NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Testimony
Of
Justin S. Draeger
NASFAA President

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Opening Doors of Educational Opportunity

PHONE: 202.785.0453 FAX: 202.785.1487 WEB: www.nasfaa.org
1101 CONNECTICUT AVE NW, SUITE 1100, WASHINGTON, DC 20036-4303

Keeping College Within Reach: Strengthening Pell Grants for Future Generations

Chairwoman Foxx, Ranking Member Hinojosa, and members of the Subcommittee:

Thank you for inviting me to testify today. The National Association of Student Financial Aid Administrators (NASFAA) represents more than 3,000 public and private colleges, universities, and trade schools across our nation. Collectively, NASFAA members serve 90 percent of all federal student aid recipients.

In this current academic year, nearly 9 million low-income students across the country are receiving Pell Grants, a program long considered the cornerstone of the federal student aid programs. Over its 41-year history, the Pell Grant has provided more than 60 million low-income students access to a college education, with 148 million individual annual awards made since the program's inception[1]. A well-targeted federal program, in award year 2011-12 nearly 85 percent of Pell recipients had incomes below $40,000 and nearly 70 percent of recipients were eligible for the maximum grant.[2]

For all of its success in providing basic access to postsecondary education for low-income students, the upcoming reauthorization of the Higher Education Act provides a much-needed opportunity to examine the structure, purpose, and outcomes of the Pell Grant program.

My testimony today will provide a framework for reviewing the Pell Grant program and will be divided into three parts:

1. The history and original intent of the program
2. Subsequent and significant changes that have been made to the program since its inception
3. Considerations for future program reform

<u>History and Intent</u>

The Pell Grant evolved out of the Basic Educational Opportunity Grant (BEOG), which was authorized in 1972. BEOG was created to provide grant aid to ensure access to postsecondary education for low-income students. According to the Pell Institute,[3] BEOG was one of the last pieces of the anti-poverty and civil rights laws that defined the federal

[1] Whitehouse.gov. Celebrating Success: 40 Years of Pell Grants (White House Fact Sheet): http://www.whitehouse.gov/blog/2012/06/23/celebrating-success-40-years-pell-grants
[2] U.S. Department of Education. End of Year Pell Report, 2011-12: http://www2.ed.gov/finaid/prof/resources/data/pell-2011-12/pell-eoy-2011-12.html
[3] The Pell Institute. Reflections on Pell: Championing Social Justice Through 30 Years of Educational Opportunity, 2013: www.pellinstitute.org/downloads/publications-Reflections_on_Pell_June_2013.pdf

role in assuring equal access to education.

The introduction of BEOG was significant for two reasons: it marked the first time federal financial aid was given to the student as a portable grant (i.e. funds went directly to the student, not the school), and it signaled a philosophical shift in how our country viewed higher education. Prior to the advent of BEOG, federal financial aid focused on our collective national competitiveness relative to other countries. BEOG illustrated our societal belief that providing basic access to postsecondary education would allow low-income families an opportunity for upward economic mobility while simultaneously creating a more stable and strong economy[4]. In 1980, BEOG was renamed the Pell Grant after Senator Claiborne Pell of Rhode Island, a long-time champion of higher education access.

In its first full award year, approximately 1.94 million students received BEOG, with the maximum grant of $1,400 covering approximately 72 percent of the cost of attendance at a four-year public institution. "The original BEOG grants helped close the gap between what the poorest students could afford to pay for college—generally zero dollars, or little more than that—and the cost of an education at the average public four-year university[5]."

This helped ensure almost universal financial access to a baccalaureate degree program. In only a few short years, the program was covering 85 percent of the cost at a four-year public institution[6].

Today's Pell Grant and the students it serves look very different from those served in the first full award year of 1976-77. For one, the numbers of students utilizing the grant have increased dramatically. In this current award year over 9 million students will receive Federal Pell Grants, and the maximum grant has increased to $5,635.[7]

Award Year	**Maximum Pell Award**	**Number of Students Served**	**Maximum Grant Percentage of COA at Public Institution**
AY 1976-77	$1,400	1.94 million	72 percent
AY 2013-14	$5,635	9 million	36 percent

[4] The Pell Institute. Reflections on Pell: Championing Social Justice Through 30 Years of Educational Opportunity, 2013: www.pellinstitute.org/downloads/publications-Reflections_on_Pell_June_2013.pdf
[5] *Ibid*
[6] *Ibid*
[7] The American Council on Education. Pell Grant Funding History, 2012: http://www.acenet.edu/news-room/Pages/Pell-Grant-Funding-History-1976-to-2010.aspx

However, in a stark comparison to Pell's early years, the maximum grant now covers only 36 percent of the cost of attendance at a four-year public institution. (In order for Pell to cover 72 percent of costs as it did in 1976, a maximum award amount of $12,875 would be necessary.)[8] The cost of the program has also increased dramatically. This past year Pell Grants came with a $33 billion price tag, now representing the largest share of the federal education budget.

Despite its long history, most of the significant changes to the program have occurred over the last 10 years (*See Appendix A*). Given Pell's substantial role in the federal education budget, it is not surprising that most of the recent modifications to the program have occurred through the budget process. Pell underwent a series of expanded eligibility changes through the Higher Education Reconciliation Act (HERA) of 2005, the College Cost Reduction and Access Act (CCRAA) of 2007 and the Healthcare and Education Reconciliation Act of 2010 (HCERA), all budget bills. These included things like increases in the amount and types of income excluded from the Pell Grant eligibility formula, increases in the income level under which an applicant automatically qualified for a maximum grant, and allowing students to receive additional Pell for attending school year-round. However, budgetary pressures from these changes combined with the onset of a deep recession resulted in cost trimming, represented most significantly by eliminating the "year-round Pell Grant." These budgetary pressures have led us to collectively reexamine whether the program is accomplishing all that it can and should.

Today's Higher Education Landscape

Today, Pell exists within a larger, more diverse student and learning environment than in its early days.

1. **Growth of nontraditional students**. At Pell's inception, most students were what we define as "traditional;" headed to brick-and-mortar campuses directly after high school, to pursue standard 2- and 4-year degrees at a full-time pace. According to a report on the history of Pell, "When originally enacted, the student aid programs and procedures under the Title IV of the Higher Education Act were designed for families with dependent children who attended college full time."[9] Today's postsecondary student is very different, with "non-traditional" students comprising the majority, nearly 72 percent[10] of those in college. The typical characteristics of nontraditional students include, but are not limited to those: who are over 24 years of age, are attending at a less than full-time status, and students with their own dependents.[11] Of the 17.6 million students enrolled in postsecondary education in the fall of 2011, only 15 percent of students attended four-year institutions and

[8] The College Board. Trends in College Pricing, 2013: http://trends.collegeboard.org/college-pricing/figures-tables/average-published-undergraduate-charges-sector-2013-14
[9] Gladieux, Lawrence. Memory, Reason, Imagination: A Quarter Century of Pell Grant, 1998.
[10] U.S. Department of Education. NCES. National Postsecondary Student Aid Study, 2008.
[11] U.S. Department of Education. NCES. Definitions and Data: http://nces.ed.gov/pubs/web/97578e.asp

lived on campus, according to NCES. Thirty-seven percent of the total attended part-time and 32 percent worked full-time while attending school.[12]

These demographic changes should be a key consideration in discussions on the future of Pell Grants and student aid, given that these programs were originally built to primarily serve traditional students.

2. **College Readiness & Growth in Developmental Education**. Data show substantial growth in the number of students who need to take developmental (also known as remedial) coursework upon entering postsecondary education. According to Complete College America's *Bridge to Nowhere* report[13], 51.7 percent of students entering 2-year colleges need some type of remedial coursework along with 19.9 percent of those enrolling in 4-year colleges. The report found that in 2011 remediation cost states and students an estimated $3 billion.

   There are numerous factors that contribute to a student being unprepared for college-level coursework, but the salient point is a lingering question of whether a high school degree can be taken as an indicator of college readiness. The original intent of the grant was to provide basic access to low-income, *qualified* students. And while Pell cannot be used solely for remedial education, it can be used for remedial coursework that is integrated into a program. The question we must answer is whether Pell Grant funds should be used to supplement high school-level learning. If Pell or other forms of student aid cannot be used for any remedial coursework, what safety nets should be put in place to help students catch-up?

3. **Growth in Innovative Learning Models**. As more non-traditional students enter college, many institutions have moved toward more flexible degree and certificate programs through the use of innovative learning models, such as Massive Open Online Courses (MOOCs), Prior-Learning Assessments (PLAs), and competency-based learning. The structure and rules of the current Pell Grant program, which is focused primarily on the traditional academic calendar and assessments of learning, discourages advancement in these innovative models. The Pell Grant program requires more flexibility in order to accommodate innovation in teaching and program construction.

4. **Growth In/Need for Vocational Education**. Today many students enroll in postsecondary education for the purpose of job training. Data from NCES underscores this growth, with a nearly 64 percent increase from 2000 to 2010 in the number of sub-baccalaureate awards and certificates awarded.[14] And while some of these students seeking job training complete programs, others may choose

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[12] U.S. Department of Education, The Condition of Education, 2011: http://nces.ed.gov/programs/coe/analysis/2011-section1.asp

[13] Complete College America. Bridge to Nowhere, 2012: http://www.completecollege.org/docs/CCA-Remediation-final.pdf

[14] U.S. Department of Education. NCES. Career/Technical Education Statistics: http://nces.ed.gov/surveys/ctes/

to simply enroll in a specific course or two without gaining a credential. For example, although a student must enroll in a credential-granting program in order to receive a Pell Grant, a student's goal might be to take certain courses that will help with a current job. Job training is quite different from pursuit of a degree. It is reasonable to discuss whether Pell is the right funding stream for job training purposes, or whether funding for job-training programs might, for example, more appropriately come from the Department of Labor.

5. **Increased Focus on Persistence and Completion**. For many years access has been the focal point of federal student aid policy. In recent years, research and related policy recommendations have shifted toward persistence and completion as the result of a growing concern about the number of students actually earning a credential and the appropriate use of taxpayer dollars. While the Pell Grant has traditionally been for the purpose of access, there has been a broader discussion--including in President Obama's college affordability plan--to tie Pell and other student aid funds to student outcome measures. This is fraught with challenges, not the least of which would be incentivizing schools to *stop* taking on the risks associated with enrolling underserved populations. The upcoming reauthorization will almost certainly grapple with this issue as policymakers consider whether Pell's purpose should expand beyond access.

Ideas for Reform

Financial aid administrators believe that there are ways to strengthen the Pell Grant program and make it more targeted and flexible, without undermining the original intent of the program—providing basic access to postsecondary education for qualified, low-income students. We offer the following policy considerations:

1. **Provide a "Pell Promise":** Pell Promise would act as an early commitment program for the Pell Grant."[15] Pell Promise would teach students as early as the 9th grade about Pell Grants by notifying them of how much Pell Grant funding they will be able to receive in the future and a guarantee of that amount toward higher education upon successful completion of high school. This would be very similar to the statement taxpayers receive from the Social Security Administration each year (*See Appendix B*).

   An early commitment program like Pell Promise could encourage college-going behavior early by introducing a level of certainty for low-income students and incentivizing them to start planning, saving, and completing the necessary coursework early in their high school career. Enrollment data underscore this challenge, with 52 percent of low-income high school graduates enrolling in

[15] The National Association of Student Financial Aid Administrators, 2013. Reimagining Aid Design and Delivery: http://www.nasfaa.org/EntrancePDF.aspx?id=13287

postsecondary education compared to 82 percent of high-income graduates, according to the National Center for Education Statistics.[16]

This type of program has proven very successful at the state level, the best example being Indiana's 21st Century Scholars program. This program guarantees income-eligible 7th and 8th graders in Indiana who choose to enroll up to four years of undergraduate tuition at participating Indiana colleges and universities upon good behavior and successful completion of high school. Data show that between 1986 and 2004 the number of students enrolling in college directly from high school in Indiana increased by 88 percent.[17]

Arming students and families with this funding commitment early could also address ongoing challenges of under-matching, whereby low-income, high achieving students self-select out of applying for competitive or elite institutions that could have been less expensive than where they ultimately attended. One recent study of a sample of high school valedictorians found that only 50 percent of those from low-income backgrounds even applied to a selective university, compared to roughly 80 percent of the valedictorians from upper-middle and high-income families[18]. Unfortunately, when a student decides early on that his or her higher education options are non-existent or extremely limited, it impacts their high school coursework choices and college enrollment behaviors.

2. **Provide Students a Well of Pell Funds:** This pot of funds (or "Pell Well") would be available for students to "draw" down from as needed until the student either completes the academic program or runs out of Pell funds, rather than allotting a certain amount of Pell dollars for each award year[19]. For example, under the current structure a student attending college continuously throughout the fall, spring and summer semesters would temporarily run out of Pell funds at a certain point because there are only so many Pell dollars allowed per award year. In that so-called "gap" semester before Pell eligibility resumes, the student is faced with turning to student loans, attempting to work and attend school simultaneously, or perhaps stopping out. Reducing the number of stop outs would be a significant benefit of the Pell Well, as data show that the number of students stopping out is a significant problem, particularly at the community college level. One recent study that examined nearly 38,000 community college students in Texas found that 94 percent of them stopped out at least once in

[16] U.S. Department of Education. NCES: Fast Facts, Immediate Transition to College: http://nces.ed.gov/fastfacts/display.asp?id=51
[17] The Lumina Foundation. Results and Reflections: 21st Century Scholars, 2008: http://www.luminafoundation.org/publications/Results_and_Reflections-21st_Century_Scholars.pdf
[18] Radford, Alexandria Walton. Top Student, Top School? How Social Class Shapes Where Valedictorians go to School, 2013.
[19] The National Association of Student Financial Aid Administrators, 2013. Reimagining Aid Design and Delivery: http://www.nasfaa.org/EntrancePDF.aspx?id=13287

their postsecondary career. Further, data also show that many of those students who stop out do not return.[20]

Under a Pell Well model, students would have continuous access to Pell funds until they attain a degree or exhaust eligibility (recently reduced to 12 semesters from 18). This concept facilitates and incentivizes retention and graduation along with affordability since it would deter unnecessary borrowing. The students who borrow most frequently tend to be low-income and working, according to NCES. Pell Well introduces a much-needed element of predictability, affordability, and personal flexibility into the federal student aid process (*See Appendix B).*

The Pell Well concept should be coupled with the implementation of the use of prior-prior year (PPY) income data on the FAFSA. The current method of using prior-year income leaves many families unable to complete the FAFSA in a timely manner, and can lead to missed deadlines and high levels of confusion about the aid process. Using PPY income data allows the aid application process to be moved up and aligned with the college admissions process, and allows for months-earlier notification of aid eligibility. Additionally, under a PPY system, significantly more families would be able to use the IRS Data Retrieval Tool, a key part of recent FAFSA simplification efforts.

NASFAA recently completed an in-depth data-driven study[21] on the use of PPY and found that for the neediest students (dependents and independents with dependents of their own) the use of PPY versus PY did not significantly impact their Pell Grant award (*See Appendix C*). Together, Pell Well and PPY would simplify, incentivize, and make more flexible the process of applying for and efficiently utilizing a Pell Grant.

3. **Provide a "Super Pell":** A Super Pell (*See Appendix B*) would incentivize students to enroll in more credit hours and graduate sooner. Currently, a full-time Pell award is based on enrollment in 12 credits. However, a student who completes 12 credits each semester is not on-pace to graduate in four years (15 credits per semester are generally necessary to achieve that benchmark). Those extra credits come with extra cost at many 2-year and public 4-year institutions that charge per credit; studies have shown that every $1,000 increase in college price is associated with a 3-5 percent decrease in enrollment rates.[22] Extra Pell dollars on top of the current full-time Pell award for enrollments greater than 12 credits would alleviate this added cost barrier and encourage students to complete their academic programs

[20] http://www.insidehighered.com/sites/default/server_files/files/PARK_WORKING.pdf
[21] The National Association of Student Financial Aid Administrators. A Tale of Two Incomes, 2013: Comparing Prior Year and Prior Prior Year Through Pell Grant Awards: http://www.nasfaa.org/ppy-report.aspx
[22] Stange, Differential Pricing in Undergraduate Education: Effects on Degree Production by Field, 2013. NBER Working Paper No. 19183.

more quickly, furthering our nation's college completion goals and likely leading to less lifetime student loan borrowing. It could also lead to fewer lifetime Pell dollars being spent on these students because students would receive a small amount of extra Pell funds for each term at greater than 12 credits, rather than an extra term, or year, or two years of a full scheduled award.

Throughout its history, Pell has offered millions of Americans the hope for a better future and upward mobility--and we are appreciative of the historically bipartisan support for the program. While we agree the program should be evaluated so that it may better meet the needs of current students, we are hopeful that throughout this next reauthorization, and for years to come, the Pell Grant will remain the cornerstone of the federal student aid programs.

Appendices:

Appendix A: NASFAA History of Federal Methodology and Pell Changes
Appendix B: NASFAA Reimagining Aid Design and Delivery (RADD) report
Appendix C: NASFAA A Tale of Two Incomes: Comparing Prior Prior Year and Prior Year through Pell Grant Awards

Effective Date	Legislation	HEA citation	Change	Comment
7/1/06	HERA	479	Added receipt of a federal means-tested benefit during the base year as an alternative eligibility criterion for simplified needs test (SNT) and automatic zero EFC designation. For dependent students, only the dependent student's parent has to meet the tax filing criterion in order to qualify for SNT or automatic zero EFC. Increased the adjusted gross income threshold in the base year to $20,000 or less for the student to qualify for an automatic zero EFC.	Receipt of federal means-tested benefit is an alternative to the tax-filing criterion; family income requirements still apply. Previously, the threshold was indexed to the maximum amount of adjusted gross income used to qualify for the Federal earned income credit.
7/1/06	HERA	480(f)(2)	Excludes the net value of a family-owned and controlled small business (or any part of such a small business) with not more than 100 full-time or full-time equivalent employees from the definition of assets used in the need analysis formulas.	
7/1/06	HERA	480(d)	Individuals who are currently serving on active duty in the U.S. Armed Forces for purposes other than training have been added to the list of individuals who are considered to be independent students.	
7/1/07	HERA	475(g)(2)(D) and (h)	Dependent students: Income Protection Allowance: changed from $2,200 (which was the base year 1999 amount used in the 2000-01 EFC calculation)	Because the base year amount is indexed annually for inflation, the IPA would have been $2,640 for 2007-08 absent this increase to $3,000. The new base year for

Effective Date	Legislation	HEA citation	Change	Comment
			to $3,000. Contribution from Assets: The assessment rate is reduced from 35 percent to 20 percent.	the annual inflationary update is 2006. The $3,000 IPA will be indexed for inflation annually beginning with the 2008-09 award year.
7/1/07	HERA	476(b)(1)(A)(iv)	Independent students without dependents other than a spouse: Income Protection Allowance: The statutory IPA for a single student, and for a married student whose spouse is also enrolled in postsecondary education, is changed from $5,000 to $6,050. For a married student whose spouse is not enrolled in postsecondary education, the IPA is changed from $8,000 to $9,700. Contribution from Assets: The assessment rate is reduced from 35 percent to 20 percent.	Because the base year amount is indexed annually for inflation, the IPA would have been $6,010 for 2007-08 absent this increase to $6,050. The new base year for the annual inflationary update is 2006. The $6,050 IPA will be indexed for inflation annually beginning with the 2008-09 award year. Because the base year amount is indexed annually for inflation, the IPA would have been $9,620 for 2007-08 absent this increase to $9,700. The new base year for the annual inflationary update is 2006. The $9,700 IPA will be indexed for inflation annually beginning with the 2008-09 award year.
7/1/07	HERA	466(c)(4) and 478(b)	Independent students with dependents other than a spouse:	The values for the income protection allowances are increased each year in

Effective Date	Legislation	HEA citation	Change	Comment
			Income Protection Allowance: for the 2007-08 award year only, and only for independent students with dependents other than a spouse, the values for the income protection allowances will be increased by 5 percent. Contribution from Assets: The assessment rate is reduced from 12 percent to 7 percent.	consideration of general price inflation, and this practice will continue. The Secretary's estimate for inflation for the 2007-08 award year is 2.8 percent.
7/1/07	HERA	480(f) and (j)	Qualified education benefits reported as asset of parent if the parent is the owner (never reported as asset of the student)	QEBs include Coverdells, prepaid tuition plans offered by states, 529 college savings plans, and 529 prepaid tuition plans
7/1/07	Revised Continuing Appropriations Resolution of 2007		Increased maximum Pell award by $260, to $4,310	
7/1/07	CCRAA	401(b)(3)(A)	Eliminated tuition sensitivity provision that adjusted downward the scheduled award amount for Federal Pell Grant recipients at low-cost institutions, such as community colleges.	Effective retroactively
8/14/08	HEOA	401(c)(5)	Limits the period of time that a student may receive a Federal Pell Grant to 18 semesters or the equivalent as determined by regulation. The regulations are to provide fractional equivalents for terms in which a student is enrolled less than full-time. As a result, a student is eligible to receive up to nine	This provision applies to students who receive a Federal Pell Grant for the first time on or after July 1, 2008.

Effective Date	Legislation	HEA citation	Change	Comment
			Federal Pell Grant Scheduled Awards.	
7/1/09	CCRAA	401(a), (b)	Extends the authority for Federal Pell Grant funding through fiscal year 2017, and appropriates mandatory funding for fiscal years 2008 through 2017 Requires that the mandatory funds be used to increase the maximum Federal Pell Grant award, as established in the annual appropriations act, by the following amounts: ● $490 for the 2008-09 and 2009-10 award years ● $690 for the 2010-11 and 2011-12 award years ● $1,090 for the 2012-13 award year	The annual amount that would be added to the maximum Pell Grant each award year from mandatory funds as described above may be increased or decreased. If the mandatory funds provided are insufficient to fund the specified increase, the amount would be reduced. If, however, the mandatory funds provided are more than are required, the amount would be increased.
7/1/09	CCRAA	479(b), (c)	Increased time frame for receipt of a federal means-tested benefit from 12 to 24 months as an alternative eligibility criterion for simplified needs test (SNT) and automatic zero EFC designation. Added dislocated worker status of one of the parents of a dependent student or an independent student or his or her spouse as an alternative eligibility criterion for SNT and automatic zero EFC designation Increased the adjusted gross income threshold in the base year to $30,000 or less	Receipt of federal means-tested benefit is an alternative to the tax-filing criterion; family income requirements still apply. Definition of dislocated worker is found in Workforce Investment Act

Effective Date	Legislation	HEA citation	Change	Comment
			for the student to qualify for an automatic zero EFC. Also requires the Secretary to update this amount annually based on increases in the Consumer Price Index.	
7/1/09	CCRAA	475(g)(2)(D) 476(b)(1)(A)(iv) 477(b)(4) 478(b)	Specifies scheduled increases in the IPA for dependent students, independent students without dependents other than a spouse and independent students with dependents other than a spouse. After the 2012-13 award year, the dollar amounts of the student IPAs will increase by a percentage equal to the Consumer Price Index.	The CCRAA did not make any changes to the IPA for parents of dependent students, but provides that the table of IPAs for parents of dependent students must be updated based on the percentage increase in the Consumer Price Index for award years after 2008-09.
7/1/09	CCRAA	480(a)(b),(d)-(f)	Changes to definitions of terms used in FM: • Total income: doesn't include distributions from qualified education benefits that aren't taxable • Untaxed income: doesn't include welfare, earned income credit, credit for federal tax on special fuels, foreign income exclusion, untaxed Social Security benefits, and additional child tax credits • Excludable income: includes combat pay • Independent student: includes students who were orphans, in foster care, or ward of the court at any time when age 13 or older, students who are/were emancipated minors or in legal guardianship, unaccompanied youths who are homeless or at risk of homelessness and are self-supporting • Assets: Qualified education benefits are	

Effective Date	Legislation	HEA citation	Change	Comment
			reported as an asset of the parent of a dependent student regardless of whether the owner of the account is the student or parent. If the student is independent, the student's or student's spouse's qualified education benefit is reported as an asset.	
7/1/09	HEOA	401(b)(2)(A)	Increases the authorized maximums for an academic year under the Federal Pell Grant Program as follows: • $6,000 for the 2009-2010 award year; • $6,400 for the 2010-2011 award year; • $6,800 for the 2011-2012 award year; • $7,200 for the 2012-2013 award year; • $7,600 for the 2013-2014 award year; and • $8,000 for the 2014-2015 award year.	
7/1/09	HEOA	401(b)(4)	Eliminated the $400 minimum award and instead sets a new minimum award at 10 percent of the maximum award appropriated each year. Students who are eligible for an award equal to or greater than five percent but less than 10 percent of the maximum award will receive an award amount of 10 percent of the maximum award appropriated each year.	
7/1/09	HEOA	401(b)(5)(A)	Year-round Pell Grant	
7/1/09	HEOA	401(b)(7)	Student who is subject to an involuntary civil commitment after completing a period of incarceration for a forcible or nonforcible sexual offense is ineligible to receive a Federal Pell Grant.	

Effective Date	Legislation	HEA citation	Change	Comment
7/1/09	HEOA	401(b)(8)(D) and (F)	Clarifies the treatment of the funds that are authorized and appropriated under section 401(a)(8) of the amended HEA for 2008-2009 through the 2017-2018 award years (mandatory funds) and that are added to the maximum award set in the annual appropriations act that appropriates the discretionary funds for the program. The HEOA provides that nothing regarding the additional mandatory funds alters the requirements and operations of the Federal Pell Grant Program except for the provisions setting the additional amounts from mandatory funds for individual awards or authorizes the imposition of additional requirements or operations for the determination and allocation of Federal Pell Grants except for the provisions setting the additional amounts from mandatory funds for individual awards. Further, the HEOA clarifies that additional mandatory funds that are appropriated for a fiscal year become available as of October 1 of that fiscal year and remain available through September 30 of the following fiscal year.	
7/1/09	HEOA	401(f)(4)	Provides maximum Federal Pell Grant eligibility for a student whose parent or guardian was a member of the Armed Forces and died as a result of performing military service in Iraq or Afghanistan after 9/11/2001, provided that the child was under 24 years old or was enrolled in college at the time of the parent or guardian's death. These students	Students who are eligible for any amount of Pell receive the maximum award. Students who are not eligible for Pell receive the equivalent amount of the maximum award as

Effective Date	Legislation	HEA citation	Change	Comment
			will be considered to be eligible for the maximum Federal Pell Grant award for the period during which the student is otherwise eligible to receive a Federal Pell Grant.	an Iraq and Afghanistan Service Grant.
7/1/09	ARRA		Increased maximum Pell award by $500	
7/1/10	HEOA	480(e)	Added income earned from work under a cooperative education program to the definition of excludable income	

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REIMAGINING FINANCIAL AID TO IMPROVE STUDENT ACCESS AND OUTCOMES

The National Association of Student Financial Aid Administrators

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FOREWORD

At the time of this project, Congress is once again at a stalemate, unable to come together in any meaningful way to tackle some of the largest fiscal issues this nation has ever faced. While student aid programs have largely been shielded from cuts when compared to other federal programs, they have by no means been insulated entirely. Students have lost access to interest subsidies, been denied access to the Federal Pell Grant program through the implementation of arbitrary program eligibility changes, and will likely face additional cuts in the coming year irrespective of what results from any deal brokered from the fiscal cliff.

For the last several years, NASFAA and other advocates of the student aid programs have expended considerable effort defending the funding of the student aid programs. That defense, along with a groundswell of support from students and the general public, has helped to ensure that both political parties support basic student aid programs like the Federal Pell Grant program.

There is, however, no end in sight to the significant financial pressures we face as a nation. As a result, NASFAA has partnered with the Bill & Melinda Gates Foundation to move from defense to offense by exploring new ways to design and deliver the annual $160 billion of federal student aid. To be sure, putting forward proactive policy considerations for the student aid programs is not without its risks for students or institutions of higher education. It is always easier to sit on the sidelines and quickly shoot down ideas than to critically examine new ways of using existing and future dollars. Change is also partnered with uncertainty and the reality that it will yield both winners *and* losers.

But our fear of change cannot stop us from exploring alternatives to the status quo. To that end, this policy brief seeks to explore potential policy considerations related to the current student aid programs at a high level. We have engaged thought leaders in the student financial aid profession (NASFAA members), economists both inside and outside of higher education, and other policy experts to focus on specific policy considerations that target both access *and* success. Importantly, these policy considerations would each require additional research on impact and implementation, and demonstration projects whenever possible.

Our hope is that this issue brief will be the beginning, not the end, of the discussion. Ultimately, we can be spectators, or we can be participants. The time we face is too critical for financial aid administrators to sit on the sidelines. We choose to participate.

Justin Draeger
NASFAA President & CEO

EXECUTIVE SUMMARY

As the student aid programs rapidly approach reauthorization in 2014, they continue to face severe funding and efficiency problems. With grant assistance from the Bill & Melinda Gates Foundation through their "Reimagining Aid Design and Delivery" (RADD) project, NASFAA examined current systems of student aid with an eye towards reimagining how they could be improved in the future. This policy brief puts forward broad ideas intended to generate discussion and debate with the goal of advancing key policy issues facing student aid.

The issues discussed in this brief were generated through a multi-step process, layered with healthy, challenging, and innovative discussion regarding the current and future states of the federal student aid programs. NASFAA convened first and foremost a group of financial aid directors from across the country and from all sectors of higher education to serve as a discussion and reaction group. NASFAA also convened a group of policy advisors, made up of student aid experts and economists. In addition, NASFAA solicited feedback from a separate group of aid administrators, student aid advocates, and higher education policy experts along the way.

Throughout the RADD project, NASFAA relied on a series of underlying principles to guide our efforts. The principles were predicated on NASFAA's Core Advocacy Principles and included the promotion of fairness, access, equity for all students, the primacy of need-based financial aid, increased accountability and transparency, and the acknowledgement that student success is a function of shared responsibility between institutions and students, while recognizing that students hold primary responsibility for successful outcomes. The policy considerations put forward in this issue brief should not be construed as recommendations—rather, they are conversation starters and require additional research, data analysis, and demonstration projects whenever possible.

Suggested Areas for Policy Reform

NASFAA's RADD policy advisors and member-based discussion groups decided to pursue issues and solutions that fall within four main policy areas. Using existing research as a basis, NASFAA puts forward several policy considerations within each policy area.

1. **Examining the Value of Institutional and Student "Skin in the Game":** Can (and should) Title IV aid be used as a lever to change institutional *and* student behavior? Within that context, NASFAA puts forward the following policy considerations:
    - *Policy Consideration:* Use a *Super Pell* to incentivize students to enroll in more credit hours.
    - *Policy Consideration:* Use a portion of campus-based funding to incentivize schools to create an environment that fosters better-than-predicted student outcomes.

2. **Student Loan Reform:** Given all of the safeguards to protect students from defaulting on loans, far too many students end up in student loan default. Research shows that most students who find themselves in trouble with student loans did not complete their degree and had tools they *could* have used to avoid default. How can we protect academically-unprepared students from default while still maintaining access to a postsecondary education and – as appropriate – student loan funds?

- *Policy Consideration:* Use a "*Student Loan Eligibility Index*" that would introduce minimal underwriting standards on federal loans to shield academically-unprepared students from loan indebtedness.
- *Policy Consideration:* Rethink the entire concept of student loan default by implementing an *automatic Income-Based Repayment* plan for all borrowers.

3. **Streamlining and Improving Consumer Information:** How can we make college and financial aid information more timely, effective, valuable, and concise?
    - *Policy Consideration:* Make an early funding commitment to high school students through a *Pell Promise* to increase college-going rates and student outcomes.
    - *Policy Consideration:* Increase disbursement flexibility and the predictability of net costs to students by offering a *Pell Well* of funds for students to "draw" from throughout their undergraduate career.
    - *Policy Consideration:* Provide predictive wage information before students enroll to decrease indebtedness and improve student outcomes.

4. **Rethinking Entitlement and Professional Judgment:** The lack of practical tools available to schools to effectively counsel or deter unneeded borrowing can lead to students exhausting loan eligibility before program completion or over-borrowing relative to their degree. How can we ensure that schools have the appropriate tools to prevent excessive loan borrowing?
    - *Policy Consideration:* Provide schools with the authority to limit borrowing for groups of students while still allowing – on a case-by-case basis – students to borrow up to the federal annual loan limit.

While none of these policy considerations are put forward as definitive solutions, they are all worthy of additional consideration and discussion. The ideas outlined in the following report are based on the principle that each stakeholder in the higher education process has a role to play, and that any incentives (or penalties) should accurately reflect that participant's expected role. We affirm that the *primary* role of student aid is to ensure that no qualified student be denied access to a postsecondary education; and the goal of the institution is to create an environment where every qualified student has the tools, environment, and information needed to succeed.

ABOUT NASFAA

The National Association of Student Financial Aid Administrators (NASFAA) is a nonprofit membership organization that represents approximately 20,000 financial aid professionals at 3,000 colleges, universities, and career schools across the country. Each year, financial aid professionals help more than 16 million students receive funding for postsecondary education. 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 www.nasfaa.org.

BACKGROUND AND PROCESS

In the summer of 2012 NASFAA was awarded a grant from the Bill & Melinda Gates Foundation as part of the Reimagining Aid Design and Delivery (RADD) project, which charged the participating organizations with examining current systems of aid design and delivery with an eye toward reimagining how they may be improved in the future.

This examination has been a multi-step process, layered with healthy, challenging, and innovative discussion regarding the current and future states of the federal student aid programs. NASFAA solicited feedback for this project from its members—financial aid experts working with students every day—and researchers and policy experts studying broader higher education issues. Specifically, NASFAA staff performed the following steps:

1. Reviewed relevant existing literature, research, and proposals, including previous recommendations by NASFAA and related external proposals, to develop an initial set of broad policy goals and principles;
2. Convened a group of policy advisors, including researchers and economists. Each advisor met with NASFAA staff for approximately three hours. They presented what they believe are the most acute shortcomings of the current student aid system and provided possible solutions to those issues. NASFAA staff also shared the initial set of broad policy ideas (as referred to in #1) in these sessions and asked for feedback from the advisors;
3. Based on the ideas and feedback put forth in these meetings, augmented and fine-tuned the initial set of ideas to create a specific set of policy considerations for review by NASFAA members;
4. Invited 13 NASFAA members and two advisors to serve as our discussion group to provide feedback. This group was convened on multiple occasions. At each meeting they heard, discussed, and debated several specific proposals. Policy advisors were asked to provide formal proposals with additional research based on feedback from the discussion group. Consensus was not sought because the final product was a group of policy considerations, not specific recommendations;
5. Discussed the purpose of RADD and solicited ideas from NASFAA members nationwide through state and regional meetings and electronic solicitations to the entire NASFAA membership;
6. Hired a graduate student to assist with research, analysis, and note-taking;
7. Participated in a convening for all 16 RADD grantees, focusing on collaboration and shared principles for reform;
8. Discussed RADD policy considerations with the presiding officers of the NASFAA board of directors; and
9. Produced this final policy brief.

POLICY CONTEXT

Few would argue that the financial aid system as it is currently structured and funded is operating with maximum efficacy. Each year student aid advocates like NASFAA battle for appropriations that barely keep key programs like the Pell Grant level funded. Yet, there have been few attempts to unite experts in the field—including student aid professionals on campus and those who study and represent higher education—to identify where problems exist in the programs as well as opportunities for broader financial aid reform.

As the student aid programs rapidly approach reauthorization in 2014, they continue to face severe funding and efficiency problems. The RADD project presents a perfect opportunity for NASFAA to engage with other stakeholders in a meaningful discussion around reform and improvement, ultimately for the greater good of students.

UNDERLYING PRINCIPLES

NASFAA relied on a series of underlying principles to guide our efforts throughout the RADD project. The principles were predicated on NASFAA's Core Advocacy Principles. Those underlying principles include:

- Promote fairness and equity for students across all sectors of postsecondary education, with a particular emphasis on low-income, underrepresented, and underserved students
- Stress the primacy of need-based aid
- Support policies that address the needs of disadvantaged students
- Advocate accountability
- Acknowledge that student success is a function of shared responsibility between institutions and students, while recognizing that students hold primary responsibility for their own success
- Encourage simplicity and predictability
- Empower student financial aid professionals and their schools with the flexibility to respond to the specific needs of their students
- Recommend policies that accommodate the diversity of academic delivery models
- Validate proposed recommendations with research, data analysis, and demonstration projects wherever possible.

SCOPE

This policy brief puts forth broad ideas intended to generate discussion and debate with the goal of advancing key policy issues facing student aid. Importantly, we do not view these policy considerations as a panacea, as they could certainly have unintended consequences, some of which will be discussed in the brief. These considerations will require additional research, exploration, and/or demonstration projects to determine their viability as sound policy recommendations.

SUGGESTED AREAS FOR POLICY REFORM

Within the context of reimagining student aid, NASFAA's RADD policy advisors and member-based discussion groups decided to pursue issues and examine potential solutions that fall within four policy areas:

- Examining the Value of Institutional and Student "Skin in the Game"
- Student Loan Reform
- Streamlining and Improving Consumer Information and Early Information and Commitment
- Rethinking Entitlement Aid and Professional Judgment

POLICY AREA: EXAMINING THE VALUE OF INSTITUTIONAL AND STUDENT "SKIN IN THE GAME"

Issue

Historically, the goal of Title IV student aid has been to ensure access to higher education. In recent years, the high cost of college coupled with the need for fiscal austerity at the federal level has led to increasing emphasis on college completion as a policy goal—that is, student success. As policymakers and taxpayers look for more return on their investment in the Title IV aid programs and students are facing increasing student loan debt burden, graduation and completion rates are taking on a more significant role in policy discussions. Title IV aid can be used as a lever to change behavior by both students and institutions, since both have a role in student success.

Behavioral change can be motivated by either carrots or sticks, i.e., incentives or penalties. When applied to students, carrots or sticks must be designed to foster student success, but must not set the bar so high that students are unduly penalized. When applied to schools, carrots or sticks must take into account the student population served by individual schools. In this case, if the bar for the carrot or stick is set too high, it would likely have the unintended consequence of perversely incentivizing schools to increase their selectivity, as well as funneling additional federal funding to schools that serve almost exclusively students who are already likely to attend and succeed in college.

Policy Considerations

1. Incentives for Students to Enroll in More Credit Hours—Super Pell.

A scheduled award in the Federal Pell Grant program represents the amount of a Pell Grant which would be paid to a full-time student for a full academic year. The award made to a student for a payment period (i.e., an academic term for term-based programs) is based on the student's enrollment status for that payment period, as determined by the institution, but meeting the following minimum standards:

- Full-time: 12 semester or quarter credit hours, for programs using semesters, quarters, or trimesters
- Three-quarter time: 9 to 11 semester or quarter credit hours
- Half-time: 6 to 8 semester or quarter credit hours
- Less than half-time: Fewer than 6 semester or quarter credit hours

Note: For the sake of simplicity, this report describes policy considerations in the context of credit-hour programs. However, it is our intention that the proposed reforms could be equally applicable for clock-hour programs.

Using these enrollment status standards, a student's Pell payment for less than full-time status is a straight proration of the full-time award. That is, a three-quarter time payment is three quarters of a full-time payment, a half-time payment is half of a full-time payment, etc.

A school may establish more lenient enrollment status standards for other purposes, but for all Title IV purposes, the above minimum enrollment status standards must be used. Although schools do have the option to use stricter enrollment status standards for all Title IV purposes, most do not, since it would limit some students' Pell eligibility.

At schools that use the minimum enrollment statuses, students enrolled for more than 12 credits do not receive additional Pell dollars. For example, suppose Sam and John are both eligible for the current maximum Pell Grant scheduled award, $5,550. For the fall semester, Sam is enrolled for 12 credit hours and John is enrolled for 15 credit hours at the same institution. Both Sam and John would receive a fall Pell Grant disbursement of $2,775. This is true even if the school charges additional tuition for credit hours taken above the minimum full-time amount, which would in this example negatively affect John. Although not common, some institutions charge tuition on a per-credit basis, or assess certain fees based on enrolled credits or the number of classes in which the student is enrolled. There are many ways the direct costs to Sam and John could be different.

Even if direct costs are the same for both 12-credit Sam and 15-credit John, John would likely incur more indirect costs than Sam as a result of his higher enrollment. For example, John may have higher expenses for books and supplies. If he does not live on campus, he may also incur higher transportation costs and/or dependent care costs, if applicable. He also may have less opportunity to work part time.

Although the Title IV minimum enrollment status standards do not distinguish between enrollments of 12 credit hours and 15 credit hours, there is a very significant difference between these two enrollment levels regarding program completion. Most academic programs require a minimum of 60 credits for completion of an associate's degree program, and 120 credits for completion of a baccalaureate degree. To complete an associate's degree in two years or a baccalaureate degree in four years, as these degree programs were originally designed, students must enroll and successfully complete an average of 15 credit hours per term.

Full-time students who enroll for only 12 credits per term will need at least an additional semester to complete a 60-credit associate's degree program, or an additional two semesters to complete a 120-credit baccalaureate degree program. Forty-five percent of undergraduate students who attend full time need more than four years to complete their degree programs (NCES, 2009, as cited in Scott-Clayton, 2011). During that extra period of enrollment, needy students are likely to receive additional Pell Grant funds and may also incur additional student loan debt.

An immediate financial incentive in the form of extra Pell dollars (i.e., Super Pell), on top of a full-time Pell Grant scheduled award for enrollments greater than 12 credit hours, would have the effect of encouraging students to complete their academic programs more quickly. Depending on how it is structured, Super Pell could also lead to fewer lifetime Pell dollars being spent on these students because students would receive a small amount of extra Pell funds for each term at greater than 12 hours, rather than an extra term or year of a full scheduled award.

Pell-eligible students who complete a baccalaureate degree within four years rather than longer would also likely incur less student loan debt. Even for the minority of schools that charge higher amounts for greater workloads, the marginal higher costs due to enrollment greater than 12 credits are certainly less than the costs of additional terms of enrollment, not to mention the opportunity costs of enrollment in college. (An opportunity cost might be, for example, lost wages if the student had been working rather than attending school.)

Higher rates of on-time completion would help our country's progress toward President Obama's 2020 college completion goal, whereby the United States will have the highest proportion of college graduates in the world by the year 2020. At some institutions, higher rates of on-time completion would also free up scarce enrollment space for other aspiring college students.

Potential Unintended Consequences

Super Pell would offer an incentive, rather than a requirement or penalty, for Pell-eligible students to enroll for greater than the minimum number of full-time hours. Because students who enroll for 12 credit hours would continue to receive a full-time Pell payment, academically underprepared students and students who work while attending school will not be pressured to enroll for more credits than they can handle realistically. However, if these students enroll for greater than 12 credits, they could have a higher risk of not successfully completing all their classes, which could ultimately jeopardize their Title IV eligibility through the satisfactory academic progress requirements and reduce the probability that they will achieve their educational goals.

Alternative Policy Considerations & Unanswered Questions

- An alternative, related proposal raised in recent years would require a minimum 15 credit hour full-time enrollment standard for Pell Grant purposes. This proposal would increase the likelihood that some students will graduate within the standard 2-year or 4-year degree program period. However, it would also pressure students with low chances of academic success at that enrollment level to attempt 15 credit hours, which could be detrimental to at-risk students.
- One significant unanswered question surrounds the Super Pell as an incentive for higher enrollment: How would the incentive of additional Pell funds change the enrollment behavior and academic success of full-time Pell recipients? How much extra would the Super Pell have to provide to be a true incentive and cover additional costs as well as possible lost wages? Because we don't know if full-time Pell recipients would complete their academic programs more quickly if Super Pell were available, it is difficult to estimate the cost or overall benefits of such an incentive.
- Adding to the difficulty of cost estimates is the lack of data on the number of full-time Pell recipients who are already enrolling for greater than 12 credit hours, even without any incentive of additional Pell funds. Reporting rules only require that institutions report student enrollment within enrollment categories (e.g., full-time, half-time). Therefore, it is difficult to estimate on a national basis how many full-time Pell recipients are already enrolling for more than 12 credits.

Next Steps

Because it is so difficult to predict changes in the behavior of full-time Pell recipients, NASFAA recommends that a small demonstration project be implemented. On a small scale, Super Pell could be offered to students and their enrollment behavior, academic success, and completion status could be tracked. Tracking data could also be used to project cost estimates and to determine the value of such a program on a large-scale basis.

2. Incentives for Schools to Improve College Success—Campus-based Aid Funding Partially Tied to Graduation Rates.

As an incentive for institutions to continuously work to improve their graduation rates, this proposal would set aside a portion of campus-based funds for participating institutions to be awarded based on the institution's graduation rate, as compared to benchmarks that consider student demographics.

President Obama's current campus-based aid reform proposal, as outlined in his FY 2013 budget request, would reward college and universities that do their fair share to keep tuition affordable, provide good value, and serve needy students well. However, defining value and the ability to serve needy students well is nebulous at best—weighted graduation rates are a more easily defined measure.

Because of the vast differences in institutions, their missions, and the students they serve, use of graduation rates as performance benchmarks must take these differences into account, rather than set a single standard that all institutions must meet. For example, a graduation rate of 70 percent at a 4-year, highly selective, private institution should not be considered equivalent to a 70 percent graduation rate at a 2-year, open-enrollment community college.

Any institutional incentive provision that uses an across-the-board, one-size-fits-all graduation rate standard runs the risk of encouraging institutions to increase their admissions selectivity to ensure that the graduation rate standard is met. While increasing selectivity would certainly help an institution meet a completion goal, it does so to the detriment of college access goals. Benchmarks that account for institutional type and student demographics establish an appropriate balance between access and completion as policy objectives.

Mortenson (2011) developed a research model that provides a good starting point for setting appropriate benchmarks of success. He analyzed *actual* versus *predicted* graduation rates by controlling for academic and family backgrounds of students served. When these factors are controlled, the real contribution of each institution to the success of its students is revealed.

Once graduation rate benchmarks are defined, they can be used to determine a portion of a school's campus-based funding allocation. As an example, say that 10 percent of a school's campus-based funding was allocated based on graduation rates. Schools that exceed their graduation rate benchmark would receive their allocated 10 percent, plus a bonus of some designated dollar amount or percentage. Schools that meet their graduation rate benchmark would receive their allocated 10 percent, and schools that do not meet their benchmark would receive some amount or percentage less than their allocated 10 percent.

Potential Unintended Consequences

A potential unintended consequence of making a school's allocation of Title IV campus-based aid funding dependent in part on graduation rates is that schools will likely be motivated to increase their admissions selectivity in order to avoid the consequences of lower graduation rates. However, the use of appropriate graduation rate benchmarks based on comparisons of similar institutions will likely reduce this motivation.

Alternative Policy Considerations & Unanswered Questions

Other similar proposals offer incentives or penalties based on schools' success in serving needy students, which is generally measured by graduation rates of Pell-eligible students. However, Pell-eligible students are not the same at all types of institutions; for example, community colleges have lower graduation rates than those at highly selective 4-year colleges. Failing to set appropriate benchmarks that account for institutional type and student demographics would punish the schools that serve the highest percentages of Pell recipients and are generally underresourced, and reward those institutions who serve the smallest percentages of Pell recipients and are more likely to be adequately resourced.

To be successful in tying a portion of campus-based funding to benchmarked graduation rates, we must answer the following:

- What are the appropriate graduation rate benchmarks and metrics?
- Can we accurately control for different student types to hold schools responsible based on the likelihood of success from their student population?
- What percentage of a school's campus-based aid allocation should be subject to this incentive provision?
- What are the appropriate adjustments to the designated portion of a school's campus-based aid allocation when a school exceeds or falls short of the graduation rate benchmarks?

Next Steps

We recommend that a demonstration project be implemented before this provision, or another like it, is instituted on a large-scale basis in order to assess costs, institutional response, and any unintended consequences. The demonstration project should use a cross-section of institutions from every sector, representing the full range of campus-based funding allocations. The assessment of the demonstration project could lead to adjustments to the quantifiable element, i.e., graduation rate benchmarks, percentage of campus-based funding subject to these standards, and the resulting adjustments to campus-based aid allocations.

We also recommend an analysis of the relevant data available on short-term programs, where 70 percent completion and placement rates are currently required for federal student loan eligibility. Relevant data would include initiatives these programs undertake to ensure they reach the required 70 percent, such as student support and career services, agreements with local employers, etc.

POLICY AREA: REFORMING STUDENT LOANS

Issue

A postsecondary degree is an asset that pays dividends over a lifetime of higher earnings. The current college wage premium is roughly 100%. College degree holders earn double what their high school educated counterparts earn (Kantrowitz, 2009). Net of paying for college, the net present value of the additional earnings for people who earn a bachelor's degree is, on average, between $300,000 and $600,000 (Avery & Turner, 2012). The benefits of education are not just monetary. Even when one adjusts for income differences caused by higher levels of schooling, more schooling leads to greater job satisfaction, better health outcomes, and longer life expectancy (Oreopoulos & Salvanes, 2011).

Paying for college is an investment that has a higher upfront cost than any other asset most people will acquire, other than purchasing a home. And like home ownership, prudent use of debt is the only way for many people to achieve the long-term benefits of acquiring a higher education. With the sharp tuition increases and eroding value of grant assistance over recent years, students are borrowing more to finance a college education. Average student loan debt for college graduates now stands at $26,600 (The Institute for College Access and Success, 2012), and has been increasing at a rate of around 5 percent per year.

What this number does not reflect are the students who borrow loans but fail to complete their academic programs. Accompanying the increase in borrowing is an increase in the student dropout rate (Nguyen, 2012). Without many of the financial benefits of an academic credential, these borrowers may struggle to repay their loans. The most recent national default rate data show that just over 9 percent of students default on their federal student loans in the first two years after they begin repayment. This rate has been steadily increasing since 2005 (The Institute for College Access and Success, 2012, and U.S. Department of Education, 2012).

The federal government should indeed share in the risk of educating students who cannot afford to pay for postsecondary education out of family income. The nation's current loan program accomplishes this. But present loan programs have no prudential underwriting, and students who leave school with unsustainable debts relative to their future income carry a severe financial burden that can last many years. Loan forgiveness is a remedy, but for those who qualify it acts at the back end, after large debts are accrued, and creates a moral hazard.

How can we tell when student debt becomes too much? And how can we take practical steps to reduce student default rates without choking off access? Default is a burden that alters lives for the worse, and its consequences are long lasting.

Policy Considerations

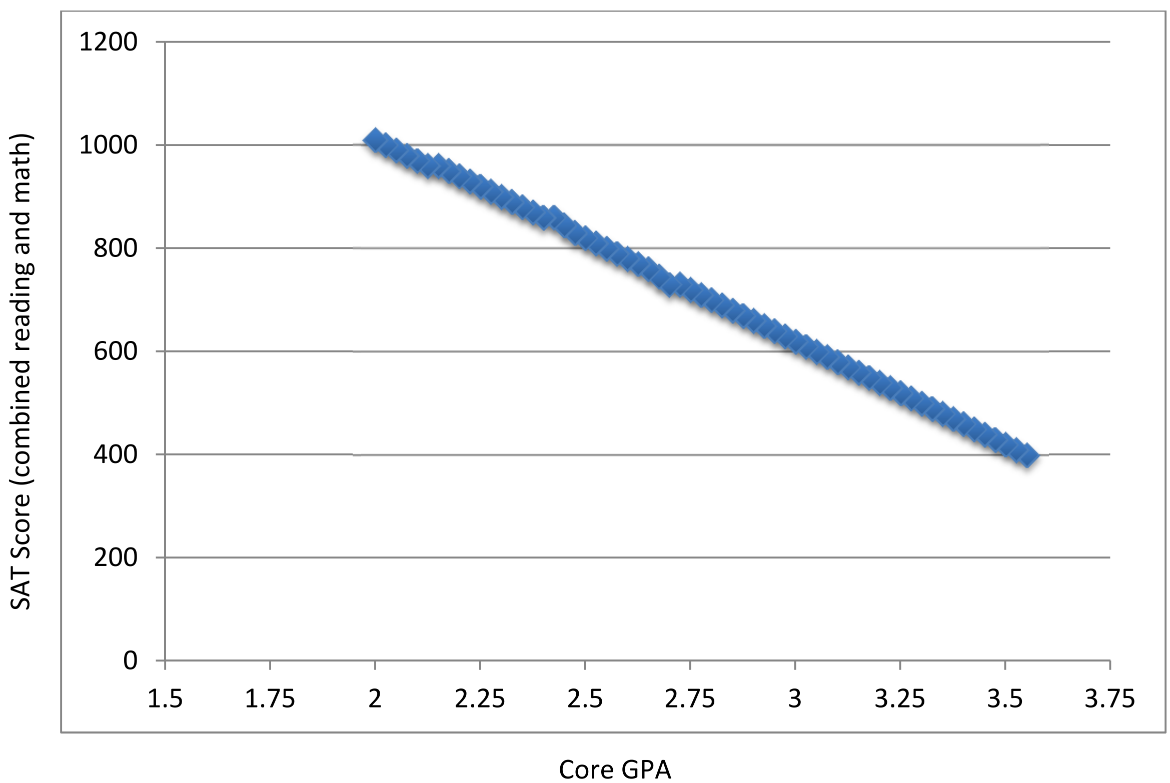
3. Defining a Student Loan Eligibility Index.

A new, simple eligibility rule could help policymakers determine the extent to which students entering postsecondary education would qualify for student loans. Under the premise that it is unwise and socially unjust to put students into loan debt if they are unprepared for college, this idea would create an index or sliding scale to measure one's eligibility for student loans. Students who met a certain eligibility threshold (e.g., as quantified by a combination of GPA and SAT or ACT performance, or some other metric) would be eligible to take out student loans immediately, and those who did not meet the threshold would not be *initially* eligible for loans. Such an eligibility index would reduce financial risk for students and for the government, while preserving pathways back into the loan program for students who demonstrate that they can succeed in a lower cost college or community college environment.

This approach attacks the default issue at its root in the beginning of the borrowing process, not at the back end after students experience the consequences of their accrued debt. An eligibility index would be most effective if a substantial portion of the default problem, and of crushing over-borrowing more generally, arises from the debt taken on by students whose high school record does not predict success. This group is also the least likely to earn a meaningful credential with which to pay back the debt obligation (Zwick & Sklar, 2005).

The National Collegiate Athletic Association (NCAA) developed such an index for student-athlete eligibility (NCAA, 2012). Applying a similar index to student loan eligibility essentially introduces a form of risk-based underwriting on federal loans. Under this policy consideration, the students at greatest risk for academic failure would not be allowed to borrow (or they would be limited to a lower loan limit), just like students who fall below the threshold in the NCAA standards cannot initially participate in college athletics. The student loan eligibility index would not affect Pell Grant eligibility, so would preserve basic access to postsecondary education for all.

Figure 1. A Sample Sliding Scale Loan Eligibility Index (Current NCAA Scale)



SOURCE: Data was used from the 2012 NCAA Eligibility Requirements.

It is important that the eligibility index not be a permanent barrier to loan eligibility. Within this proposal there would be a path for these students to move into eligibility after demonstrating some measure of postsecondary success. For example, students who enter a community college or a university and meet that school's continuance requirement (or perhaps a specified college GPA), would earn a pathway back into the full loan program after one semester or after one academic year.

Four Potential Benefits

1. A published eligibility index would give families real information about the consequences of weak preparation while students are still in middle school and high school. This may lead to some positive behavioral changes early enough to improve the academic readiness of the pool of students entering the higher education system.

2. Students who might otherwise fail in 4-year programs, and accrue significant debt in the process, may choose lower-cost community college programs instead. Some of these students may discover that postsecondary training is not the right path for them, and they will learn that lesson in a less expensive way. Others will develop the proper academic habits that will allow them to succeed in attaining a 4-year degree later on.

3. A group of high-risk students who are more likely to fail in postsecondary training (assuming we can identify the correct predictors) would move directly to the labor market without accumulating debt.

4. Schools that want to take risks with certain students will need to increase their own aid to these students. This "skin in the game" may cause schools to pay more attention to retention and remediation.

Potential Unintended Consequences

- At this point, we do not know the demographic profile of students who would not qualify for loans under this idea. We also do not know the profile of the students who are at the greatest risk of default or those who would fail to earn a substantive educational credential.
- There are students who would fall into the "no loans" or "reduced loans" category, but who would be successful at a 4-year institution. This group of students comprises the "false negatives" that lose from a proposal of this sort. We need to understand the potential size of this group. We also must offer this group a quick path back into the full loan program. Conversely, there are students who fail in college yet have all the predictors of success.
- Lastly, this proposal could have different effects on institutions of various types and controls, such as public or private, nonprofit or for-profit, 2-year or 4-year, etc.

Next Steps

Next steps would involve identifying which students will be affected and to what extent. During 2013, researchers will use the next release of the National Center for Education Statistics (NCES) ELS: 2002 data set to evaluate the likely effect of this kind of risk underwriting of student loans. They will explore the relationship between risk characteristics of individual students and their path through higher education and the labor market. This will allow us to see the kinds of students who fall on either side of a risk threshold, examine how these students have behaved, and determine what success or failure they have encountered in postsecondary schooling and in the labor market. Lastly, this information will allow us to draw important conclusions about the likely positive and negative effects of using risk criteria to structure student borrowing. Analyzing the 2002 data set should be done before this proposal moves forward.

4. Rethinking Student Loan Default—Automatic IBR.

The student loan cohort default rate has steadily increased over the past several years, even after the introduction of income-based repayment (IBR), which continues to have a less-than-optimal participation rate. There are currently roughly 5.9 million students in default and of the 37 million borrowers who have outstanding loan balances, only 1.1 million are enrolled in IBR (Brown, Haughwout, Lee, Mabutas, & van der Klaauw, 2012; Nelson, 2012). One contributing factor to the low uptake rate of IBR is that it is an *optional* repayment plan that requires borrowers to take proactive and sometimes cumbersome steps to enroll. Borrowers must:

- Know about the IBR plan
- Express an interest in it and either calculate potential IBR loan payments themselves or ask a loan servicer to do the calculation for them
- Complete paperwork and income verification with their loan servicers
- Provide income verification on a yearly basis in order to verify eligibility and monthly payment amounts

With all of these proactive steps that borrowers must take, it is easy to understand at least part of the reason why IBR participation is lower than desired. Consequently, many individuals who would qualify for IBR don't actually follow through with the application process due to its complexity (Nelson, 2012).

This proposal would establish IBR as the automatic repayment plan for student borrowers and require that students opt out (or simply make larger payments) if they would prefer a different repayment plan or to repay their loans faster. Automatic IBR would not eliminate loan defaults entirely; however, if all students were automatically enrolled in IBR, then "inability to repay" would no longer be a reason for default. Default rates would decrease, as would the harmful consequences of defaulting on a federal loan for individuals and the taxpayers' burden of having to shoulder the costs of a defaulted loan.

The United Kingdom and Australia offer student loans with automatic, income-based repayment. Although their higher education systems and government agency structures and operations differ from those in the United States, their methods could provide models for implementing automatic IBR in a simple and straightforward manner.

Potential Unintended Consequences

- If current loan forgiveness provisions remained in place, some institutions may see little benefit to counseling borrowers about manageable loan debt, since borrowers would only repay a portion of their outstanding loan debt and the remaining portion would be forgiven.
- If current loan forgiveness provisions remained in place, schools may raise tuition. However, federal loan limits would likely keep tuition in check.

- Because the reduced monthly payment in IBR generally extends the repayment period, some borrowers may pay more total interest over the life of the loan than they would under the standard 10-year repayment plan. Of course, if a borrower is unable to afford the monthly payment under the standard repayment plan but can afford the monthly payments under IBR, this trade-off seems worth the higher total interest.

Alternative Policy Considerations & Unanswered Questions

Although it seems fairly straightforward to simply switch the default repayment plan from standard repayment to IBR, there are many operational considerations and unanswered questions about the best way to accomplish this.

- How can IBR be an “automatic” repayment plan when it requires the borrower to provide income verification? One suggestion is for the Master Promissory Note (MPN) signed by borrowers to authorize the Internal Revenue Service (IRS) to share future income tax data with the Department of Education. This approach presents several challenges, including the need to revise IRS policies regarding information-sharing with other federal agencies. Also, at the time of signing the MPN, it is unknown when the borrower will enter repayment, and therefore difficult to determine in which year to begin sharing federal tax return data. Further, authorization to share tax information via the MPN also does not address how non-tax filers will verify their income.
- An alternative approach is to have borrowers make payments under IBR through employer withholding. NASFAA supports this approach because we believe that employer withholding is the simplest way to implement automatic IBR; income verification is not necessary and the payments are made automatically through withholding. Employer withholding does add some complications that would need to be resolved related to IRS procedures and interagency procedures within the federal government.
- Currently, IBR offers loan forgiveness after 25 years (soon to be 20 years, in 2014) of repayment. In addition, the public service loan forgiveness program offers forgiveness after 10 years of repayment during employment in public service. If all borrowers are repaying their loans under IBR, is there still a need for forgiveness provisions?
- Should IBR be the only repayment plan available, or should borrowers be able to opt out of IBR and select another repayment plan? If borrowers are provided a simple way to increase their payment amount, are any other repayment plans necessary? If opting out remains an option, which other repayment plans would be offered? Can employer withholding work if some borrowers are not in the IBR plan?

Next Steps

Automatic IBR would represent an ideological shift in the way we view the student loan system in this country. Although this shift is logical from a policy standpoint, it is unclear if the American public would be supportive of the idea. Therefore, we would recommend that public opinion polling be conducted.

In addition to the ideological change, automatic IBR would also involve a complicated restructuring of the student loan repayment system that involves several government agencies. Possible procedures and implications must be further researched to determine if the complications can be resolved such that, from the borrower’s perspective, automatic IBR is a simple, efficient, and fair repayment process.

If it is determined that employer withholding can work effectively, we would recommend a long transition period to allow existing student loan borrowers the option of finishing their education with the current repayment options.

Policy Area: Streamlining and Improving Consumer Information and Early Information and Commitment

Issue

The content and the timing of information about financial aid is extremely important for students and families. To be effective, information must be valuable, concise, and delivered at an influential time. As such, the federal government must focus on creating student aid policy that is equipped with accurate, clear, timely, and consumer-tested information. Sound policy in this area will allow students to not only be knowledgeable consumers but also to use the information wisely in making critical decisions about higher education.

Policy Considerations

5. Making an Early Commitment—A Pell Promise.

Pell Promise would teach 9th grade students about Pell Grants, notify them of how much Pell funding they will be eligible to receive in the future, and guarantee that amount toward higher education upon successful completion of high school. In other words, students would not only have information about the Pell Grant, but would also have a *commitment of funding*. An early commitment program could have great behavioral effects by introducing a level of certainty for low-income students and families as they decide whether to pursue higher education. It could also have the impact of getting those students on a college-ready track at an earlier stage.

Specifically, a Pell Promise program might look something like this: A low-income 9th grader would receive a commitment from the federal government that upon successful completion of high school, a Pell Grant will be available for higher education. “Low-income” would be determined by existing means-tested programs such as Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), and free or reduced-price school lunch. The amount of the Pell Grant could be scaled such that the maximum grant is at least equal to the present maximum award (currently $5,550). Alternatively, the amount shown could be provided in terms of the percentage of costs covered at an average 2- or 4-year institution. Although the Pell Grant program has faced serious budgetary challenges over the past several years, the assumption is that while the Pell Grant maximum may not grow, it is unlikely to decrease by the time the student graduates from high school.

The underlying economic theory is simple: People respond to incentives. A Pell Promise program could incentivize students and families by providing a commitment of funds toward a level of education that may otherwise seem unattainable. The prime incentive would likely be the monetary value attached to a promise of successful completion. A secondary, non-monetary incentive would be the pride of being able to enroll in higher education and the social mobility that may be achieved by completing postsecondary education.
This dual incentive structure that the Pell Promise could create is important because research shows that people respond to both monetary and non-monetary incentives. As economist Russell Roberts states in his aptly-named article, *Incentives Matter*, “[M]oney isn’t all that matters. People care about their reputation and

their fame and their conscience. They care about glory and fame and love. All of these can act as incentives" (Roberts, 2006, par. 19).

Some states have already implemented early commitment programs and have seen improvements in low-income student attainment. Indiana's "21st Century Scholars Program" closely resembles what a federal Pell Promise program might look like. This program began in 1990 with the goal of increasing access to higher education for Indiana's low-income student population. Income-eligible 7th and 8th graders who choose to enroll in the program are guaranteed to receive up to four years of undergraduate tuition at participating Indiana colleges and universities. Students who enroll in the program must sign a pledge of good citizenship called the Scholar's Pledge.

Data collected during the program's more than 20-year history show that students who participate in the program are more likely to enroll in higher education than students who did not participate (Lumina Foundation, 2008). In addition, the percentage of low-income students attending higher education in Indiana has increased substantially since the inception of this program. Specifically, between 1986 and 2004, the college-continuation rate (the proportion of high school graduates entering college the following fall) increased by 88 percent (from 33 percent of high school graduates to 62 percent). During this same period, Indiana rose from 28th to 10th of the fifty states in the proportion of high school graduates entering college the following year. Furthermore, this program has allowed Indiana to consistently increase its students' year-to-year college persistence rate since 1996, despite this being a period of national decline in college-going behaviors (Lumina Foundation, 2008).

A federal program would certainly differ from a state program, particularly in terms of implementation. However, research surrounding Indiana's program suggests that potential behavioral differences can result when low-income students are given incentives at an early age. It is also notable that Indiana's program is purely need-based—a feature that would be very important in a similar federal program. NASFAA strongly advocates for federal grant-aid programs to be need-based versus merit-based under the premise that our valuable student aid dollars are best spent serving students with need, who may not otherwise have the opportunity to attend college.

Potential Unintended Consequences & Unanswered Questions

- Given the unstable financial footing of the Pell Grant program, a Pell Promise may be unrealistic from a budgetary standpoint. It may be difficult to calculate the level of funding in federal budget projections. Knowing that the next several years hold more uncertainty for the Pell program, we risk making empty promises to students if the program changed substantially.
- Although research shows income-upward mobility has decreased in the last two decades, some students may be promised Pell in the 8th grade year who would not otherwise have been eligible for Pell come their first year of college (Bradbury, 2011). If this occurred, would those students still receive the funding committed to them in the 8th grade? This is something policymakers would have to consider. However, a recent study on the feasibility of a targeted early commitment program found that most students would remain eligible. The study modeled eligibility based on free and reduced price lunch and found "that the proposed program would be well-targeted, with fewer than one in ten students qualifying for the program not receiving a Pell Grant under current rules" (Kelchen & Goldrick-Rab, 2012).

- Would the Pell Promise be offered to all Pell-eligible students, or limited to those who are eligible for the maximum Pell Grant? Restricting the Pell Promise only to those eligible for the maximum Pell Grant may be a way of reducing costs, though likely marginal. However, many low-income who are very near, but not at, the maximum Pell Grant level are equally at risk of not enrolling in college.

Alternative Policy Considerations & Unanswered Questions

- Section 894 of the Higher Education Opportunity Act (HEOA) of 2008 authorized a similar demonstration program to Pell Promise—the Early Federal Pell Grant Commitment Demonstration Program. Unfortunately, while the authority to enact this program exists in law, it was never given funding to get off the ground.
- In lieu of promising a certain amount of funds, students could also simply be given a letter that states the amount of Pell Grant money they *would* receive if they were graduating high school in the current year (similar to what is currently done with Social Security).

Next Steps

Existing programs must be further researched to understand more about their benefits and unintended consequences. In addition, the higher education policy community should collectively advocate for the funding of the Early Federal Pell Grant Commitment Demonstration Program as found in Section 894 of the HEOA. A demonstration program is an excellent way to pilot this idea; policy experts have advocated for funding for a demonstration project and much information could be gleaned from the results (Heller, 2012).

6. Increasing Predictability for Pell-eligible Students—Pell Well.

Higher education is one of the only major expenditures in the United States that is financed on a year-to-year basis. This model means very little predictability for students and families, as eligibility and funding may fluctuate from one year to the next. These fluctuations are manageable for students and families with the financial strength to absorb changes in aid eligibility from one year to the next. However for low-income families, these changes can mean the difference between program completion and dropping out, often with the added burden of student debt. The current system of Pell Grant delivery, which is based on the traditional fall/spring academic calendar, is also outdated and confusing to families in light of trends toward innovative academic calendars, online education, and the influx of part-time and non-traditional students.

A "Pell Well" of funds available for student use throughout the course of an undergraduate education would increase predictability for Pell-eligible students and their families. Students would "draw" funds from the well as needed (under certain current rules, such as proration for less-than-full-time enrollment) until the student either completes the academic program or runs out of Pell funds.

A second benefit to the Pell Well concept is that it allows the Pell Grant program to respond to non-traditional enrollment patterns. Currently, Pell Grant funds are awarded on a scheduled award basis, which represents the amount of a Pell Grant that would be paid to a full-time student for a full academic year. Because the scheduled award covers an academic year rather than a full 12-month period, Pell-eligible students who wish to enroll year-round often run out of Pell funds before the end of the 12-month period, and are not eligible to receive another scheduled award until the next award year (which begins on July 1).

The Pell Well concept would facilitate and incentivize continuous enrollment and, hopefully, higher retention and graduation rates. Students who are continuously enrolled are less likely to default than students who drop out, even if they do not graduate (Podgursky, Ehlert, Monroe, Watson, & Wittstruck, 2002; Woo, 2002).

Table 1 illustrates a full-time transfer student's current Pell Grant distribution and how the Pell Well proposal could better serve the student. Lee, a student who has transferred from a community college to a 4-year institution, has five full-time semesters remaining in her bachelor's degree program. She is eligible for the maximum Pell Grant award, which we assume is $5,550 for the duration of her enrollment. Her enrollment and Pell Grant eligibility under current rules would be as follows.

Table 1. Lee's Distribution of Pell under Current Rules

Semester	Pell Grant Eligibility	Award Year Assignment of Pell Payment	Total Pell Distributed to Date
Fall 2012	$2,775	1st payment from 2012–13 scheduled award	$2,775
Spring 2013	$2,775	2nd payment from 2012–13 scheduled award; 2012–13 scheduled award now exhausted	$5,550
Summer 2013	$2,775	No remaining eligibility from 2012–13 scheduled award, so school makes a Pell payment from 2013–14 scheduled award	$8,325
Fall 2013	$2,775	2nd payment from 2013–14 scheduled award; 2013–14 scheduled award now exhausted	$11,100
Spring 2014	0	No remaining 2013–14 eligibility	$11,100
Summer 2014	$2,775	1st payment from 2014–15 scheduled award	$13,875

Because of the structure of the Pell Grant program, Lee has no Pell Grant eligibility in what could be her last semester before completing her program. At a point in her program when Lee should receive a final push toward graduation, she may be forced to sit out a semester before she can tap into her 2014-15 scheduled award. This is true even if Lee has remaining lifetime Pell eligibility, since Pell awards are made on an academic year basis within those lifetime eligibility limits.

The Pell Well could be structured to calculate a student's lifetime Pell eligibility when the student initially applies for financial aid, based on the current 600 percent limit. For example, using the current $5,550 maximum scheduled award, a student enrolling in a 4-year program would be notified of a lifetime Pell eligibility of $33,300 ($5,550 multiplied by 6 years). The student could use this Pell Well amount to plan accordingly, both financially and academically.

Payments for any given payment period would be calculated using the concept of a yearly scheduled award, but without the timing restrictions and current enrollment status rules, similar to the original concept of year-round Pell Grants. This prevents students from drastically frontloading their use of the lifetime Pell amount. (For example, a student at a high-cost institution would not be able to use $30,000 of his or her lifetime Pell eligibility in one year.)

If this concept were implemented, the enrollment pattern and Pell Grant eligibility of our sample student, Lee, might appear as follows.

Table 2. Lee's Redistribution of Pell Grant Disbursements under Pell Well Proposal
Note: Because the Pell Well proposal does not recognize award-year assignment of Pell funds, that information is not included in Table 2.

Semester	Pell Grant Eligibility	Notes	Total Pell Distributed to Date
Fall 2012	$2,775		$2,775
Spring 2013	$2,775		$5,550
Summer 2013	$2,775		$8,325
Fall 2013	$2,775		$11,100
Spring 2014	$2,775	School is able to make a full-time Pell payment to Lee Lee finishes her program and graduates	$13,875
Summer 2014		Not enrolled	$13,875

Tables 1 and 2 show that the total amount of Pell dollars disbursed to Lee under the Pell Well proposal is the same as under the current Pell structure. However, under the Pell Well proposal, Lee could continuously enroll and complete her studies a full term earlier than under the current structure.

Potential Unintended Consequences

- Students may overuse Pell at the associate's degree level, leaving insufficient funds for baccalaureate study. A possible solution may be stepped aggregate limits for Pell funds, such that a student would only be able to receive a certain amount of Pell funds while completing a 2-year degree.
- An inaccurate "snapshot" of the student's eligibility may be taken at the time the Pell Well award is determined. Family circumstances may change during the course of the student's education, affecting the student's eligibility. Unless professional judgment decisions were allowed to accommodate changes in family circumstances, reductions in family income (e.g., the death of a family's sole wage-earner) may penalize the student, while families that experience improved financial conditions after the snapshot is taken may receive unneeded funds.

Alternative Policy Considerations & Unanswered Questions

- While the Pell Well concept does not change the current 600 percent lifetime Pell eligibility limit, it does require an up-front commitment of that lifetime eligibility. Also, because current timing restrictions would be removed, it may condense use of an individual student's Pell Grant eligibility into a shorter time frame, thus frontloading the use of Pell Grant funds to some extent. However, because it is difficult to predict how changes to the aid programs may affect students' behavior, the financial costs of such changes are unknown.
- Another factor is the length of time for which the Pell Well funds are available to a student. For example, if a student begins college attendance, withdraws but does not graduate, and returns to school after a certain number of years, would the original Pell Well funds be available for use or would an updated need analysis be required? One alternative may be to provide students with a "well" of funds for a specified period of time, after which the student and family's ability to pay for college would need to be reassessed.

Next Steps

Because behavioral changes and, thus, financial costs, are hard to predict, we would recommend that a demonstration project be implemented to deliver Pell Grants to a subset of students under the structure of a Pell Well concept. The students' enrollment behavior, graduation rates, and total amount of Pell funds received could then be compared to a control group to analyze the costs and benefits of this structure and determine whether it would be financially feasible and beneficial for Pell Grant recipients.

7. Helping Students to Make Informed Choices—Providing Predictive Wage Information before Students Enroll.

Existing consumer disclosure requirements are sorely in need of a complete review to determine their value to consumers. Currently, there is little evidence on what type of information, and what timing and method of disclosure, actually helps students and families make responsible, educated decisions about college. New consumer disclosure proposals continue to pile onto existing requirements without any examination of the effectiveness of current disclosures.

Current consumer disclosure requirements also contain "information asymmetry," that is, they focus heavily on college costs, but they provide no information to the consumer about possible outcomes in terms of future wages. Students and families should have easy access to information—either from the Bureau of Labor Statistics or real wage data—regarding the salaries of certain occupations and current and projected market demand for different degree programs at the time of enrollment. In order to obtain this information, there should be greater transparency through tying wage records to transcript data. While some states already do this, they are not necessarily effective in how they present the information to students. According to Carnevale, Jayasundera, and Hanson (2012) sharing the data in a more effective manner could help "(1) Students understand the demand for specific types of education and training; (2) Educators reform their programs to better serve students; and (3) Employers find the workers they need to fill their increasingly complex occupational needs".

Although no direct research has been done on the impact of timing of disclosures, a 2012 report from Young Invincibles, *The Student Perspective on Financial Aid Reform,* found that a high percentage of students were unaware that they had gone through loan counseling prior to or after accepting their loans (Mishory & O'Sullivan, 2012). While these students almost certainly *did* complete entrance and exit loan counseling (which institutions are required to provide to federal student loan borrowers), these findings suggest that the loan counseling requirements are ineffective. Put simply, it exemplifies the need for new, more effective consumer disclosure tactics and timing.

Similarly, the content of the current consumer disclosures and related proposals is a concern. In a recent consumer-test of the College Scorecard—an Obama Administration consumer disclosure initiative—the Center for American Progress (CAP) found that many students did not find the information valuable or easy to understand. For example, students said that the scorecard would have been more effective if it had simpler wording, better graphic design, and more relevant data (Morgan & Dechter, 2012). The problem, however, is that the College Scorecard will be released in its final format in the very near future—the opportunity to incorporate feedback from the results of CAP's consumer testing is now past.

With respect to information asymmetry, existing consumer disclosures contain no information about what students may expect on the "back end" of their postsecondary experiences, i.e., their future wages. With student indebtedness on the rise, wage data information is more critical than ever as it allows students to make informed and practical decisions about their college choice. In fact, CAP's consumer testing of the scorecard revealed that students want additional information about future earnings. The Young Invincibles report also underscored this notion, stating, "Job placement rate was a top factor for student leaders in choosing a school, and those surveyed strongly support measures that will improve that connection, including reforms to work-study" (Mishory & O'Sullivan, 2012, p. 17).

Some states have started collecting future wage information and making it available to students, and could serve as examples for similar national disclosures by the federal government. For example, a 2012 American Institutes for Research (AIR) study examining data from Virginia state institutions found that graduates with certain 2-year degrees earn more money than graduates with certain 4-year degrees from schools in the same state (Schneider, Massa, & Vivari, 2012). This information could allow students to weigh the cost of education against the future value of their education, and may affect students' choices when enrolling in a degree program.

Data on employment and earnings related to major field of study are readily available, but a conscious decision must be made to use them in consumer disclosures. Earnings information should not be viewed in terms of its potential to discourage or encourage students to enter particular fields of study due to projected future income, but rather as a means to empower students with the information they need to make responsible decisions.

Potential Unintended Consequences & Challenges

- Without specific research and consumer testing regarding the best time and ways to reach students with disclosure information, new information—even helpful information such as wage data—will not be very useful.

- Wage data included on consumer disclosures could have the long-term effect of discouraging students from entering lower-paying areas of high need, such as teaching and social work.
- Wage data for specific certificate and training programs will likely be more useful than wage data based on general areas of study that are not closely aligned with one specific job (e.g., liberal arts).
- The traditional college model focuses on giving students a wide breadth of experience before requiring them to decide on a specific major. As such, wage data may not be useful for some students who do not choose a specific major or career path until later in their college experience.

Alternative Policy Considerations

Wage data could be given to students in high school—even earlier than the college choice process. Information given in 9^{th}-12^{th} grades could help students during the college selection process, rather than solely informing their choice of academic major.

Next Steps

All new federal consumer disclosure proposals should be tested by the federal government *prior* to implementation. Proposals and draft legislation in this area should contain a broad framework for the desired outcome, but then allow flexibility for the results of consumer testing to inform the final product. If new disclosures are required by law, Congress needs to set effective dates to reasonably allow the Department of Education to conduct testing.

A demonstration project would be helpful in determining the value to students and families achieved by including wage data in consumer disclosures.

Policy Area: Rethinking Entitlement and Professional Judgment

Issue

Annual loan limits for the Direct Loan program are set in law. While schools must prorate loan limits for academic programs of less than a year in length or if the student is in a final period of enrollment of less than one year, there is otherwise no proration of the annual loan limits set in law. This lack of any restriction on annual loan limits can lead to the following scenarios:

- Students borrowing up to the maximum annual loan limit for as little as half-time enrollment
- Students in an associate's degree program who borrow year after year until they reach the undergraduate maximum aggregate loan limit, which was intended to accommodate borrowing for a baccalaureate degree
- Students who are enrolled for only one term in the middle of their academic program and borrow the entire maximum annual loan limit for that one term
- Students borrowing maximum annual loan limits to pay the costs of educational programs that traditionally lead to lower-paying jobs

These practices can lead to situations where students either accumulate high loan debt very quickly without making progress toward degree completion, or struggle to repay loan debt that is excessive relative to the expected earnings for the student's field of study.

Schools have very few practical ways to prevent students from over-borrowing. The current statute views loan funds as "entitlements," and schools can only deny or limit loan eligibility on a case-by-case basis under Section 479A, Discretion of Student Financial Aid Administrators, of the Higher Education Act. This professional judgment process is time-consuming because each case must be considered individually. Additionally, schools are reluctant to use their authority to deny or restrict loan eligibility because some students misinterpret the use of this authority as discriminatory, which results in costly challenges, investigations, and sometimes lawsuits.

Beyond this limited professional judgment authority, the only means a school has to prevent over-borrowing is to offer advice. If students insist on borrowing up to their maximum eligibility under the law, the school has little choice but to approve the loan. In some instances, schools have attempted to require additional counseling to students before borrowing, but the Department of Education (ED) has rebuffed those attempts, stating that because loan funds are considered entitlement dollars, schools cannot add eligibility criteria—including loan counseling—to the loan programs.

Viewing loan funds as entitlement dollars also creates an environment where schools have limited control over their cohort default rates, which are a Title IV institutional eligibility criterion. Schools with high default rates may lose their eligibility to participate in the Direct Loan and Federal Pell Grant programs, yet they have very limited control over how much money students borrow. This represents a huge disconnect in federal policy because it places responsibility for defaults on the school without providing schools with practical methods needed to help prevent them. Because of this disconnect, some institutions, particularly community colleges, have chosen not to participate in the federal student loan programs. As a result, some students attending those institutions must work longer hours (possibly jeopardizing academic success), or must use private student loans and credit cards to help finance their education.

Policy Considerations

8. Preventing Excessive Borrowing—Providing Schools with Professional Judgment Authority to Limit Loan Amounts for Groups of Students.

This proposal would provide financial aid administrators with the authority to limit loan amounts across-the-board for all students, or for specific categories of students. Schools would be allowed to limit borrowing for any of the following:

- All borrowers at the institution
- All students pursuing a specific academic credential or academic program
- Specific students based on enrollment status
- Specific students based on length of the period of enrollment

Here are a few examples of how schools might use this authority:

- Since current aggregate loan limits were designed to accommodate reasonable borrowing for a 4-year degree, a community college might set its aggregate loan limits at half of the current aggregate loan limits.
- After reviewing salaries of recent graduates relative to their loan indebtedness or eventual default status, a school may decide to set lower loan limits for students pursuing certain degrees.
- A school may prorate annual loan limits based on enrollment status, with three-quarter time students having an annual loan limit of 75 percent of the full annual loan limit and half-time students having an annual loan limit of 50 percent of the full annual loan limit.
- A school may prorate annual loan limits based on the portion of the academic year attended by the student, such that students enrolled for only one semester are restricted to 50 percent of the full annual loan limit, etc.

Using professional judgment, schools should still have the authority to allow students to borrow up to the federal annual and aggregate limits on a case-by-case basis. At its core, this proposal would invert the current professional judgment authority: rather than schools using professional judgment to restrict loan borrowing on a case-by-case basis, schools could establish lower loan limits based on the above criteria, and then use their professional judgment authority to permit students to borrow more than those established limits, up to the annual maximum set in law. Nothing in this section shall be construed as a proposal to allow schools to limit borrowing based on race, sex, color, religion, national origin, age, or disability status.

Potential Unintended Consequences

Restrictions on federal loan borrowing could drive students to borrow under less advantageous private loan programs, discourage some students from enrolling, or cause more enrolled students to drop out due to lack of funds.

Next Steps

The Department of Education has recently begun an experiment under its Experimental Sites program that would permit a participating schools to establish a written policy where it would, for students enrolled in a particular educational program or on some other categorical basis, reduce by at least $2,000 (the amount of the most recent statutory loan limit increase) the amount of an unsubsidized Direct Loan that the otherwise eligible student would receive, or eliminate the unsubsidized Direct Loan completely. Future data from participating schools will reveal the impact of lower loan limits on student behavior and success, and institutional participation in the federal loan programs.

CONCLUSION

Together, these policy considerations attempt to address current and future problems in federal student aid by:

- Examining the value of institutional and student "skin in the game"
- Exploring options for student loan reform
- Streamlining and improving student consumer information
- Providing early information and commitment
- Rethinking entitlement and professional judgment

They are put forth not as definitive solutions, but as research-based policy considerations designed to drive this conversation forward. NASFAA believes that healthy discussions about these issues will be challenging, thought-provoking, and necessary.

We must also consider these issues from a broader perspective: With the increasing emphasis on access *and* success (or program completion) have come proposals that include either a carrot or stick to incentivize better outcomes for students and institutions. Most of these policy considerations contain implicit assumptions about who bears the responsibility for student success—the student or the institution.

NASFAA's presumption is both. We expect institutions to provide appropriate resources for students, particularly low-income and underrepresented students. But no matter how many resources an institution provides its students, each student must ultimately take responsibility for his or her own educational success.

Much of the conversation about student success and completion treats the modern university like a factory that "produces" graduates. This principle holds that if we can determine the right amount and mixture of inputs, we can generate increased outputs—and at a lower cost to boot! However, this is not how higher education institutions are structured. More importantly, it places a disproportionate and unrealistic share of the responsibility for student outcomes on the institution.

Instead, colleges and universities behave much more like health clubs that bundle many different tools and services to help people achieve healthier lifestyles. A gym membership alone does not guarantee a healthier individual. If a patron buys a gym membership but never attends any aerobic sessions, uses the equipment, or improves his eating habits, the outcome will likely be very poor (Salerno, 2012). Likewise, schools have a responsibility to provide the right atmosphere, tools, classes and class availability, and counseling and support for student success. But to hold schools disproportionately responsible for student outcomes may actually create even larger college access problems by pushing schools to become more selective or introduce services at a greater cost to all students. For example, an individualized college success counseling model has been tested successfully at some colleges, but adds $1,000 per student to the cost of college, making it cost prohibitive for most institutions and unlikely to be scaled up on any national level.

In the end, NASFAA affirms that student aid policy should always be constructed in a way that places primary responsibility for student success on the student, with shared responsibility among institutions, the government, accreditors, and society to:

- Provide quality education aligned with the marketplace and ensure academic integrity
- Provide adequate support services to students who are struggling academically

- Provide predictable funding
- Ensure students (and parents) do not end up with excessive student loan debt burden

In short, sound student aid policy must create a system that provides students with the access, opportunity, and support needed to assist them in contributing to and taking responsibility for their own success. In other words, the primary goal of student aid is to ensure that no *qualified* student be denied access to a postsecondary education; and the goal of the institution is to create an environment where every qualified student has the tools and information needed to succeed.

The policy considerations outlined in this report are based on a principle that each stakeholder in the higher education process has a role to play and incentives or penalties should accurately reflect that participant's expected role. Expectations defined for schools should control for predictors of student success, so that schools can be judged based on the students they serve. Expectations defined for students must not unduly penalize students who are genuinely underprepared. Finding the balance between these two considerations will be the key to placing the U.S. in the forefront of higher education attainment.

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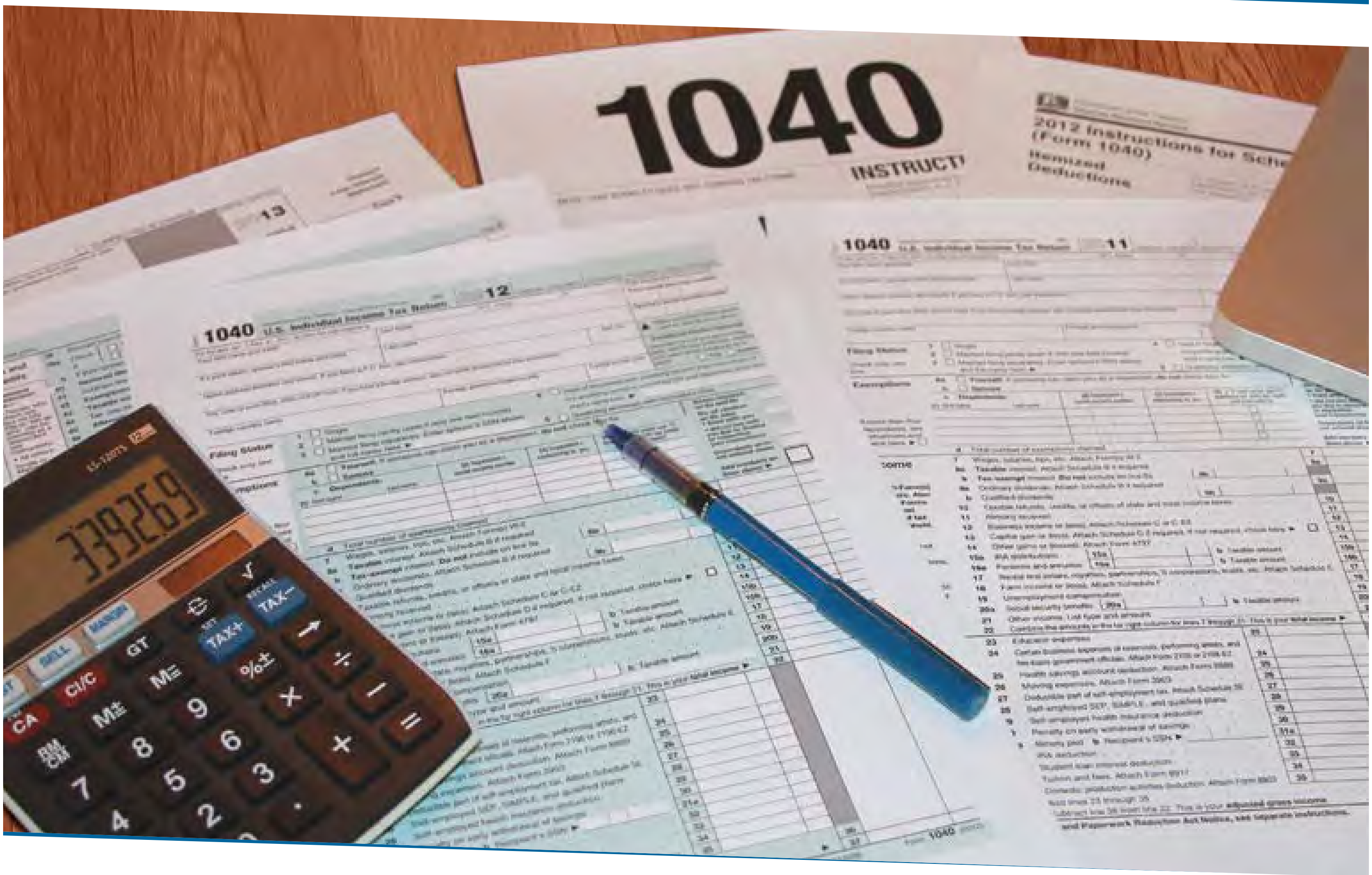
NASFAA
NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

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



A TALE OF TWO INCOME YEARS:

COMPARING PRIOR-PRIOR YEAR AND PRIOR-YEAR THROUGH PELL GRANT AWARDS

NASFAA RESOURCES

NASFAA

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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.

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Executive Summary

Each year, students must submit a Free Application for Federal Student Aid (FAFSA) for federal student aid consideration. Time is a critical factor when submitting the FAFSA to be considered for all types of financial aid because the FAFSA depends heavily on the latest income information submitted via income tax returns. Under the current structure, delays can cause an unfavorable chain reaction: a delay in completing the income tax return can mean a delay in submitting the FAFSA, which can result in a delay in financial aid notification—and possibly a reduced amount of financial aid. This occurs because some forms of financial aid have a limited pot of funds, which is distributed on a first-come, first-served basis. Every college student needs to know where they stand sooner rather than later, so the student can adjust and prepare for the costs of college.

One possible solution to minimize this time crunch and FAFSA completion pressure is the concept of prior-prior year (PPY). Currently, the Federal Methodology (FM) used to calculate a student's financial need uses prior year (PY) income data. To illustrate this calculation, Figure 1 shows income data from 2012 (PY) and 2011 (PPY) to assess a student's eligibility for federal student aid for the 2013-14 award year[1]. Figure 1 demonstrates that under a PPY system, students could:

- **File the FAFSA earlier than they do now.** The FAFSA is made available January 1 of each calendar year, yet it is uncommon for a family or individual to be prepared to file an income tax return in the month of January. Students and families must scramble to file their tax returns in order to complete their aid application. Under a PPY system, students could use the PPY's completed income tax return and be ready to file before January 1.
- **More easily submit a FAFSA.** An estimated 2.3 million students do not file a FAFSA, but would have qualified for federal financial aid (Novak & McKinney, 2011). The IRS Data Retrieval Tool (DRT), which allows automatic population of a student's FAFSA with tax return data and decreases the need for additional documentation, could be used more easily under PPY.
- **Receive notification of financial aid packages earlier.** If students apply for aid earlier, colleges could potentially provide financial aid notifications to students earlier, ensuring that students and families have more time to prepare for college costs (i.e., investigate possible financial options, create a reasonable student budget, or save more money). This is important for all students, even for those who file the FAFSA solely to be eligible for federal student loans. Early notification also means more time for financial aid administrators to counsel students and families.

With these possible benefits in mind, the National Association of Student Financial Aid Administrators (NASFAA) wanted to know whether PPY could work. In other words, if PPY was implemented, would substantial changes in award packages or program costs occur? To illuminate this inquiry, this study attempted to answer the questions:

- What differences are there in using PY income versus PPY income when calculating family contribution toward college, and how would this affect Pell Grant awards?
- Would students from different institution types and with different family circumstances and/or financial backgrounds be affected differently by a switch from PY to PPY?

Through a grant from the Bill & Melinda Gates Foundation, NASFAA conducted a study on the use of PPY income data in place of PY income data when determining student aid eligibility and specifically examined if Pell Grant awards would change. After analyzing more than 70,000 student records from five years of data, the study found:

Finding 1: The percentage of students affected by a change to PPY varies by dependency status. Overall, most students do not see a significant change in their Pell awards with a switch to PPY: 72% of dependent students, 71% of independents with dependents, and 59% of independents without dependents did not see any change in their Pell awards. The group least affected by a change to PPY would be independent students with dependents, 14% of whom saw a Pell award change of $1,000 or more.

Finding 2: The percentage of students whose Pell Grant awards would be affected varies considerably by institution. Analyzed by institutional type, 74% of students at four-year colleges serving a lower percentage of Pell recipients, 66% of students at high-serving Pell four-year, and 63% of community college students did not see a change in Pell awards. This finding suggests that four-year institutions that serve a large share of Pell Grant recipients could make the best use of PPY compared to other institution types; however, institutions that typically have more Pell Grant recipients (e.g., community colleges and high-serving Pell four-years) could possibly result in more students whose Pell awards could change.

[1] Award year begins July 1 of a calendar year and ends on June 30 of the following calendar year. Academic year, which is a more familiar terminology outside of the financial aid community, is the start of a school year, typically around late August or early September and continues to mid-May or early June. This report uses award year.

Finding 3: About 16-18% of students would see large changes in their Pell Grant awards (more than $1,000 in either direction). While an ideal PPY system would not change (i.e., increase or decrease) any students' awards, this study demonstrates that some 18% of undergraduate students would be affected (i.e., see a change in awards) with a switch to PPY. As this could potentially affect about 3 million students, there are implications for financial aid offices and policymakers alike.

Finding 4: A shift to PPY seems to work best for students from the lowest-income families, many of whom are independent students with dependents. Because independent students with dependents tend to have few financial resources (two-thirds have an expected family contribution of zero), a large change in income is generally needed for them to lose Pell eligibility. Our analysis showed that for the 2011-12 award year, fewer than 5% of these students would have experienced a change in their Pell eligibility assuming a shift to PPY, compared to 10% of students without dependents. Thus, if the income levels of the lowest-income students do not radically change over time, as demonstrated by our study, PPY could be a feasible estimator of current income and a student's financial strength or ability to pay for college.

Overall, this study suggests that using PPY income data could potentially help the neediest students: low-income students, particularly independent students with dependents. For these students, the expected family contribution (EFC) usually does not change over time. However, the impact of a PPY system may be different for other types of students, particularly students with volatile household incomes from year to year. While the share of Pell Grant recipients would not change overall under a PPY system, our study found that some students who were on the cusp of Pell Grant eligibility (i.e., those who received the smallest Pell awards and those whose EFCs placed them just outside of Pell eligibility) and independent students without dependents may not fare well with a PPY system because their income levels—and EFCs—may change more dramatically from one year to the next. Also, while we think increasing early awareness and FAFSA completion are key to improving the financial aid process for students and families, a switch to PPY may cause an increase in program costs due to more aid-eligible recipients. Switching to PPY could also increase the number of aid applications that require professional judgment (PJ) consideration by financial aid administrators. PJ refers to the authority given to financial aid administrators by law to adjust certain need analysis or other eligibility variables to best reflect a student's current situation.

This study's findings suggest that switching to PPY should be strongly considered for all the positive benefits it could bring to the poorest students and students with little change in EFCs (which includes a large group of middle-income students). Although more work should be done to further examine the implications of switching to PPY, we encourage Congress to consider during the next Higher Education Act reauthorization the PPY recommendations made by NASFAA's Reauthorization Task Force.

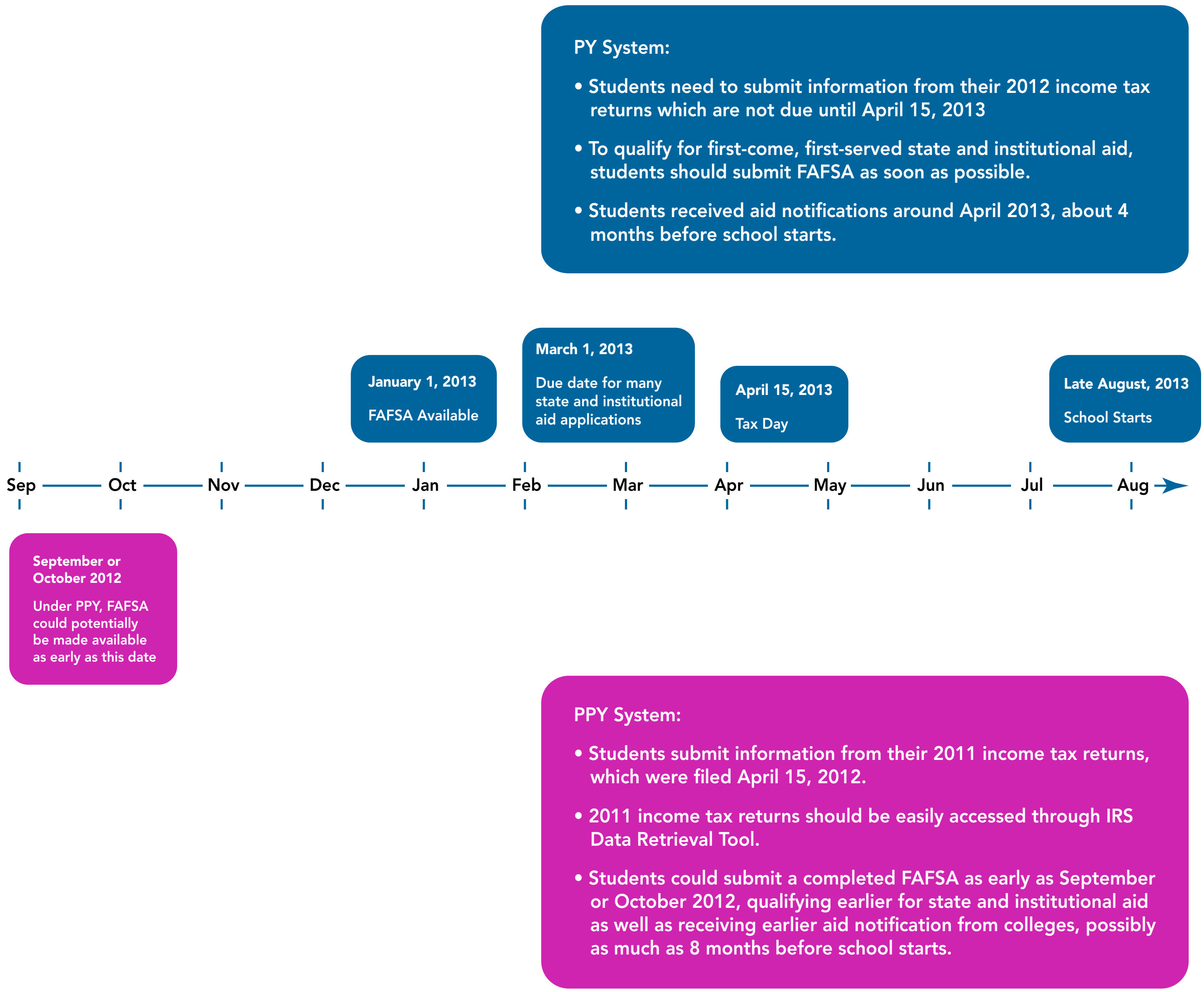
Based on the research, NASFAA supports the following recommendations:

1. **The Department of Education should implement the use of PPY.** The Higher Education Opportunity Act (HEOA) provides the Secretary of Education with the authority to use PPY with the purpose of helping to simplify the FAFSA process. The Department of Education (ED) should use this authority and fully implement a PPY system. While it is noteworthy that there are some groups that may not fare as well under PPY, the benefit to the neediest students of moving to PPY—in the name of simplification and early information—seems a worthy tradeoff. Importantly, schools would retain PJ authority to address individual circumstances. In addition, under PPY, financial aid administrators would have more time to exercise PJ because the application process could begin much earlier than under the current system.

2. **The U.S. Department of Education (ED) should explore ways to mitigate potentially negative effects of PPY.** ED, in consultation with the financial aid community, should give careful and specific consideration to the identified potential negative consequences that could result from the implementation to PPY and develop solutions for mitigating these outcomes. This primarily refers to the possibility that by using PPY some students may end up submitting a financial aid application that does not reflect their most current financial circumstances.

3. **The IRS Data Retrieval Tool should be expanded to include more taxpayers and more fields from federal tax returns.** Currently, certain groups of taxpayers are unable to use the DRT, including those who filed an amended tax return, those who filed under the "married filing separately" status; and those who filed under the "head of household" status and indicated they were married. Beginning with the 2014-15 processing year, unmarried parents who live together will both be required to include their income information on their child's FAFSA. These parents will be unable to use the DRT because the DRT is not capable of populating FAFSA fields with information from multiple parental tax returns. With the benefit of an extra year of tax return processing time as a result of moving to a PPY system, the IRS and ED could develop a system that would compile the relevant tax information and permit these taxpayers to use the DRT.

Figure 1. FAFSA Completion under Prior Year (PY) and Prior-Prior Year (PPY) Systems, In General



Introduction

The National Association of Student Financial Aid Administrators (NASFAA) investigated whether using prior-prior year (PPY) income data instead of prior year (PY) income data would alter students' expected family contribution (EFC), which is used to determine financial aid eligibility. In other words, could students' aid packages substantially change between PPY and PY? For some time now, the financial aid community has debated the feasibility of using PPY in place of PY, which is currently used on the Free Application for Federal Student Aid (FAFSA). Some have shown concern that PPY would not accurately measure a student's current financial strength or ability to pay, preferring to continue to use PY as reliable proxy for current income with the assumption that recency equates to a more accurate measure. Those advocating for PPY, however, feel that for most students and families, income does not change significantly year to year and that using PPY would allow students to prepare to meet the challenge of paying for college earlier than PY. As income is the main determinant in calculating a student's EFC, NASFAA aimed to simulate whether students' Pell Grant awards would remain unchanged between PY and PPY systems. If there is no change, then PPY should work. If there is change, to what degree and how much change is acceptable?

Background

Students obtain information about their financial aid eligibility, and therefore information about the cost of college (how much they need to pay out of pocket), by submitting the FAFSA each year. The FAFSA asks for standard income information that is found on an IRS form 1040 or other IRS forms, but also collects information on student and parent (for dependent students) investments and assets that are not a part of a tax return. Income information from the previous tax year and current asset information are used to determine the student's financial need by calculating an EFC for the award year, which represents a measure of a family's short-term financial ability to pay for college and determines eligibility for the federal Pell Grant as well as numerous federal, state, and institutional financial aid programs.

Students can file the FAFSA with far greater accuracy if they (and their parent(s) or spouse) have received their tax forms from the PY. However, time is a critical factor when submitting the FAFSA to be considered for all types of financial aid because the FAFSA depends heavily on the latest income information submitted via income tax returns (Asher, 2007; TICAS, 2013). As employers do not have to provide W-2 forms until the end of January, many students are unable to complete the form until February at the earliest. Students can file the FAFSA to get the Pell Grant and Direct Loans at any point in the award year, but that is not the case for certain types of state or institutional aid, which are awarded on a first-come, first-served basis. The 2012-13 FAFSA lists six states which ask students to file the application "as soon as possible after January 1, 2012" in order to receive state aid and several other states with February or March deadlines. Even if students and families are aware of these early state-imposed deadlines, the pressure on FAFSA applicants to get all of their financial data together quickly in order to qualify for the maximum amount of financial aid often means that families have to file the FAFSA before completing the year's income tax return. In addition, some families are unable to provide accurate tax year information for verification purposes because they have asked for a tax filing extension. This can result in disadvantageous adjustments to income data and financial aid offered well after the beginning of the year.

While the U.S. Department of Education found completing the 100-plus question FAFSA takes less than 40 minutes in 2012 (Parkinson & Sears, 2012), compiling all of the information before starting the online application is a time-consuming and burdensome process for students and their families. As a result, some researchers have estimated that the true completion time for the FAFSA may be up to 10 hours (Dynarski & Scott-Clayton, 2008), although this estimate was made before recent changes designed to simplify the process. There have been attempts to simplify the FAFSA through skip-logic questions, which remove questions that filers do not need to answer based on previous answers (National Economic Council, 2009; U.S. Department of Education, 2006). The remaining complexity is deterring students from filling out the FAFSA and receiving aid (King, 2006; Novak & McKinney, 2011; TICAS, 2013) and may sometimes deter some students from entering college (Asher, 2007; Bettinger, Long, Oreopoulos, & Sanbonmatsu, 2009; TICAS, 2013). Students in many states are unable to use the IRS Data Retrieval Tool (DRT, an innovative program started in 2010 designed to reduce complexity, in which tax information is directly transferred onto the FAFSA via a secure connection) because the filing deadline for state aid is too early. For example, the DRT was not made available until February 3, 2013 for the 2013-14 academic year—after some state aid deadlines had already passed. As a result, just under one-fourth of all students use this time-saving measure (Dynarski & Wiederspan, 2012). While the idea of pushing state deadlines later might seem like a plausible solution, coordination among the various states and territories could be a logistical nightmare considering the various budget cycles.

To alleviate the time pressure, allow students to use the DRT, and give students an idea of their financial aid eligibility earlier, researchers and advocacy groups have proposed using PPY financial information instead of PY information (ACSFA, 2005; Asher, 2007; Dynarski & Scott-Clayton, 2006; Dynarski & Wiederspan, 2012, NCAN, 2012; TICAS, 2013). For students who intend to enroll in college for the 2013-14 award year, the FAFSA would be based on income data from the 2011 tax year (PPY) instead of 2012 (PY). Most students and families will have completed their income tax returns for the 2011 tax year by the spring of 2012. Thus, the PPY approach would allow students to potentially get their federal aid package one full year before beginning college, which could induce more students to fully participate in the college application process as well as provide more time to financially prepare and plan for college costs.

However, using PPY does not come without some trade-offs. The primary disadvantage is that PPY income may not accurately represent a family's current economic situation as compared to PY income. That's because the volatility of family income from year to year has risen over time, especially toward the bottom of the income distribution (Dynan, Elmendorf, & Sichel, 2007; Gottschalk & Moffitt, 2009; Kopczuk, Saez, & Song, 2010) and particularly during the recent recession (Shin & Solon, 2011). While the PY and PPY approaches will likely result in families with the same long-term financial strength being eligible for Pell Grants, their short-term financial strength upon college entry may be different. Ideally, the FM would use current income when determining the EFC. However, the current processing system precludes this; thus, we are required to assume that PY income is the best proxy for current income.

To date, there have been few studies that investigated the use of PPY. One PPY study found that PPY income is just five percent less "accurate" than PY income in predicting current-year income (87% vs. 82%) (Madzelan, 1998). The only published empirical study examining the distributional effects of PPY is by Dynarski and Wiederspan (2012), who used data from the 2007-08 National Postsecondary Student Aid Study in their analyses. They compared PY tax data from 2007 to PPY data from 2006 and found that 77% of continuing students would see a Pell Grant of within $500 of their current award. Their sample has three key limitations. First, they only used data for full-time undergraduate students, excluding the large and growing percentage of students who attend part-time. Second, these data also come from before the current recession, which resulted in a sharp increase in income volatility. Finally, they only have data for two years, which does not allow the effects of PPY to be examined over time.

The net fiscal impact to the Pell Grant program of a shift to PPY is unclear. During periods of economic strength, more families are likely to have higher incomes during the PY than the PPY. Using the PPY may result in students having lower EFCs than in the PY, increasing program costs. During a recession, the opposite may occur, with students receiving higher EFCs in the PPY than in the PY. While this would likely reduce program costs, some students would be adversely affected; if they were to receive a professional judgment (PJ) review and have their aid package based on PY income, program costs would likely stay constant or perhaps even increase. (PJ refers to the authority given to financial aid administrators by law to adjust certain need analysis or other eligibility variables to best reflect a student's current situation.) It is also important to note that many students from middle-income and higher-income families file the FAFSA in order to receive federal student loans; these students would receive earlier notification of their loan eligibility (a benefit) with no impact to Pell program costs.

To examine the potential effects of changing the financial aid system from PY to PPY, we examined detailed student-level data provided by nine institutions between the 2007-08 and 2011-12 award years, which notably include the effects of the economic recession. These colleges include community colleges as well as public and private four-year institutions with various missions and selectivity levels.

If PPY income data were to be used instead of PY data, the financial aid packages of at least some students would change. One of the goals of this report is to document the number of students whose EFCs (and therefore Pell Grant awards) would change. Another goal is to show whether different effects of PPY would exist across different conditions. For example, institutions serving a higher percentage of students close to the Pell eligibility cutoff would see more students with changes in their financial aid packages. We are also interested in the levels of income volatility by institutional characteristics as well as student characteristics.

We seek to answer the following research questions:

1. What differences are there in using PY income versus PPY income when calculating EFC, and how would this affect Pell Grant eligibility and financial aid awards?

2. Are there differences in the proportion of students who would be affected by a switch to PPY by institutional and student characteristics?

Sample Data

Data for our study were provided to NASFAA by nine partner institutions, which include two public community colleges, five public doctoral-level universities, and two private four-year colleges. This includes nearly 160,000 undergraduate students who filed the FAFSA at least once between the 2007-08 and 2011-12 academic years[2]. To be included in the analytic sample, students must have enrolled and filed the FAFSA for at least two consecutive years under the same filing status (dependent, independent without any dependents, or independent with his/her own dependents). They must not have received a PJ on their aid package in either of the two years and enough information must be present to calculate a student's EFC in both years. Finally, students are included in the sample only if we are able to calculate their EFCs within $100 of their actual EFCs during both years, which excludes approximately five percent of students for whom EFCs cannot be accurately calculated.

These sample restrictions, particularly requiring students to be enrolled and file the FAFSA in two consecutive years, result in the analytic sample consisting of 73,441 students. Broken down by dependency status, this includes 54,711 dependent students, 10,549 independent students without any dependents, and 8,181 independent students with dependents. Dependent students are more likely than independent students (with or without dependents) to be in the analytic sample, primarily due to higher rates of re-enrollment. In this sample, women are more likely than men at most campuses to have PY and PPY EFCs, and white and Asian students are more likely to be in the analytic sample than students of other racial/ethnic backgrounds.

[2] We requested data only for undergraduate students because of our interest in how Pell Grant awards would change under PPY. Graduate students are not eligible for Pell Grants.

Pell Grant Recipients

Nearly 75% of Pell Grant recipients had a family income of $30,000 or less in the award years 2007-08 and 2011-12 (U.S. Department of Education, 2009, 2013), indicating very little change over time and that Pell Grant receipt is a good proxy for low-income status. Among Pell Grant recipients who received the maximum amount of $5,550, 92% had a family income of $30,000 or less in 2011-12. In 2007-08, 95% of Pell Grant recipients who received the maximum Pell Grant of $4,310 had a family income of $30,000 or less.

The institution-level characteristics for these campuses can be found in Table 1, which shows the 2011-12 enrollment, graduation rates, and share of Pell Grant recipients at each institution. The four-year institutions in our sample can be divided into two groups by the percentage of students receiving Pell Grants: high-serving Pell (50% or more) and low-serving Pell institutions.

Table 1. Characteristics of Participating Institutions, 2011-12

Institution	State	Type	Percent of Pell Students	Number Receiving Pell	Undergraduate Fall Enrollment	Graduation Rate 150% Normal Time
Community Colleges						
Anne Arundel Community College	MD	public 2-year	26%	4,705	17,957	15%
Barton County Community College	KS	public 2-year	17%	857	4,909	28%
High-Serving Pell 4-year						
Florida International University	FL	public 4-year	59%	21,223	35,888	49%
Wayne State University	MI	public 4-year	50%	10,008	20,589	28%
Low-Serving Pell 4-year						
Le Moyne College	NY	private 4-year	32%	928	2,871	69%
Michigan State University	MI	public 4-year	25%	9,189	36,557	79%
Oregon State University	OR	public 4-year	34%	6,995	20,620	61%
Pacific Lutheran University	WA	private 4-year	28%	905	3,195	70%
Virginia Polytechnic Institute and State University	VA	public 4-year	18%	4,168	23,700	83%

We also compared student and institutional characteristics for the nine institutions in our sample to those of other campuses using federal IPEDS data. The institutions included in our sample appear to be reasonably representative of their sectors on key measures (Appendix A). For example, the racial/ethnic distribution of our sample compared to the nation was close: White students (55.7% of sample compared to 61.2% nationally), Black students (16.8% and 15.1%), Hispanic students (6.0% and 14.3%), Asian (7.4% and 6.0%), and American Indian/Alaska Native (0.8% and 0.9%). Overall, 55.7% of college students were females in 2011-12 compared to 57.4% of females in our sample. Lastly, in 2011-12 the percent of Pell Grant recipients was 41.3% compared to the sample's 56.8%.

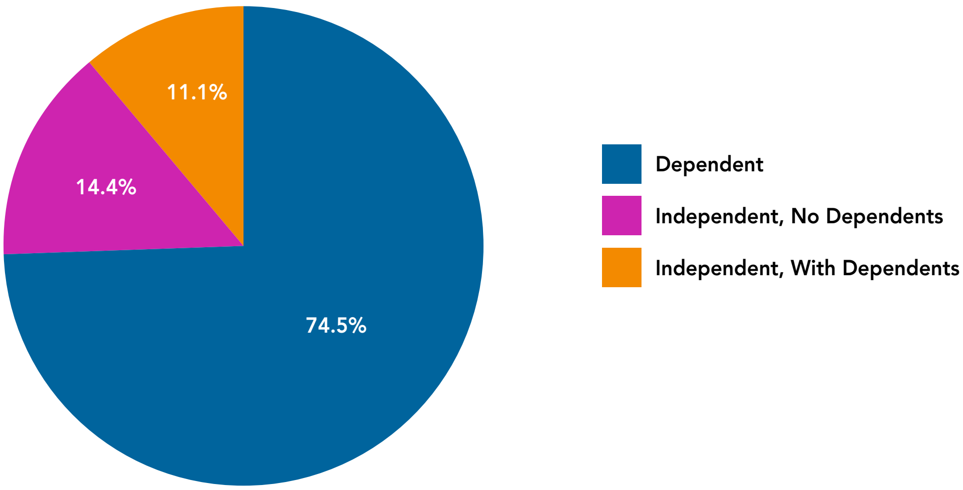
Dependency Status

A student's dependency status dictates which of the three EFC formulas applies to that student: 1) dependent students (all of whom are under the age of 24), 2) independent student without dependents other than a spouse (single or married adults with no children) and 3) independent students with dependents other than a spouse. Only the formula for dependent students requires parental data.[3]

[3] Students can qualify for a simplified needs assessment, which does not consider assets, under the following conditions: if parent (of dependent student) or student/spouse (independent) income is less than $50,000 per year and they receive federal means-tested benefits, were not required to file the IRS Form 1040 (long form tax return), or were a disabled worker in the previous year. Examples of some U.S. federal means-tested programs include Medicaid, Supplemental Security Income, Temporary Assistance for Needy Families, the National School Lunch Program, and the Supplemental Nutrition Assistance Program.

The dependency statuses of the study's sample are depicted in Graph 1. Nearly three-quarters of the sample's students filed as dependent students. Another 14% were independent students without dependents and 11% were independent students with dependents. Nationally speaking, the 2011-12 National Postsecondary Student Aid Survey estimated that 49% of undergraduate students (11.2 million) were dependent, 24% were independent students without dependent (5.5 million) and 28% were independent students with dependents (6.3 million). Our sample does include relatively few independent students, partially because independent students were less likely to remain enrolled for two consecutive years as required by our analytic strategy.

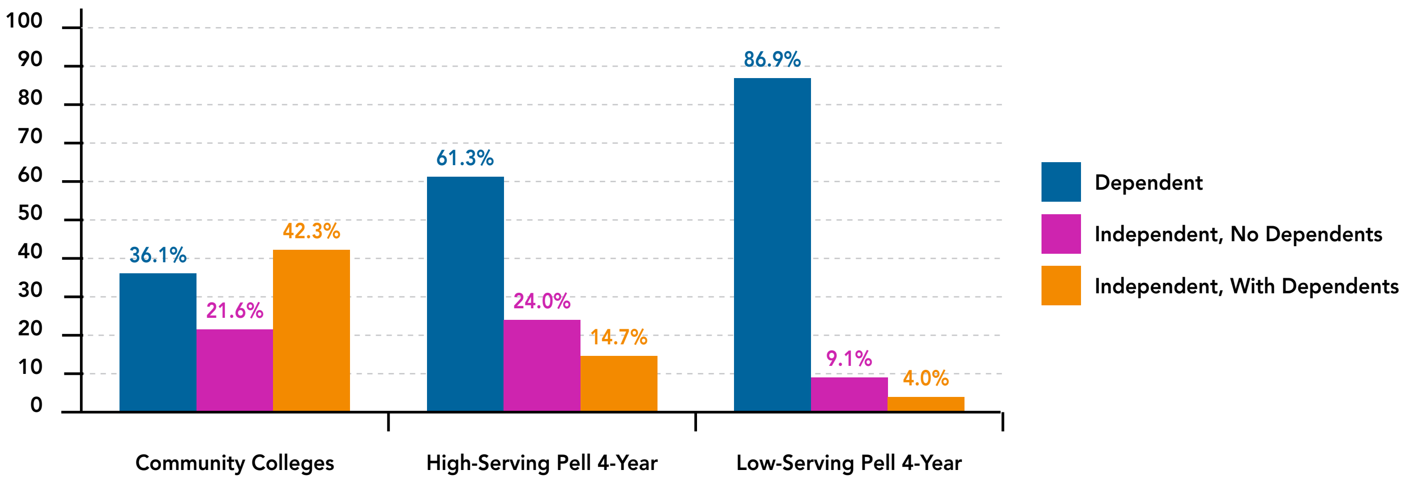
Graph 1. Dependency Status for PPY Sample



Across the nine campuses, dependent students were primarily white (71%), female (53%), had a median parental household income of $86,000, and 40% were Pell Grant eligible. For independent students with no dependents, 64% were white, 51% female, median income was $9,000, and 75% were Pell Grant eligible. Finally, independent students with dependents were white (50%), female (80%), had a median income of $13,000, and 90% Pell Grant eligible (see Appendix B for more sample summary statistics).

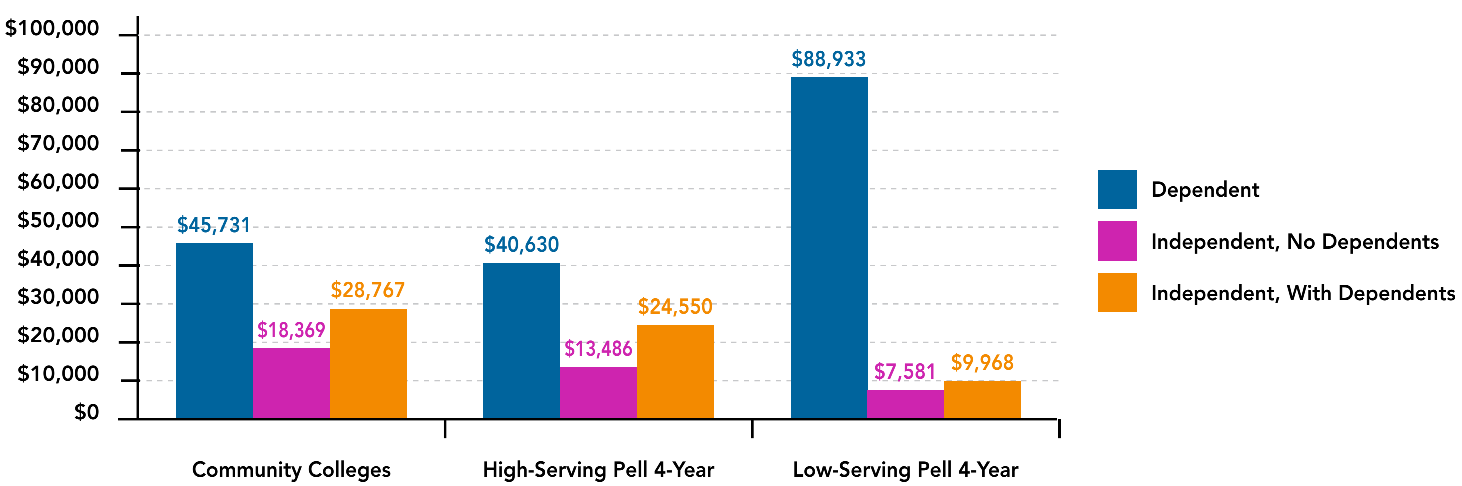
All students in our sample filed the FAFSA in consecutive years between the 2007-08 and 2011-12 award years. Graph 2 shows our sample's dependency status by institutional type. At community colleges, 42% of FAFSA filers were independent students with dependents, while at the four-year institutions, a higher percentage of FAFSA filers were dependent, with 61% at high-serving Pell campuses and 87% at low-serving Pell campuses.

Graph 2. FAFSA Filing Status by Institutitonal Type



Graph 3 shows the median adjusted gross incomes (AGI) for the three institutional types. Among dependent students, the median AGI at low-serving Pell four-year institutions was $40,000 more than dependents at community colleges and high-serving Pell four-year institutions. Median AGI for independents with dependents was the lowest at low-serving Pell four-year, and the majority of students were below the income level required to qualify for an automatic zero EFC (between $20,000 and $31,000 over this five-year period of analysis)[4].

Graph 3. Median Household Income by Institutional Type and Dependency Status



Methods

We began by manually recalculating the student's current EFC using PY for each year data was available from the 2007-08 to 2011-12 award years using each of the individual data elements and the FAFSA formula for three different groups of students based on dependency status: dependent students, independent students without dependents, and independent students with dependents. The first goal was to match the schools' calculated PY EFCs to ensure that we were using the correct EFC elements and the data were accurate. We were able to calculate PY EFCs within $100 of the students' actual EFCs in over 95% of cases, suggesting a high degree of confidence in our calculations[5].

[4] Automatic zero EFC occurs when the adjusted gross income of a student (independent) or his/her parent(s) (dependent) is below a federally set income threshold ($20,000 or less in 2007-08 and 2008-09; $30,000 in 2009-10 and 2010-11; $31,000 in 2011-12; and $23,000 in 2012-13) and if a household member receives means-tested benefits, did not have to file the IRS Form 1040, or was a dislocated worker. Independent students without any dependents do not qualify for an automatic zero EFC, regardless of household income.

[5] Many of the errors are likely due to unobserved PJs or missing data on certain elements. We are continuing to work to investigate those errors.

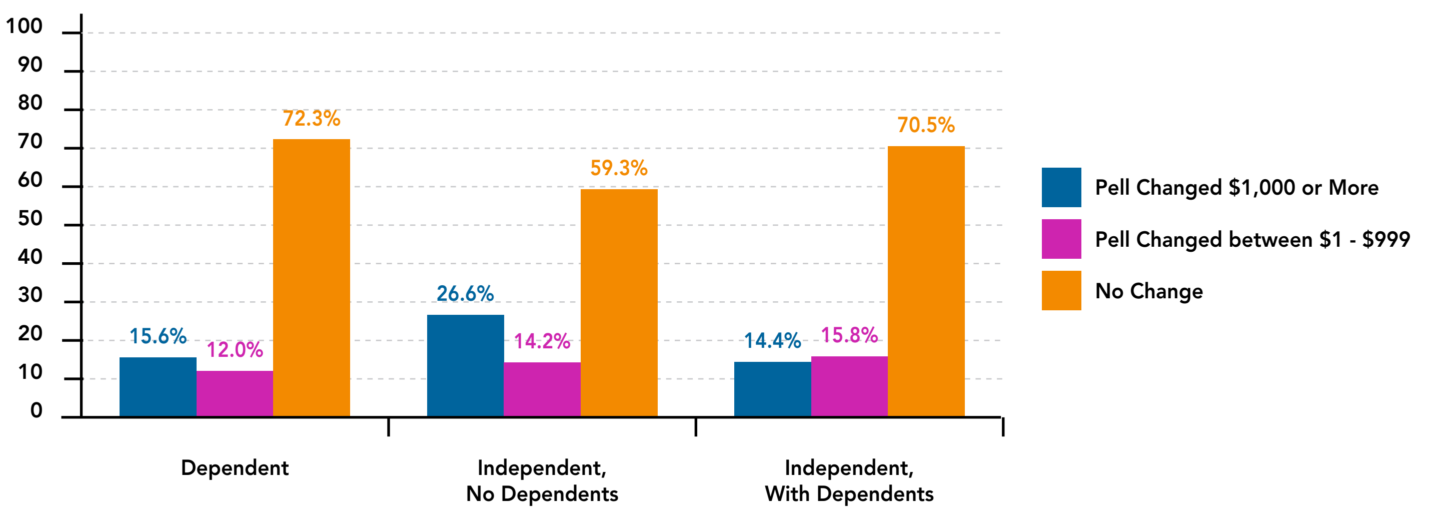
The next step was to calculate the EFC for a given year using PPY data in the PY formula. All elements were used as reported in the PPY, with the exceptions of student and parent ages (used in the asset contribution calculations). Because ages can be carried forward to the PY without any error, we added one year to the PPY age to get the PY age. All other elements, such as household size and the number of family members in college, came from the PPY instead of the PY because the PY values were not perfectly known as of the PPY[6]. The measure of interest was the difference between the calculated EFC using PY income data and the calculated EFC using PPY data. We used the calculated EFC using PY data in lieu of the school's actual EFC to reduce any bias resulting from using the actual EFC for PY and the calculated for PPY. These EFCs from the PY and PPY were then converted to the Pell Grant award using the U.S. Department of Education's conversion guidelines (also known as Pell Schedules) for full-time students. Although enrollment intensity data are not available at all institutions, the assumption that all students are attending full-time will result in larger changes to Pell Grants than would actually occur for part-time students.

Results

By recalculating students' EFCs using both PY and PPY, we focused on how the Pell Grant award would change from PY to PPY.

Finding 1: The percentage of students affected by a change to PPY varies by dependency status. Overall, most students do not see a change in their Pell awards with a switch to PPY: 72% of dependent students, 71% of independents with dependents, and 59% of independents without dependents did not see a Pell Grant award change (Graph 4). However, the point of this study is to examine the potential change that may occur with a switch to PPY. The group least affected by a change to PPY would be independent students with dependents; just 14% of our sample saw a Pell award change of $1,000 or more compared to the other groups that saw higher percentages of change. Independent students with dependents disproportionately have more EFCs of zero and tend to have consistently low incomes over time. Meanwhile, independent students without dependents tend to see larger changes in their EFCs (and thus their Pell award) and are more likely to see a smaller Pell using PPY data. This is likely due to the reported income in the PPY being from a year in which some people worked full-time and were not enrolled in school, while all students were enrolled in the PY year. Dependent students are affected at rates in between the two groups of independent students.

Graph 4. Change in Pell Award by Dependency Status



[6] As an illustration, consider the case of a high school senior in the fall of 2013 who wants to enroll in college in fall 2014 under PPY (using 2012 tax data). The student's family structure may change later in fall 2013, resulting in a change before the PY data would become available. As a result, we use PPY data to make a more accurate comparison with what would result if the policy were enacted.

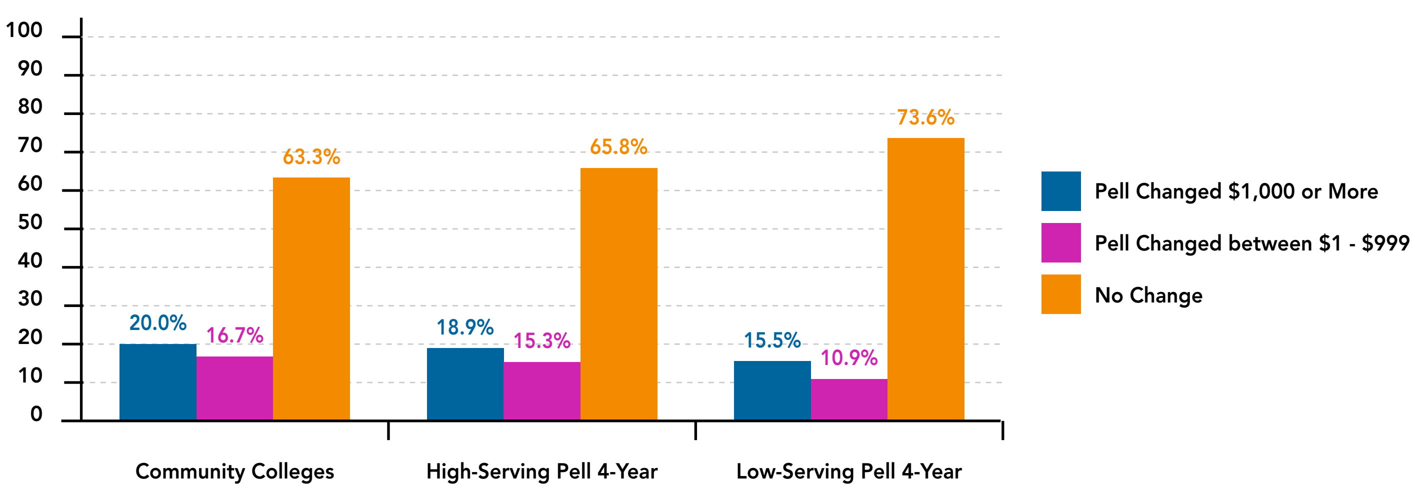
Finding 2: The percentage of students whose Pell Grant awards would be affected varies considerably by institution. Only one in five students at Virginia Tech, a low-Pell serving institution and a campus with the most students from high-income backgrounds, would see their Pell award change at all by a shift to PPY. But up to half of all students at Florida International University (FIU), a high-Pell serving institution, would see a change in their Pell award (Table 2). At FIU, approximately one in four students would see a change of greater than $500 in their Pell award, a higher percentage than what Dynarski and Wiederspan (2012) found.

Analyzed by institutional type, 74% at low-serving Pell four-year, 66% at high-serving Pell four-year, and 63% at community colleges did not see a change in Pell awards (Graph 5). Among students that saw a Pell award change of $1,000 or more, low-serving Pell four-year institutions saw the least change across the institutional types. There is a higher rate of Pell recipients at community colleges and high-serving Pell four-years, which could drive up the rate of students whose Pell awards could change. Also, there are more zero-EFC students at these same schools, whose awards often do not change. This makes it slightly difficult for us to distill the true effects of PPY by institutional type.

Table 2. Change in Pell Award by Campus

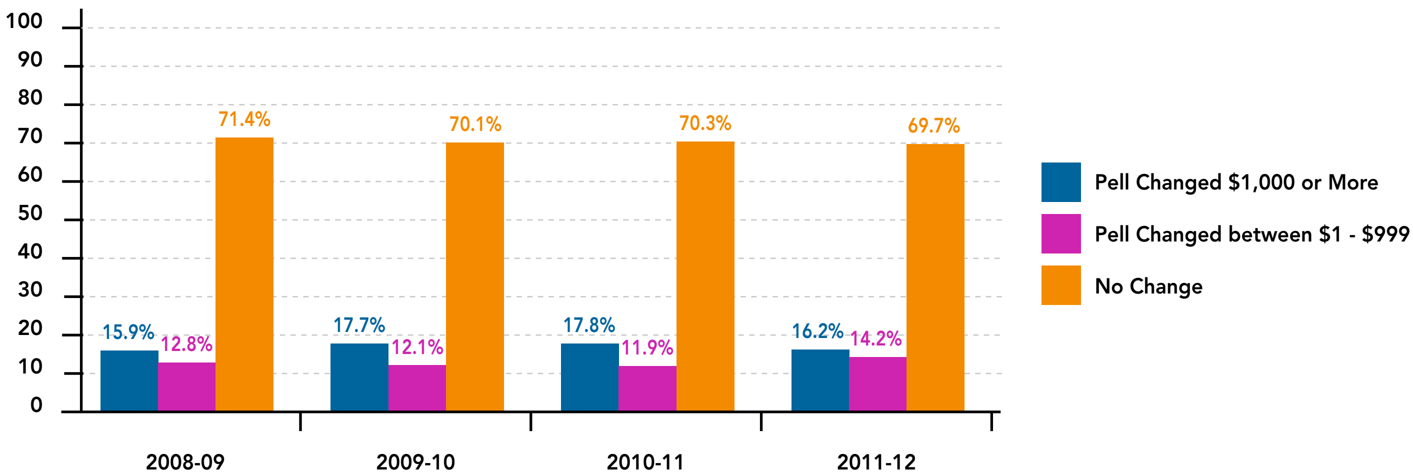
	Pell Changed $1,000 or more	Pell Changed between $1 - $999	No Change
Community Colleges			
Anne Arundel Community College	19.7%	16.6%	63.7%
Barton County Community College	21.6%	17.6%	60.8%
High-Serving Pell 4-year			
Florida International University	26.4%	20.4%	53.0%
Wayne State University	17.7%	14.5%	67.7%
Low-Serving Pell 4-year			
Le Moyne College	15.3%	13.2%	71.5%
Michigan State University	11.6%	9.3%	79.0%
Oregon State University	22.2%	15.5%	62.2%
Pacific Lutheran University	15.6%	10.7%	73.6%
Virginia Polytechnic Institute and State University	12.3%	8.0%	79.6%

Graph 5. Change in Pell Award by Institutional Type



Finding 3: About 16-18% of students would see major changes in their Pell Grant awards (more than $1,000 in either direction). According to Graph 6, less than 18% of students would see a change in Pell awards under a PPY system. While a PPY system that could work for all students would be ideal, this study demonstrates that some 18% of undergraduate students would be affected with a switch to PPY. As this could potentially affect about 3 million students, there are implications for financial aid offices and policymakers alike. A shift to PPY would likely result in a much higher rate of PJ requests among students whose financial circumstances were to change substantially between the PPY and PY. This could result in higher Pell Grant program costs, as some students would get financial aid based on their lowest year of family income during a two-year period.

Graph 6. Change in Pell Award Year



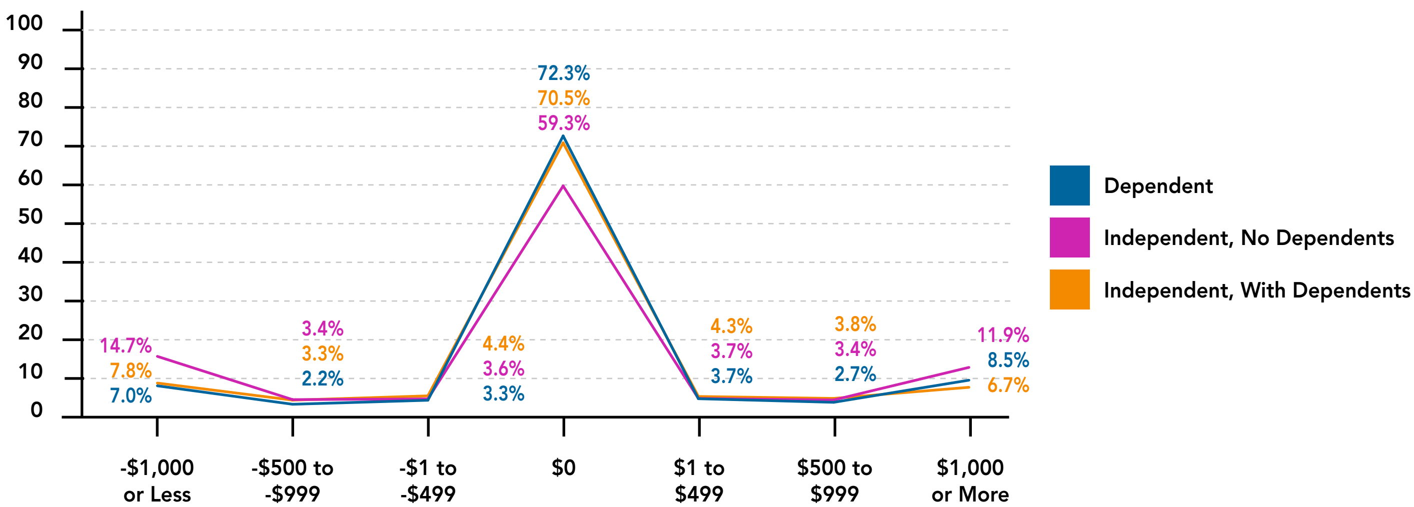
As Table 3 shows, some students would see substantially smaller Pell Grants under a PPY system compared to PY. About one in ten dependent students and independent students with their own dependents would receive a Pell Grant of at least $500 less in PPY compared to PY; nearly one in five independent students without dependents would see a loss of this magnitude. (A similar percentage would see their Pell awards increase by $500 or more.) If students were to appeal their PPY aid award due to changes in their financial circumstances, this could increase the workload on financial aid offices by resulting in more PJs. However, at the 2013 NASFAA National Conference, some aid professionals stated that because students could file their FAFSAs earlier, they would be willing to take on the extra PJs because the work would be spread out over a longer period of time. This could increase Pell program costs by as much as five percent, something that policymakers should consider in future policy discussions.

Table 3. Pell Grant Award Change Under PPY System by Dependency Status

Pell change under PPY	Dependent	Independent, no dependents	Independent, with dependents
Increase $1,000+	8.5%	11.9%	6.7%
Increase $500-$999	2.7%	3.3%	3.8%
No change	72.3%	59.3%	70.5%
Decrease $500-$999	2.3%	3.4%	3.3%
Decrease $1,000+	7.1%	14.7%	7.8%
Total Number of Student in Sample	54,711	10,549	8,181

Finding 4: A shift to PPY seems to work best for students from the lowest-income families, many of whom are independent students with dependents. Table 3 is expressed in a graph (Graph 7) to demonstrate the direction of Pell award changes. In addition to focusing on whether students' Pell Grant awards change by a substantial amount, attention should be paid to whether their Pell eligibility status changed as a result of a shift to PPY due to Pell eligibility being used as the eligibility criterion for other state and federal financial aid programs. Because independent students with dependents tend to have few financial resources (two-thirds have an EFC of zero), a large change in income is generally needed for them to lose Pell eligibility. By the 2011-12 award year, fewer than five percent of these students had a change in their Pell eligibility based on a shift to PPY, compared to 10% of students without dependents. Thus, if the income levels of the very poor do not radically change over time, as demonstrated by our study, PPY could be a feasible measure to estimate current income and a student's financial strength or ability to pay for college.

Graph 7. Change in Pell Award by Dependency Status



Future Work and Considerations

This analysis considers only one way to advance the timeline for financial aid notification, and does so for a select group of students who remain continuously enrolled and file the FAFSA each year. Future work should explore the possibility of using a form of PPY for students with nonconsecutive enrollment and/or FAFSA filing patterns. Another possibility worthy of exploration is advancing the aid notification timeline by an additional year (PPPY), which has the potential to provide similar aid offers to PY for students from the lowest-income families. This will build on previous work, which suggests a relatively low degree of family income mobility for students whose families were eligible for federal means-tested benefits in eighth grade (Kelchen & Goldrick-Rab, 2013).

Another future step will be to consider ways to average income over time to get a better measure of a family's true ability to pay for college. The large amount of student-level data over a period of up to five years makes it possible to investigate whether averaging student and family income over two or more years will affect students' aid packages, particularly those of independent students. For example, we could average PY and PPY financial data and compare the resulting Pell Grant eligibility to that of both PY and PPY.

The exact details of PPY also deserve future study. For example, we may allow students to file under PPY until February or March of the year in which they plan to attend college. But for students who decide to attend college much closer to the point of attendance, their PY income and asset data would already be available. Researchers, practitioners and policy makers should carefully consider whether these students should continue under PY or also use PPY.

Conclusion

This study investigated the implications of using PPY income data to estimate the changes to students' Pell Grant awards compared to the current (PY) system. As many have argued in the past, if PPY is a similar proxy of financial strength as the currently used PY, then PPY could be a feasible income measure when filing a FAFSA. A PPY system could revolutionize the way we ask students to submit their FAFSA each year. While students only have a few months to gather their PY information for their FAFSA, under PPY students would have their income tax information a year or more in advance. Obtaining the PPY information would be made easier with the IRS Data Retrieval Tool. Early submission means early award notification. Additionally, many foundations and external scholarship programs use the FAFSA (or a tool that mimics the FAFSA, such as the *College Costs Estimator*), but are hard pressed to provide award announcements by May. It also means there would be more time for financial aid administrators to conduct the necessary verifications or PJs.

Using data for over 70,000 students during a five-year period, we found PPY worked the best for the neediest students: very low-income students, many of whom are independent students with dependents. Importantly, this study analyzed data before, during, and after the 2008 recession. We found that these students' EFCs—and Pell awards—did not vary much over time. However, this study shows that some students would not experience the same outcomes as these neediest students. Namely, dependent students who are on the cusp of receiving a Pell Grant (i.e., those who received the smallest Pell awards and those whose EFCs placed them just outside of Pell eligibility) and those who are independent students without dependents could see their Pell Grant reduced or eliminated under a PPY system. However, these students make up a smaller share of Pell recipients when compared to the neediest, poorest students and would still have opportunity to go through the PJ process. Nearly three-quarters of Pell Grant recipients had a family income of $30,000 or less in award year 2011-12 (U.S. Department of Education, 2013). Like PY, PPY would still target the neediest students.

This study's findings suggest that PPY should be strongly considered for all the positive benefits it could bring to the poorest students and students with little change in EFCs, which includes a large group of middle-income students. The practical and logical question is: should we continue to make these students use PY and suffer the associated time constraints when PPY could be a just as good and accurate a proxy of current income? PPY could greatly streamline and simplify the FAFSA process for these students, thus, offering more time to plan and prepare for college costs. As we look toward the next reauthorization of the Higher Education Act, we encourage Congress to consider the PPY recommendations put forward by NASFAA's Reauthorization Task Force.

NASFAA's Policy Recommendations

There is general agreement within the financial aid community that use of PPY data would give all students and parents financial aid information earlier in the college application process and increase usability of the DRT. What was less clear, prior to this study, is how accurately a PPY system would assess the short-term financial strength of students. As is common in policy research, the results indicate that certain types of students would see fewer changes in their financial aid awards under PPY, while others would see more. Exploring new ideas for assessing financial aid eligibility means we must carefully weigh all pros, cons, and tradeoffs. We must take care not to dismiss ideas because they present challenges for some, even though they might be better for the majority.

A clear result from the study is that PPY worked best for the neediest students: very low-income students, particularly dependent students and independent students with dependents, who saw very little variation in the EFC using PPY versus PY data. However, the study found that dependent students who are on the cusp of receiving a Pell Grant, or those who are independent without dependents, would not fare as well under a PPY system in terms of EFC variation. While the potential adverse effect of PPY on this group is noteworthy and deserves future research, the benefit to the neediest students of moving to PPY—in the name of simplification and early notification—seems a worthy tradeoff. Importantly, the PJ process would be readily available for those students who experience a significant change in income.

In that spirit, NASFAA puts forth the following policy implications related to the use of PPY data:

1. **The Department of Education should implement the use of PPY.** The Higher Education Opportunity Act (HEOA) provides the Secretary of Education with authority to use PPY with the purpose of helping to simplify the FAFSA process. The Department of Education (ED) should use this authority and fully implement a PPY system. The benefits of moving to a PPY system outweigh some of the potential negative consequences. Importantly, schools would retain PJ authority to address individual circumstances. In addition, under PPY, financial aid administrators would have more time to exercise PJ because the application process could begin much earlier than under the current system.

   The benefits of PPY are many. First, the use of PPY data would greatly expand the availability of the IRS DRT, which both streamlines the application process for students and enhances verification efforts, ensuring that scarce federal student aid dollars are going to the right students. Second, while a shift to PPY may increase the amount of PJs a school has to conduct, there is an offset in that it will also provide additional time for both the school and student to complete the verification process. Third, the earlier availability of income for need analysis allows earlier notification to, and planning by, students and their families. Fourth, the use of PPY data facilitates a better alignment of the aid application process and the admissions application process for new students. Finally, it offers more time for students to evaluate the awards from institutions to make an informed decision about net costs for attendance at the respective institutions. This recommendation mirrors and builds on a recommendation put forth by the NASFAA Task Force on Reauthorization to implement PPY.

2. **The Department of Education should explore ways to mitigate potentially negative effects of PPY.** ED, in consultation with the financial aid community, should give careful and specific consideration to the identified potential negative consequences that could result from the implementation to PPY and develop solutions for mitigating these outcomes. This primarily refers to the possibility that by using PPY some students may end up submitting a financial aid application that does not reflect their most current financial circumstances. As they do now, students in this situation would have the opportunity to seek adjustments to their income data through the PJ process.

   However, ED or colleges could identify certain groups of students (such as independents without dependents who are on the cusp of qualifying for federal grants or subsidies) that are more likely to be in this situation and find ways to streamline the process for these students. For example, ED could create a standardized worksheet that would help students more easily prepare for and engage in the PJ process. ED could also consider ways in which institutions could more proactively identify these students, such as providing fields on the FAFSA for students to indicate whether they have had a significant change in income that could change their student aid eligibility.

3. **The IRS Data Retrieval Tool should be expanded to include more taxpayers and more fields from federal tax returns.** Currently, certain groups of taxpayers are unable to use the DRT, including those who filed:

   - An amended tax return;
   - Under the "married filing separately" status; and
   - Under the "head of household" status and indicated they are married.

   Beginning with the 2014-15 processing year, unmarried parents who live together will both be required to include their income information on their child's FAFSA. These parents will be unable to use the DRT because the DRT is not capable of populating FAFSA fields with information from multiple parental tax returns.

   With the benefit of an extra year of tax return processing time as a result of moving to a PPY system, the IRS and ED could develop a system that would compile the relevant tax information and permit these taxpayers to use the DRT.

   Related, the limited time frame currently in place between tax filing and the retrieval of tax information through DRT restricts the tax return fields that can be imported through DRT. For example, the DRT cannot include values from tax schedules that are carried over to the 1040 because those fields may take longer to be indexed by the IRS. Could we improve our ability to judge the financial strength of a family by including more data elements in the need analysis formula, without requiring any additional effort by the family? More work is needed to understand what information could be taken from the tax return if there was a longer period of time to apply using PPY data.

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Appendix A. National Characteristics, 2011

Characteristics	Percent
Race/Ethnicity	
White	61.2%
Black	15.1%
Hispanic	14.3%
Asian	6.0%
Pacific Islander	0.3%
American Indian/Alaska Native	0.9%
Two or more races	2.1%
Gender	
Male	42.6%
Female	57.4%
Pell Grant	41.3%
6-Year Graduation Rates	58.8%

Sources:

U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), Fall Enrollment Survey and Graduation Rates Survey. Digest Tables 263 and 376 (tables prepared November 2012).

2011-12 National Postsecondary Student Aid Study (NPSAS:12): Student Financial Aid Estimates for 2011-12. (August 2013).

Appendix B. Summary Statistics of Students with PPY Data

Panel 1: Dependent Students

	PY Year					
Characteristic (from PPY year)	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**Total**	**Excluded**
Gender: Female	53.0%	53.0%	53.0%	52.1%	53.1%	
Race/Ethnicity						
White	72.9%	69.3%	67.5%	67.2%	70.7%	
Black	11.5%	13.4%	13.8%	12.5%	12.7%	
Hispanic	5.9%	6.7%	6.9%	7.4%	5.7%	
Native American	0.7%	0.7%	0.6%	0.6%	0.6%	
Asian	7.8%	8.7%	9.7%	10.0%	8.7%	
Parent(s) Attended College	70.5%	68.3%	70.8%	72.3%		
Pell-eligible	32.0%	35.5%	41.5%	45.9%		
Zero EFC	12.8%	15.9%	21.6%	21.7%		
Parent Income	$83,166	$83,690	$81,889	$78,621		
Student Income	$3,375	$3,778	$3,654	$3,114		
EFC	$14,087	$14,271	$13,271	$12,390		
Sample Size	26,614	22,514	22,474	21,525	54,711	53,457

Panel 2: Independent Students with no Dependents

	PY Year					
Characteristic (from PPY year)	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**Total**	**Excluded**
Gender: Female	52.4%	52.4%	49.5%	49.6%	50.9%	
Race/Ethnicity						
White	63.6%	61.6%	62.4%	59.4%	63.9%	
Black	23.1%	24.9%	23.5%	21.6%	22.0%	
Hispanic	7.0%	7.3%	7.1%	11.2%	6.9%	
Native American	1.1%	1.1%	1.1%	0.8%	1.1%	
Asian	4.2%	5.6%	4.6%	4.8%	4.7%	
Parent(s) Attended College	53.4%	52.7%	53.1%	54.4%		
Pell-eligible	65.3%	64.8%	73.2%	79.9%		
Zero EFC	35.2%	35.4%	46.2%	54.0%		
Student Income	$16,866	$17,615	$16,427	$14,044		
EFC	$4,050	$4,334	$3,752	$3,006		
Sample Size	3,835	3,657	3,902	4,224	10,549	19,322

Panel 3: Independent Students with Dependents

Characteristic (from PPY year)	PY Year 2008-09	2009-10	2010-11	2011-12	Total	Excluded
Gender: Female	82.3%	80.3%	79.6%	79.9%	79.5%	
Race/ethnicity						
White	46.3%	46.3%	48.9%	51.3%	50.2%	
Black	42.8%	42.2%	38.7%	34.6%	38.0%	
Hispanic	6.4%	7.2%	7.2%	8.8%	6.7%	
Native American	1.5%	1.3%	1.3%	1.1%	1.3%	
Asian	2.2%	1.9%	2.6%	2.4%	2.6%	
Parent(s) Attended College	46.9%	46.9%	45.7%	45.2%		
Pell-eligible	84.5%	83.8%	88.8%	93.4%		
Zero EFC	53.9%	54.2%	67.0%	75.4%		
Student Income	$30,454	$35,391	$29,444	$26,949		
EFC	$2,240	$2,282	$1,788	$1,195		
Sample Size	2,804	2,806	3,312	3,749	8,181	13,722

The National Association of Student Financial Aid Administrators (NASFAA) supports the training, diversity, and professional development of financial aid administrators; advocates for public policies and programs that increase student access to and success in postsecondary education; and serves as a forum for communication and collaboration on student financial aid issues.

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