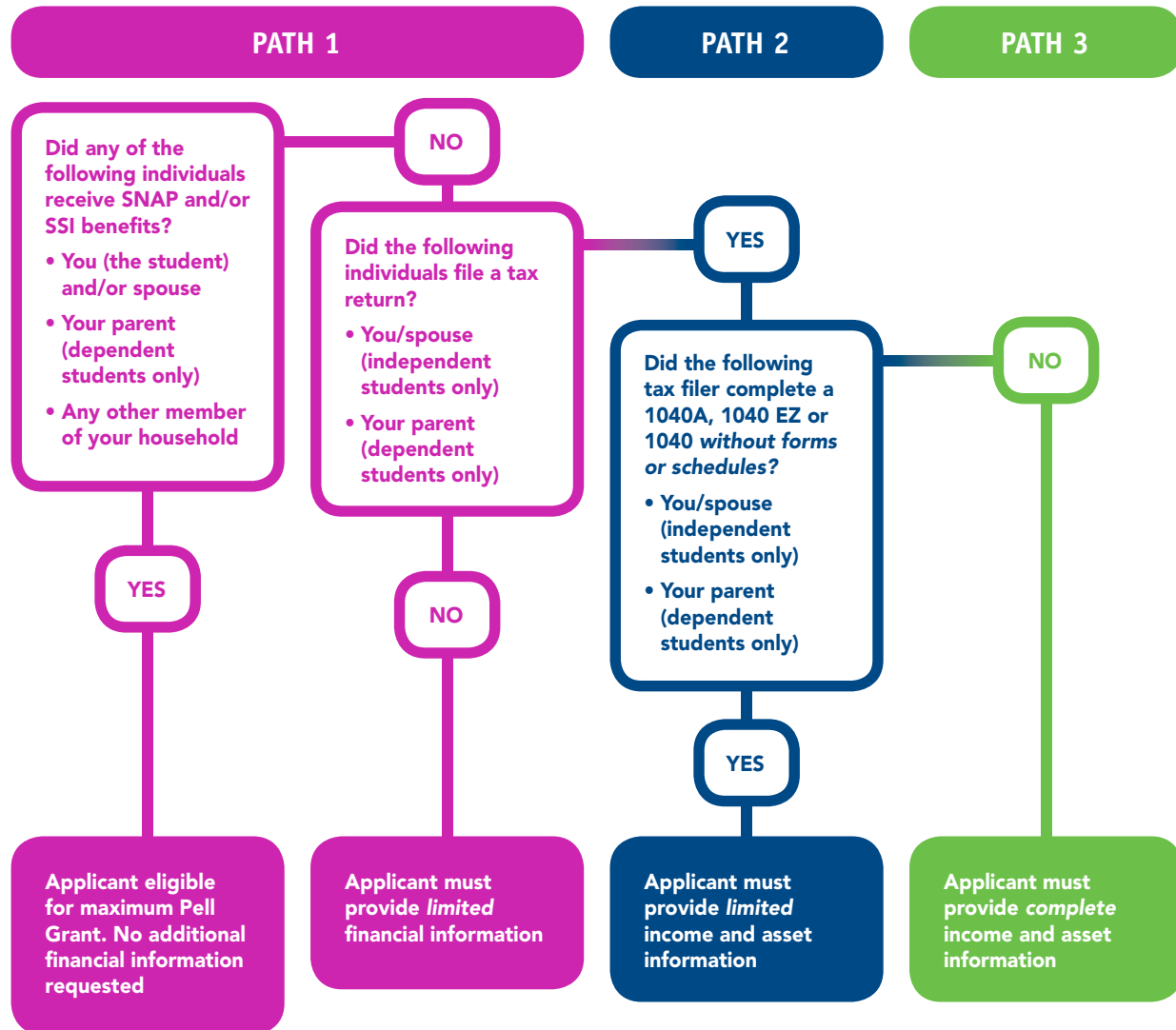
## Conclusion

This proposal makes clear that simplification is, in fact, not such a simple task. NASFAA will work to model this proposal and will make appropriate modifications in order to ensure that the proposed pathways are in the best interest of students and families while also maintaining accountability and stewardship.



# FAFSA Application Process: Three Pathways

After initial questions related to demographics and dependency status, the FAFSA will ask applicants about receipt of SNAP and/or SSI benefits and for those who answer “No”, tax filing status. The applicant’s response(s) will then steer the applicant down one of three pathways.



# Number of FAFSA Questions by Pathway

Current maximum # of questions is 136 for dependent student.

| Maximum Number of Questions           | Benefit Recipients and Non Tax Filers  | Simple Tax Filers  | Tax Filers with Schedules  |
|---------------------------------------|--|--|--|
| 29                                    | Demographic Questions: <ul style="list-style-type: none"> <li>Name</li> <li>Address</li> <li>Social Security Number</li> <li>Date of birth</li> <li>Telephone number</li> <li>Driver's license</li> <li>Email address</li> <li>Citizenship</li> <li>Marital status</li> <li>State of legal residence</li> <li>Parent education</li> <li>High school completion status</li> <li>Grade level</li> <li>Academic program</li> <li>Interest in FWS</li> </ul> | Demographic Questions: <ul style="list-style-type: none"> <li>Name</li> <li>Address</li> <li>Social Security Number</li> <li>Date of birth</li> <li>Telephone number</li> <li>Driver's license</li> <li>Email address</li> <li>Citizenship</li> <li>Marital status</li> <li>State of legal residence</li> <li>Parent education</li> <li>High school completion status</li> <li>Grade level</li> <li>Academic program</li> <li>Interest in FWS</li> </ul> | Demographic Questions: <ul style="list-style-type: none"> <li>Name</li> <li>Address</li> <li>Social Security Number</li> <li>Date of birth</li> <li>Telephone number</li> <li>Driver's license</li> <li>Email address</li> <li>Citizenship</li> <li>Marital status</li> <li>State of legal residence</li> <li>Parent education</li> <li>High school completion status</li> <li>Grade level</li> <li>Academic program</li> <li>Interest in FWS</li> </ul> |
| 13                                    | Dependency Status  | Dependency Status  | Dependency Status  |
| 1                                     | Recipient of Supplemental Security Income (SSI) or Supplemental Nutrition Assistance Program (SNAP)  | Recipient of Supplemental Security Income (SSI) or Supplemental Nutrition Assistance Program (SNAP)  | Recipient of Supplemental Security Income (SSI) or Supplemental Nutrition Assistance Program (SNAP)  |
| 2                                     | Tax filing status (except benefit recipients)  | Tax filing status  | Tax filing status  |
| 2                                     |  | Adjusted Gross Income  | Adjusted Gross Income  |
| 2                                     |  | Taxes paid   | Taxes paid   |
| 3                                     |  | Income earned from work  | Income earned from work  |
| 1                                     |  | Child support received   | Child support received   |
| 5                                     |  | Other untaxed income   | Other untaxed income   |
| 2                                     |  | Education tax credits  | Education tax credits  |
| 2                                     |  | Household size/# in College  | Household size/# in College  |
| 1                                     |  | Cash, savings, checking (dependent students and independent students without dependents only)  | Cash, savings, checking  |
| 1                                     |  |  | Investments  |
| 1                                     |  |  | Business/Investment Farms  |
| 1                                     | School codes   | School codes   | School codes   |
| 2                                     | Signature/Date   | Signature/Date   | Signature/Date   |
| Range of Questions Minus Demographics | 6 - 24   | 24 - 35  | 26 - 37  |

Note: Blue shading indicates items that would be retrieved via IRS Data Retrieval Tool

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