



Time to Finish Fixing the FAFSA

Testimony
of
The National Association
of Student Financial Aid Administrators

Presented to the
United States Senate
Health, Education, Labor and Pensions Committee

September 17, 2020

Chairman Alexander, Ranking Member Murray, and members of the Committee:

The National Association of Student Financial Aid Administrators (NASFAA) respectfully submits the following written testimony for inclusion in the “Time to Finish Fixing the FAFSA” hearing, to be held on Sept. 17, 2020. NASFAA represents financial aid administrators at 3,000 colleges across the country. Collectively, our schools serve nine out of every 10 undergraduate students.

Background

The Free Application for Federal Student Aid (FAFSA) has come a long way over the past decade, from the initial implementation of the Internal Revenue Service (IRS) Data Retrieval Tool in 2009-10,¹ to refined skip logic to minimize the number of questions presented to an applicant, to the launch of the mobile FAFSA in October 2018.² There are many examples of small adjustments throughout the years that, taken together with the shift in 2017-18³ to using prior-prior year income data, have reduced the time it takes for a student to fill out the FAFSA. Today, the average completion time is approximately 31 minutes,⁴ a vast improvement from the time it took to fill out the form when it was first developed.

However, even with these successes, the average FAFSA completion time has only dropped 34 seconds from the 2010-11 application cycle, when completion times were first made publicly available on the U.S. Department of Education’s (ED) office of Federal Student Aid (FSA) Data Center, to the 2017-18 application cycle, the most recent available year. This small, incremental progress suggests that the significant streamlining of the FAFSA — which is very much needed — must be achieved through legislative change. Complexity of the FAFSA is often cited as a barrier to FAFSA completion, especially for our neediest students.⁵ As a result, significant numbers of needy students do not receive federal aid for which they would be eligible, making a postsecondary education financially impossible, if they attend at all. Based on data from the 2011-12 National Postsecondary Student Aid Study (NPSAS), about one-third of students who did not file a FAFSA would have been eligible for a Federal Pell Grant.⁶

¹ “Overview of IRS Data Retrieval process for 2009-10 FAFSA on the Web”, *Electronic Announcement*, November 5, 2009: <https://ifap.ed.gov/electronic-announcements/11-05-2009-application-processing-subject-overview-irs-data-retrieval>

² “Next GEN FSA Update,” Presentation from ED, 2018 FSA Training Conference for Financial Aid Professionals, December 2018: <https://fsaconferences.ed.gov/2018sessionlist.html>

³ “The President’s Plan for Early Financial Aid: Improving College Choice and Helping More Americans Pay for College” The White House, September 13, 2015: <https://obamawhitehouse.archives.gov/the-press-office/2015/09/14/fact-sheet-president-s-plan-early-financial-aid-improving-college-choice>

⁴ Federal Student Aid, Federal Student Aid FAFSA Volume Reports: FAFSA Data by Demographic Characteristics, 2010-11 and 2017-18 Application Cycles

⁵ Davidson, J. C. (2013). Increasing FAFSA completion rates: Research, policies and practices. *Journal of Student Financial Aid*, 43(1), Article 4. <http://eric.ed.gov/?id=EJ1018058>

⁶ Page, L. C., & Scott-Clayton, J. (2016). Improving college access in the United States: Barriers and policy responses. *Economics of Education Review*, 51, 4–22.

Fortunately, there is bipartisan and bicameral interest in tackling the challenges of FAFSA simplification. In this Congress, there have been 11 bills introduced related to FAFSA simplification, including the Simple FAFSA Act of 2019, the HOPE (Heightening Opportunities for Pathways to Education) for FAFSA Act, the Student Aid Improvement Act of 2019, the FAFSA Simplification Act of 2019, and the Fostering Undergraduate Talent by Unlocking Resources for Education Act (FUTURE) Act of 2019.

In particular, the FAFSA Simplification Act, which NASFAA supports, would significantly reduce the number of questions on the FAFSA — including irrelevant and unnecessary questions, such as the Selective Service and drug offense-related questions — and present only the applicable questions as predetermined based on an applicant's reported family income. Taking into account feedback from financial aid professionals nationwide, the bill takes a commonsense approach to shorten the FAFSA application to an extent that would not deprive institutions of crucial information needed to appropriately disburse billions of dollars of financial aid to eligible students.

The FUTURE Act, passed in December 2019, amends both the Internal Revenue Code and the Higher Education Act to allow for the automatic transfer of IRS tax data to the FAFSA, which will simplify the financial aid application process for millions of students and families. In addition to providing a more streamlined, less burdensome process for students and families, the law, when fully implemented, will create a more secure data-sharing experience, limit applicant errors in reported income, and reduce improper payments.

While the FUTURE Act focuses on much-needed enhancements to the application process, it does not address the Federal Methodology (FM) need analysis formula which dictates the questions that are asked of applicants as they complete their FAFSA. While we work to implement the FUTURE Act, we should also be considering potential statutory modifications to FM to further our FAFSA simplification goals.

Striking the Balance

To address the complexity of the FAFSA, we must first underscore the basic tenets that underpin the philosophy behind the federal student financial aid programs:

1. Federal student financial aid is predicated on the idea that the primary responsibility to pay for college is that of the student and their family.
2. In instances where students and families do not have the means or ability to pay for college, the federal government will provide need-based financial aid.
3. Because need-based financial aid dollars are limited, the federal government asks students to complete an application that helps to determine the financial strength of each family, and then aid is awarded accordingly. Students and families of strong financial means receive little to no need-based aid, and those with more limited means receive more need-based aid.

As Congress explores ways to simplify the FAFSA, it is important to remember these three tenets, because, taken together, the formula and form implement these philosophical underpinnings. Inherent in this implementation is a tension between two key goals: (1) The desire to make the form as easy as possible to complete, and; (2) creating a form that allows the federal and state governments, and schools, to accurately measure the financial strength of applicants to ensure need-based grants are well targeted.

Put more simply, the real challenge is to put together an application that is as simple as possible but allows us to accurately distinguish the truly needy from those who are not.

Ultimately, it is this tension that causes most debates within the application simplification discussion. Historically, trying to balance these two objectives has meant tradeoffs between simplification and accuracy. For example, the most accurate measure of the financial strength of an applicant would be assessed by asking detailed questions about income amounts, sources of income, assets, savings, tax brackets, annual expenditures, and more. However, such a structure would make the form complex, tedious, difficult to verify, and — most importantly — extremely daunting for low-income students. First-generation students, whose families have no prior experience with the college application process, are at risk of being deterred by such a complex FAFSA and potentially losing the opportunity to attend college simply due to the form.

On the other hand, simplifying the form too much would not give aid administrators the information we need to differentiate between students who appear poor based on their Adjusted Gross Income (AGI) alone but actually come from financially strong families who have resources elsewhere, from students who are truly low income.

Even if we found a very simple, generally strong proxy like AGI as a determinant for federal student aid programs, that same proxy would not necessarily work for all other forms of non-federal need-based grants. Schools, states, and private scholarship providers all provide need-based aid and want to make sure their funds are going to truly needy students. If we go too far in simplifying the federal application, we could inadvertently complicate this process even further by driving states, institutions and private scholarship providers to return to requiring their own separate applications, as they did prior to the creation of the FAFSA in 1992.⁷

To that end, we offer what we believe should be the two core tenets of any FAFSA simplification effort: 1) While any change in public policy creates winners and losers, Congress must ensure that any changes in the name of simplification do not do more harm than good to students; and 2) Congress should work to ensure that efforts to simplify the FAFSA will not result in states or institutions having to create supplemental financial aid applications to collect necessary information.

Recommendations for Improvement

⁷ Public Law 102-630

With today's technology the tradeoff between simplification and accuracy is not as daunting as it has been in the past. By relying on timing and technology, NASFAA believes Congress can dramatically reduce the number of questions for all applicants, but most of all for low-income students.

The direct data sharing between the IRS and ED authorized by the FUTURE Act is the linchpin to any future simplification effort. After collecting consent and minimal information upfront, the data sharing can function as a tool to sort applicants quickly and accurately.

As an example of the impact of the direct data sharing in a FAFSA simplification model, NASFAA's 2015 FAFSA Simplification Proposal⁸ was recently updated⁹ to incorporate the potential inherent in the FUTURE Act, as well as new federal tax forms. Broadly, our approach sorts students and families up-front to direct them down one of three potential application pathways based on their predicted financial strength. We highlight the updated proposal and pathways below as a well-developed concept for FAFSA simplification, building on the data-sharing authority in the FUTURE Act.

Path 1: Automatic-Zero Expected Family Contribution (EFC) Group

After the applicant answers the initial questions on identifiers, demographics, and dependency status, IRS/ED data sharing would be conducted.

Applicants whose data sharing results indicate a non-filing tax status would need only to list the school codes where they would like their application sent, sign and date the FAFSA, and submit it. The FAFSA would gather no further financial information and the applicant would automatically be eligible for the maximum Federal Pell Grant.

Applicants whose data sharing results indicate an income tax return with an AGI of \$50,000 or above would proceed to Path 2 or Path 3.

Applicants whose data sharing results indicate a tax return with an AGI of less than \$50,000 would be asked if a parent (for dependent students) or anyone in their household (for independent students) was a recipient of any of the following means-tested benefits:

- Supplemental Nutrition Assistance Program (SNAP)
- Medicaid
- Supplemental Security Income (SSI)
- Temporary Assistance for Needy Families (TANF)
- Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

⁸ "FAFSA Simplification," NASFAA FAFSA Working Group Report, July 2015:

<https://www.nasfaa.org/fafsa-report>

⁹ "Exploring Ways to Enhance FAFSA Efficiency: 2020 NASFAA FAFSA Simplification Proposal Update," August 2020:

https://www.nasfaa.org/uploads/documents/FAFSA_Series_Pt7_Simplification_Proposal_Update.pdf

Applicants answering “yes” to the means-tested benefit question would list the school codes where they would like their application sent, sign and date the FAFSA, and submit it. The FAFSA would gather no further financial information, and the applicant would automatically be eligible for the maximum Pell Grant.

Applicants answering “no” to the means-tested benefit question would proceed to Path 2 or Path 3.

The goal of Path 1 is to ensure that our country’s neediest students, especially those whose income is below the tax filing threshold or who have already proven themselves poor through their eligibility for means-tested benefits, do not have to yet again fill out a cumbersome form that yields the same results. Since the non-filing status and AGI has been verified directly by the IRS, there is both a higher degree of data integrity and less burden for the applicant.

Path 2

Applicants who do not meet the conditions for Path 1 (the automatic-zero EFC group) and who filed no tax schedules or only filed Schedule 1 would be directed to Path 2. The filing of tax schedules would have already been confirmed earlier in the process by IRS/ED data sharing, so the funneling of applicants would be seamless from their perspective.

The EFC formula would be functionally the same as it is currently, except with the elimination of some fields related to untaxed income, excludable income, and assets.

Untaxed income fields would include:

- Individual Retirement Arrangement (IRA) deductions
- Tax-exempt interest income
- Untaxed IRA distributions
- Untaxed pensions
- Child support received

Excludable income would include only education tax credits (American Opportunity Tax Credit and Lifetime Learning Tax Credit).

Related to assets, by definition, applicants who don’t file IRS forms and/or schedules other than Schedule 1 do not have significant assets. Therefore, under Path 2, the FAFSA would ask only about cash, savings, and checking accounts. This question would apply only to dependent students (not parents of dependent students), and independent students without dependents.

Path 3

Having not qualified for Path 1 or Path 2, applicants who filed a 1040 with forms and/or schedules other than Schedule 1 would be steered to Path 3.

All of the taxable and untaxed income questions would be the same for Path 3 as for Path 2. However, under Path 3 any dollar amount listed in line 45 of IRS Form 2555, Foreign Earned Income, would be counted as untaxed income.

For assets, the FAFSA would ask all applicants the cash, savings, and checking accounts question. It would present the other existing asset questions on investments and business/farms if IRS/ED data sharing indicated that a specific line item on the 1040 or Schedule 1 was populated, which suggests the existence of those assets. For example, if line 3 on Schedule 1 is populated, that may indicate a business whose net worth should be reported on the FAFSA, and the corresponding FAFSA question would then be presented to that applicant. This would require expanding data sharing to include information about the filing of specific IRS forms and schedules as well as specific line items.

When negative income is reported on Schedule 1, we recommend that ED automatically adjust the AGI reported through IRS/ED data sharing to add back negative income items and use that adjusted AGI in need analysis. 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.

Finally, the result from these changes would be to produce an index that ranks applicants according to their financial strength, instead of creating the current "Expected Family Contribution," a misnomer and major point of confusion for students and families. This three-pathway approach, along with the indexed ranking, is a simple, streamlined, fair, and accurate way to reform the FAFSA.

The bipartisan FAFSA Simplification Act of 2019 also proposes ridding the FAFSA of many questions, using tiered pathways for non-Pell Grant need-based aid, and relying on direct data sharing authorized by the FUTURE Act. Applicants who identify as nonfilers for tax purposes or recipients of certain means-tested benefits would only be asked to complete basic demographic and benefit-related questions to complete their FAFSA. All other applicants would be required to answer the same introductory questions, and would then go on to have the income information needed to calculate their eligibility for need-based aid transferred directly from the IRS to ED.

Both NASFAA's proposal and the FAFSA Simplification Act strive to strike a balance between a simple application that is easy to complete, but that simultaneously allows the federal and state governments, and schools, to accurately measure the financial strength of applicants and ensure need-based grants are well targeted.

Impact on Verification

Unfortunately, the application process does not end after a student submits a FAFSA. Many applicants are then required to *verify* the information they have just submitted. Verification of FAFSA information can be confusing and tedious for students, particularly for disadvantaged students who are unfamiliar with the process. In some cases, the verification requirements can be cumbersome enough to deter students from completing the process. Only 56% of Pell-eligible students selected for verification go on to receive a Pell Grant, in comparison to 81% of Pell-eligible students not selected for verification. This represents a 25 percentage-point “verification melt” (i.e., students who likely were Pell-eligible but were unable to access Federal Pell Grant dollars).¹⁰

One of the major benefits of the NASFAA proposal, taken together with the FUTURE Act, is the positive impact this approach would have on reducing verification burden for both students and schools. The current IRS Data Retrieval Tool is clunky and not all applicants are eligible to use it. With direct data sharing, information for many more applicants will be coming directly from the IRS, greatly reducing the need for verification. This eliminates hurdles for low-income students and frees up more time for financial aid administrators to counsel students, rather than push paperwork.

Conclusion

In order to strengthen the FAFSA for those who need it the most, we will need to work to balance the tension between simplification and accuracy and be willing to accept that there might be some imperfection in pursuit of balancing these goals.

Simplifying the FAFSA is not a panacea for the larger issues of college access and affordability but creating an application form and process that are succinct, easy, and predictable is a crucial piece of the overall puzzle. We look forward to working with you to continue to ensure higher education access and promote college success.

¹⁰ Warick, C. and Lowry, D. (2018) “FAFSA Verification: Good Government or Red Tape?” National College Attainment Network.
<https://cdn.ymaws.com/www.ncan.org/resource/resmgr/publications/verificationwp2018.pdf>.

Appendix

FAFSA Application Process, 2020 Proposal: Three Pathways

After initial questions related to demographics and dependency status, IRS/ED data sharing would be conducted. The results of the data sharing will then either steer the applicant to the Automatic-Zero EFC Path (Path 1) or prompt screening questions that direct the applicant to Path 2 or Path 3.

