BILL & MELINDA GATES foundation

BETTER FOR STUDENTS:

Simplifying the Federal Financial Aid Process

2015

Table of Contents

Executive Summary

The nation needs more people earning certificates and degrees with labor market value to remain economically competitive. By 2025, two-thirds of all jobs in the U.S. will require education beyond high school. At the current rate the nation is producing college graduates, there will be an estimated shortfall of 11 million workers with postsecondary credentials to fill those jobs. Meeting the nation's economic needs will require better outcomes for all students, especially those most at risk of not making it to or through college: low-income students and students who are first in their family to attend college.

These students face a number of hurdles on their way to a credential, including the process of applying for federal financial aid. Today's process is complex, redundant, and does not allow much time for students and their families to complete their applications and make important decisions. This leads many students—as many as 2 million students a year—to avoid or abandon their aid applications and countless others to entirely give up on their shot at college.

Fortunately, there are pragmatic steps that can be taken to make the aid application process simpler, more transparent, and better timed for students and their families. By removing seldom answered questions, using existing tax data, and matching information required to the complexity of students' financial situations, more students will get the aid they need. That will result in more of the graduates the economy needs.

The Problem

The process of applying for federal financial aid presents three challenges for students and their families:

It is complex. The Free Application for Federal Student Aid (FAFSA) currently contains more than 100 questions, nearly a third of which are answered by less than 1 percent of applicants. The FAFSA also uses terms such as "emancipated minor" that are unfamiliar to many applicants. Additionally, the information produced by the process focuses on what the student is expected to pay rather than the amount of aid they will receive, which is confusing to many.

It is redundant. Students must assemble and send the same information twice—once to the federal government via the FAFSA and then, in many cases, again to the institution(s) they want to attend. Additionally, students are being asked to provide tax information in the FAFSA that they have already provided to the IRS.

It is poorly timed. Students and their families now must provide tax information that is not available until January (or even February) of the year they will attend college. This leaves little time to complete aid applications and then to weigh options once aid decisions are made.

These challenges hit low-income and first-generation students especially hard. According to a recent analysis, roughly 2 million students eligible for Pell Grants do not file a FAFSA, and more than half of those would be eligible for the maximum grant. Getting even a portion of these students through the aid application process and into college would represent a significant step toward increasing postsecondary access and success and meeting workforce needs.

The Solution

The Bill & Melinda Gates Foundation proposes three actions to address these challenges and make the aid application process more straightforward for students and their families:

1. *Simplify the FAFSA by sorting students according to the complexity of their financial situations and eliminating unnecessary application questions.* Three-quarters of all aid applicants do not have situations that would require them to file tax schedule documents (e.g., assets beyond home or retirement account, small business); these students should face the minimum number of questions. For the remaining quarter of applicants, more information will be needed, but the number of questions can still be reduced.

2. *Streamline the FAFSA by using tax data already provided by students to the IRS.* This will reduce the burden for students and their families and improve the accuracy of the information provided, which in turn will reduce the need for institution-level verification that ends up being redundant.

3. *Stretch out the application window by allowing students and families to use prior-prior year tax data (tax data from a full year earlier) rather than prior year data.* This will allow students to apply for aid months earlier than they can now, giving them needed time to weigh their options and make informed decisions.

The Payoff

Simplifying the aid application process is just one step toward increasing access and success for low-income and first-generation students. But it is an essential first step, one that will:

- Increase the number of students seeking credentials.

- Improve the odds of students completing certificate and degree programs. Research indicates that an additional $1,000 in grant aid per student increases persistence rates by 4 percentage points. (NOTE: The persistence rate is the percentage of students who begin a postsecondary program and return to a postsecondary institution the following year.)

- Give students and their families more time to make decisions about where and how to attend college, which affects the likelihood of completing a certificate or degree.

- Free up time for counselors and aid administrators to advise students instead of filling out forms and re-verifying tax information.

Overview

The Bill & Melinda Gates Foundation's Postsecondary Success strategy envisions a U.S. higher education system that acts as an engine of social mobility and economic development. To realize that vision, the foundation seeks to improve the higher education system's efficiency—the rate and cost-effectiveness at which it turns credential seekers into credential holders—so the system produces more career-relevant credentials (11 million more by 2025), raising the postsecondary attainment level of the adult population and closing the attainment gap between rich and poor.

The continued availability of federal financial aid is critical to the strategy's success. Student aid has helped to fuel the dramatic increase in the proportion of low-income students enrolling in college since World War II, which in turn has helped to boost the nation's educational attainment rate. According to the U.S. Department of Education, the share of Americans with a bachelor's degree or higher has more than quadrupled since 1950.

Despite these successes, more must be done to ensure that aid reaches those who most need it if the nation is to meet its credentialing needs. Today, low-income students are still 30 percentage points less likely to attend college than their higher income counterparts. Eight out of 10 high-income high school seniors will enroll in college, while only half of low-income seniors enroll.[1] The college completion gap is even wider; students from high-income families are six times more likely than those from low-income families to complete a bachelor's degree by age 25.[2] While there are a number of complex issues that lead to these disparities, greater accessibility of available financial assistance is an issue that can be addressed in the near term with significant results.

Accordingly, the foundation recommends three actions for redesigning the financial aid application process:

1. Sort students according to the complexity of their financial situations and eliminate unnecessary application questions.
2. Streamline the application process by using tax data already provided by students to the IRS.
3. Provide more time for students to apply by using prior-prior year tax data rather than prior year data.

The foundation believes that implementing these recommendations, as detailed below, will help up to 2 million more low-income students access the financial support they need to enroll in higher education and improve their chance of completing a college credential. Of those high school students who file the Free Application for Federal Student Aid (FAFSA), 90 percent enroll in college the following academic year, while only 55 percent of non-FAFSA filers enroll.[3]

The foundation's ultimate goal for the financial aid application process is to eliminate the application, instead assessing student eligibility based on existing income information provided through tax filing, with students automatically notified about likely aid eligibility. Real-time information would be provided to students about the aid they would receive, and commitments of aid would come early in the senior year of high school so that parents and students have time to compare aid offers and make decisions. The foundation's proposed approach takes significant and pragmatic steps toward that goal.

The Case for Simplification

The financial aid application process is complex, which can obscure the fact that aid is available. Many of the poorest students see the process as, "the long ordeal of scaling access barriers: poor information, unfair expected contributions, impenetrable forms, inflexible processes, burdensome verification, lack of coordination among funding sources, and insufficient total aid."[4] This results in a "default option for low-income students of not going to college."[5] For all students, lack of information about available aid likely impacts not only if they go, but where they choose to go.

Analysis indicates that of the approximately 2 million Pell Grant eligible students who did not file a FAFSA, 1.3 million would have received a full grant in the 2011-12 academic year. At the current six-year graduation rate of 46 percent for Pell Grant recipients, this would have resulted in nearly 1 million additional graduates.[6] Among students who did not apply and would have qualified for a Pell Grant, reasons related to process and information dominated for nearly 90 percent of all non-applicants.[7] Simplification can address many of these barriers to access. Greater access to aid will result in more credential seekers, conservatively producing an increase of 5 to 7 percentage points in the number of students pursuing a degree or credential.[8]

Calls for FAFSA simplification are growing across the higher education community. In 2011, the foundation launched the Reimagining Aid Design and Delivery (RADD) initiative, and a majority of RADD analyses identified simplifying the FAFSA and/or the financial aid application process as a key initial step toward broader aid reform. Simplification has also made its way onto the policy agenda, with bipartisan congressional support for a two-question form that would dramatically reduce the complexity of the process. The Obama Administration has also weighed in, with the president indicating early in 2015 that simplifying the FAFSA is something that should be addressed within the year.

The Current State: Complexity without a Payoff

FAFSA simplification is not a new issue. Some argue that the FAFSA has already been simplified through the implementation of skip-logic that allows some filers to skip questions that are not relevant to them, and through the shortening of the form for students whose household income falls under a specific threshold. Even with a shortened FAFSA for these students, the average first-time aid applicant still answers an average of 61 questions.[9]

At the same time, questions have been added to the FAFSA that have no impact on Expected Family Contribution (EFC). In 2005, the Advisory Committee on Student Financial Assistance reported that, "all students today are required to answer the approximately 20 non-financial questions on the FAFSA required by various state aid agencies, regardless of their own state's data requirements."[10] While skip-logic has improved things for many students, every FAFSA filer is also burdened with questions that may or may not be relevant to them. Many of these questions were added due to requests from special interest groups and apply to only a small number of filers. There are now approximately 30 questions on the FAFSA that are answered by **less than 1 percent** of applicants; these are detailed in Appendix A.[11] Researchers have argued that the marginal gain in knowledge about applicants from having an elaborate form is far more than offset by the adverse impact that the complexity of the form has on students' willingness to apply.[12] A list of non-IRS data elements on the current FAFSA appears in Appendix B.

Another factor adding complexity for many filers is that the FAFSA contains terms that are unfamiliar to many, such as "emancipated minor" and "unaccompanied youth." These terms, which are widely used and understood by aid administrators, can be confusing and even intimidating for first-time applicants.[13]

Still another layer of complexity arises in the form of information required about assets. Assets currently have very little effect on Pell Grant amounts because the current federal aid formula excludes assets held by the typical family, such as home equity and retirement savings. Low-income families have few other assets. A 2014 study found that for 90 percent of aid applicants, ignoring assets has no effect on the Pell Grant amount, and for 98 percent, it changes less than $500.[14] In fact, less than 4 percent of dependent students' aid packages are impacted by family assets.[15]

A New Approach: Balancing Simplicity and Accuracy

1. **Simplify the FAFSA by sorting students according to the complexity of their financial situations and eliminating unnecessary questions.**

We seek to produce an application process that is simpler but still yields needed information for aid administrators. This can be achieved by sorting students according to the complexity of their financial situations and asking only questions that pertain to their situation. The primary sorting mechanism would be whether or not an applicant files tax schedule documents (e.g., farm, small business, and capital gains) in addition to the regular tax forms.

<u>For applicants who do not file tax schedules (approximately 75% of all applicants)</u>, the information required would focus on three items: adjusted gross income (AGI), family size, and number of family members in college. For these applicants, the adjusted gross income (AGI) is a valid measure of family financial capability because by and large, they do not have significant assets outside of the home equity and 401K contributions that are already excluded from the federal formula. As such, asset questions are unnecessary and would be removed.

<u>For applicants who file tax schedules</u>, some asset questions would be required in addition to AGI, family size and number in college. To assist these applicants, we propose that the IRS Data Retrieval Tool (DRT) be expanded to provide tax schedule information. For those few families with more complicated finances or unusual circumstances, aid administrators can still exercise professional judgment on a case-by-case basis. But even this group would face a slimmed down FAFSA.

This approach is grounded in recent field research. A study by Dynarski and Wiederspan used many fewer data elements than are currently available on the FAFSA to calculate Pell Grant eligibility. Specifically, they used data available on the IRS 1040: AGI, taxes paid, state of residence, family size, parents' and independent students' marital status, type of income tax form filed, and number of family members in college. Using only these data, they were able to explain 90 percent of the variation in the Pell Grant. All of the other variables on the current FAFSA explained only 10 percent of the variation in aid.[16] Accordingly, the foundation believes that the financial data recommended here will provide an adequate measure of financial capability.

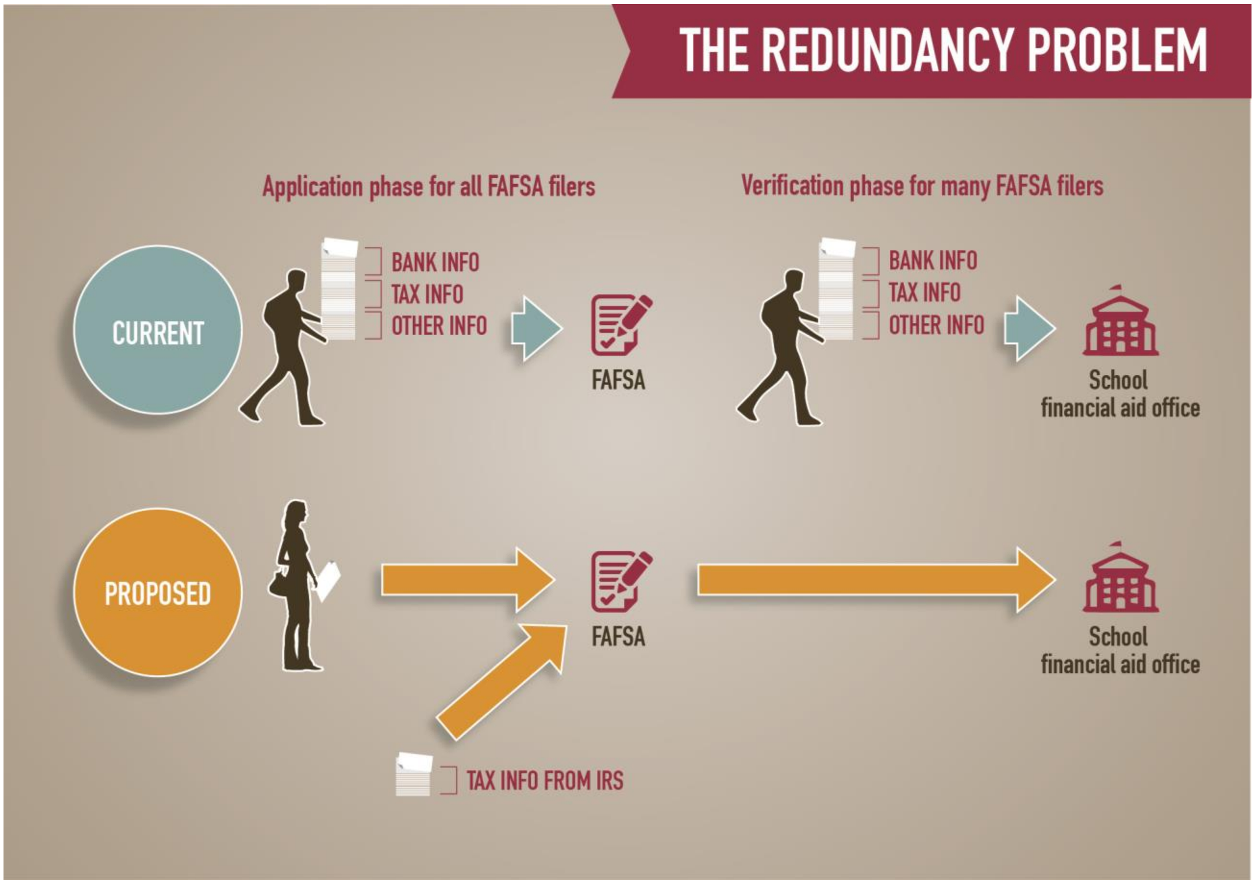
Slimming down the FAFSA is not a new issue. Congress came very close to eliminating asset questions from the FAFSA in 2009 when the House of Representatives passed legislation to that effect, but the provision was dropped from the final version of the Health Care and Education Reconciliation Act of 2010.[17] The issue is once again gaining traction, with some lawmakers calling for a two-question FAFSA. Given increasing evidence and support, the foundation believes the time is right to make significant progress in this area.

2. Streamline the FAFSA by importing tax data already provided by students.

In addition to sorting applicants according to tax filings and eliminating unnecessary questions, greater use of technology can also simplify the application process. While the amount of financial information collected that impacts EFC would not decrease significantly, the way it is collected would change. Instead of having FAFSA filers provide additional assets information in the verification process, this information would be provided through the IRS DRT. Greater use of technology would include three primary actions:

- Importing information indicating the type of tax form filed.
- Importing data from the IRS indicating if additional tax schedules were filed.
- Importing schedule data that will allow financial aid administrators to more accurately measure family financial capacity.

Importing this information would increase accuracy of information and reduce burden for both students and aid administrators. Students and their families would not have to manually re-enter tax information, reducing the amount of time required and the likelihood of mistakes. For institutions, verification burden would decrease because the information would be transferred from tax documents that have already been verified. Currently, many colleges and universities verify information for at least 30 percent of applicants, while some verify information for all applicants, resulting in a verification burden estimated at a cost of $432 million annually in 2005.[18]



Reducing verification burden is important because it will give financial aid administrators and college access professionals more time to work with students to help assess their finances and help them to make key financial decisions. According to one college access counselor, “It takes a huge amount of work to track down the financial documents students need for the FAFSA, and then figure out the answers for all income and assets questions. Our students would be much better off if we had those extra hours to help them apply to schools and prepare for college life.”[19] The 2015 Administrative Burden Survey from the National Association of Student Financial Aid Administrators (NASFAA) confirms this, maintaining that reduced verification burden will benefit financial aid administrators and the students they serve.[20]

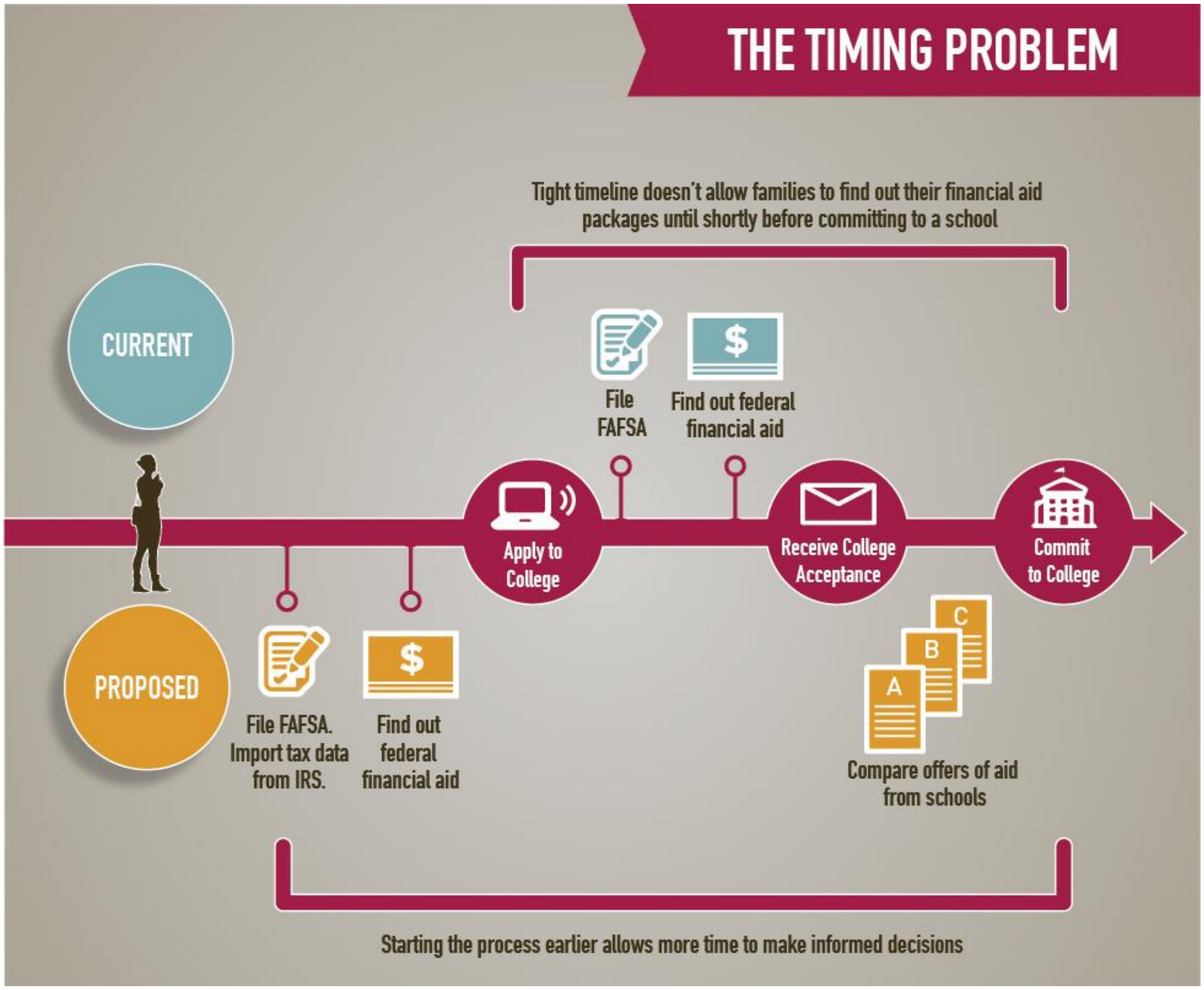
Additionally, a streamlined process will mean fewer returned FAFSAs that are not resubmitted. In the 2010-11 academic year, nearly 750,000 students failed to resubmit submitted FAFSAs that were returned because of insufficient data.[21] If all 750,000 of these students were low-income students who received Pell Grants, as many as 345,000 more students could have achieved credentials if only they had finished the FAFSA. Moreover, those numbers do not include students who start a FAFSA but fail to submit it.

Finally, technology could be harnessed so that a simplified form could be completed on a mobile device. This is important because recent data demonstrate that low-income students can access the internet via mobile device, but often still do not have internet access via a computer.[22] Designing the FAFSA so that it could be completed via mobile device would facilitate greater FAFSA completion by low-income students and should encourage persistence (i.e., re-application in subsequent years).

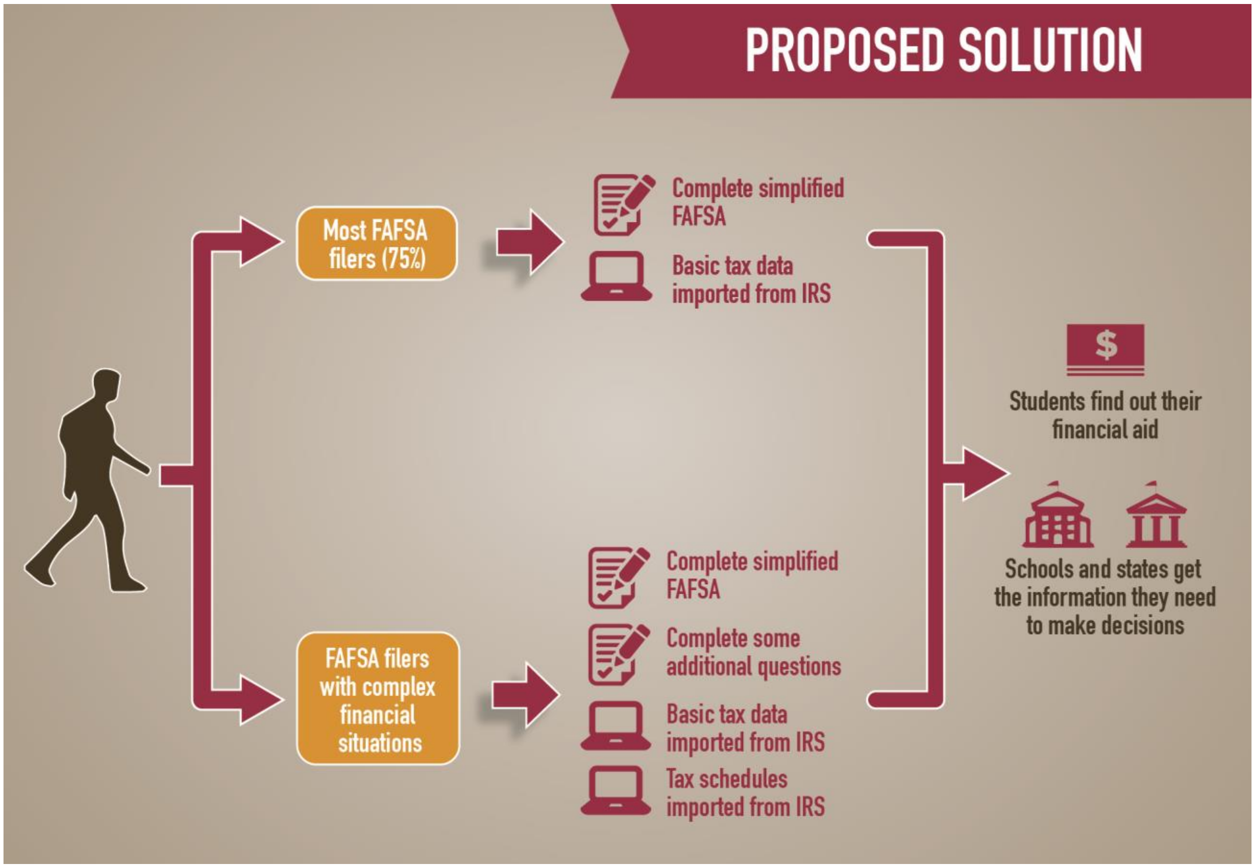
3. Stretch out the application window by allowing students and families to use prior-prior year tax data.

Currently, aid applicants are required to use prior year tax data to complete the FAFSA, which means waiting until late January or February of the year a student is planning to attend college to compile and submit the information. Given application and enrollment deadlines, this leaves little time for many students and their families to receive information about their aid awards and make decisions about where and how to attend college. A simplified process would instead use prior-prior year data, allowing students to apply for aid and find out how much they are eligible to receive in the fall of their senior year, at the same time that they are applying to colleges and universities. This would allow for the advance prediction of Pell Grant awards and student loans, giving potential students more time to apply for aid, compare and decipher aid award letters, and make key decisions.

A move to prior-prior year data would also allow for much greater use of the IRS DRT. Currently, those who file a FAFSA two to three weeks after they electronically file their taxes are in most cases eligible to use the DRT (for those who file their taxes on paper, the wait to use the DRT can be 8-11 weeks). In 2015, the IRS did not start processing tax returns until January 20, meaning that all filers in January and many in February (two peak FAFSA filing months) were not able to make use of the DRT. According to 2014 filing data, this would impact at least 4 million filers.[23] For all tax filers, a move to prior-prior year data would allow for near-universal eligibility to use the DRT on the first day of the application cycle. Those filers choosing not to use the DRT would be subjected to a data verification process, but the number of filers expected to fall into this category would be small.


THE TIMING PROBLEM
Tight timeline doesn't allow families to find out their financial aid packages until shortly before committing to a school
CURRENT
File FAFSA
Find out federal financial aid
Apply to College
Receive College Acceptance
Commit to College
PROPOSED
File FAFSA. Import tax data from IRS.
Find out federal financial aid
C
B
A
Compare offers of aid from schools
Starting the process earlier allows more time to make informed decisions

A Shorter FAFSA: How It Would Work



FAFSA for Students Who Do Not File Tax Schedules

For the approximately 75 percent of filers who do not file tax schedules, a simplified FAFSA will use the smallest number of possible elements to confirm economic status and ability to finance postsecondary education. Determining aid eligibility in these cases, given that the student or his or her family has filed a 1040 form with no schedules includes the following questions:

Basic information

Q1: Student's full name
Q2: Student's permanent address
Q3: Student's telephone number
Q4: Student's email address
Q5: Student's Social Security number
Q6: Student's date of birth
Q7: Student's race/ethnicity
Q8: Student's citizenship status
Q9: Student's current marital status
Q10: Student's state of legal residence
Q11: Student a legal resident before January 1, 2010?
Q11a. If answer is no to Q11, student will be asked:

Please provide the month and year that you became a legal resident of the state.

Q12: What is the name of the high school where you received or will receive your high school diploma?

Q13: What will your grade level be when you begin the 2015-2016 school year?

Q14: What degree or certificate will you be pursuing when you begin the 2015-2016 school year?

Student dependency status

Q15: Were you born before January 1, 1992? (The answer to this question could be automatically determined using the filer's birthdate listed above).

Q16: Are you a veteran of the United States Armed Forces or are you currently serving active duty in the U.S. Armed Forces for purposes other than training?

Q17: Do you have children or other dependents (other than your spouse) who live with you and who receive more than half of their support from you between July 1, 2015 and June 30, 2016?

If the filer answers "No" to questions Q15 – Q17, the student is a dependent and must answer the following questions:

QD1: Parent 1 full name
QD2: Parent 1 Social Security number
QD3: Parent 1 date of birth
QD4: Parent 2 full name
QD5: Parent 2 Social Security number
QD6: Parent 2 date of birth
QD7: Current marital status of P1 and P2

Using prior-prior year data and the IRS Data Retrieval Tool (DRT), the following information will be imported for all FAFSA filers who also file taxes, (or for their parents if they are dependent students):

IRS1: IRS tax filing status (IRS Form 1040, 1040A, 1040EZ)
IRS2: Household income (adjusted gross income)
IRS3: Additional tax schedules/forms filed?

- For approximately 75 percent of filers, the answer to this question will be NO.
- For approximately 25 percent of filers, the answer to this question will be YES.

IRS4: How much did you earn from working in 2014?

NOTE: IRS 1, 2 and 4 can currently be imported by filers through the IRS DRT.

Family size and number in college

Q18: How many people live in your household (count all those for whom more than half of their support is provided)?
Q19: How many people in your home will be college students this year?
Q20: As of today, have you or your spouse lost your job due to recently being fired or laid off?
Q21: If married, is your spouse enrolled in postsecondary education at least half-time (6 credit hours or more)?
Q22: Are both you and your spouse working?
Q23: Colleges to receive the results of your financial aid application

NOTE: We recommend that information about colleges and universities provided to filers be expanded to include sticker price, net price for students in the filer's income band, and maximum loan eligibility for first-year students.

All filers who file a 1040EZ, 1040A, or 1040 with no schedules or additional forms will file the FAFSA answering only the questions outlined above. At this point, the 75 percent of filers who do not file tax schedules would be informed about Pell Grant eligibility and if cost of attendance is known, loan eligibility could be estimated as well.

FAFSA for Students Who File Tax Schedules

For the approximately 25 percent of FAFSA filers who file a Form 1040 with schedules or additional tax forms, the FAFSA will include additional questions related to assets. If schedules or additional forms are part of the tax return, this "implies that AGI is not necessarily the best indicator of family financial circumstances."[24] Additional information is necessary to accurately measure family financial capacity and determine eligibility for financial aid. To support states and institutions, the IRS DRT would be modified to make additional data from tax schedules available. To simplify the process for students, non-IRS data elements would be eliminated from the formula (e.g., dependent assets in savings, student earnings, etc.), but assets information from tax schedules would be taken into consideration.

The foundation recommends expanding the IRS DRT to include an indication of whether an IRS 1040 tax return was filed that included Schedule A, B, C, D, E, or F and tax forms included such as S corporations (1120S) or partnerships (1065P and K-1). Using tax schedules to trigger asset questions would flag students from families whose complicated financial circumstances could allow them to shelter significant resources behind low or negative AGI levels. Advocates in the field indicate that, "it should be standard practice to use more robust tax data to calculate awards for these students."[25]

Data from the following schedules will be included as part of the tax information that FAFSA filers can import from the IRS using the DRT:

Schedule A: Itemized deductions - medical, charity, taxes & interest

Schedule B: Interest, dividends, and trust income

Schedule C: Profit or loss from a business

Schedule D: Capital gains and losses
Schedule E: Rental properties, estates, and trusts

- *Form 1120S* – S Corporations – easy to receive funds as a loan from the S corporation and not record it as income.
- *Form 1065P* – Business and/or trading income (partnerships, trusts)
- *K-1 Form* – Profits and losses from partnerships

Schedule F: Profit or loss from a farm

NOTE: Even if it is not possible to expand the IRS DRT immediately, this process could still be implemented with financial aid administrators requesting tax schedule information as they currently do as part of their process of awarding aid.

Finally, these filers will answer only two additional asset questions:

Q24: What is the net worth of your (and your spouse's) investments, including real estate? Don't include the home you live in.
Q25: What is the net worth of your (and your spouse's) current businesses and/or investment farms?

These questions, in addition to tax schedule information, should provide financial aid administrators with the information they need to accurately measure family financial capacity and award financial aid. Appendix C details formula calculations under different filing scenarios.

FAFSA for Non Tax Filers

In 2008-09, about 6 percent of dependent students' parents and 13 percent of independent filers did not file taxes. Single filers who made under $10,150, heads of household who made under $13,050, married filing jointly couples who made under $20,300, and widows or widowers who made under $16,350 are not required to file taxes. The foundation recommends that the IRS DRT be expanded to include W-2 and 1099 data currently available on IRS transcripts for non-tax filers. This information could be used to determine an EFC and could be provided to states and institutions for their use in determining aid eligibility as well. At the same time, it may be beneficial for non-filers considering college for themselves or their children to file, as many households that do not currently file could qualify for the EITC or other benefits.

Impact on States and Institutions

States should be able to use the shorter FAFSA to award state aid because specific questions have been included in the FAFSA in an effort to meet the data needs of states. These questions include:

- Length of residency in the state
- Grade level of study
- Degree/program of study being pursued
- Intended institution(s)

States would also have access to additional assets information imported through the IRS DRT that addresses family businesses, rental properties, and income from investments. Most of the elements to calculate an EFC have been left intact and EFC could be calculated and distributed by the federal government similar to the way it is now.

With regard to determining state aid eligibility, nine states currently import data directly from the FAFSA into their state aid forms and this practice would likely continue. Research indicates that other states would see little difference in state aid as a result of a simplified FAFSA. A study of five states (Kentucky, Minnesota, Ohio, Texas and Vermont) found that, "simplifying the FAFSA would lead to small changes in the distribution of federal and state grant awards and that the general integrity of the aid programs would be retained."[26]

Institutions would also have an easier time accessing the information they need to award aid. Currently, financial aid administrators must ask for tax schedule information through the verification process, but an expanded IRS DRT would provide it automatically. These additional data should allow institutions to make finer distinctions in determining family financial capability among FAFSA filers and should result in aid being more accurately targeted to applicants who need it. Finally, due to the reduction of verification stemming from more widespread use of the IRS-DRT, financial aid administrators would have more time to help students assess their financial situations and make informed choices about questions such as borrowing and working while enrolled.

Impact on Students

In addition to the positive effects already cited, simplification would allow for earlier and more substantive engagement of aid questions with students, which would help improve their college preparation. A simplified aid application process and formula would allow for credible Pell Grant estimates to be calculated as early as 8th grade. This is critical in helping to underscore the need for students to be prepared for college, which includes taking the right courses. Advanced math, science, and foreign language courses are regularly required for admission to colleges and universities, but many students do not realize that until they apply to institutions in their senior year of high school. Early notification of Pell Grant eligibility would provide students with an incentive to take college preparatory courses because they would know that money is available for college.[27] Behavioral economics has demonstrated repeatedly that humans change their behavior based on incentives built into systems.[28]

Currently, the EFC tells students and their families how much money they will be expected to contribute toward the cost of their education. Senator Lamar Alexander has been quoted as saying that the EFC tells potential students "here's how much money you don't get."[29] A more useful metric for students and families would be to provide them information about the size of the Pell Grant they are eligible to receive. The simplified formula of AGI, family size, and number of students in college could produce the actual grant amount for a student, assuming full-time enrollment for a full academic year. This could be provided in a look-up table such as the following:

Table 1: Possible Pell Grant Look-Up Table

Pell Grant Eligibility: Family of Four with One Child in College*	
AGI	**Pell Grant Award**
$0	$5,000
$31,800	$5,000
$33,920	$4,500
$36,040	$4,000
$38,160	$3,500
$40,280	$3,000
$42,400	$2,500
$44,520	$2,000
$46,640	$1,500
$48,760	$1,000
$50,880	$500
$53,000	$0

** If more than one child is enrolled in college at the same time, the amount that a family will be expected to contribute will decrease and this could cause an increase in Pell Grant amount.*
SOURCE: College Board, 2008[30]

A look-up table would help students and their families be informed years in advance with an estimate of how much Pell Grant money they would be eligible to receive if their income stays roughly the same in future years as in the current year. Pell Grants would continue to be affected by the size of the family and the number of students in college, so an app could be developed that would ask the student for three numbers: AGI, family size, and number of students in college, and then produce the expected amount of the Pell Grant if the student attended full-time. Additionally, if the cost of attending a particular institution could be provided, then student loan eligibility (limited only by the cost of attendance, and annual and aggregate loan limits) could be estimated as well.

Conclusion

Simplifying the FAFSA and the financial aid application process is critical because their current complexity represents a barrier for many students who need financial aid to go to college. This effort includes sorting students according to the complexity of their financial situation and eliminating unnecessary questions, streamlining the process by using existing information and technology, and changing the timing of the financial aid process through the use of prior-prior year data.

For the vast majority of FAFSA filers, the form would be much shorter and the process much easier. The system would also be more transparent and provide earlier confirmation of eligibility for aid dollars to help pay for postsecondary education. For aid administrators, counselors, and others providing assistance to students, a more streamlined and automated process would free up time that is currently used to fill out forms (often with duplicated information) to advise and guide students and their families on critical decisions.

The approach recommended here is not perfect and it is not without cost, but it would remove barriers for the vast majority of FAFSA filers, ask far fewer questions, and provide states and institutions the information they need to assess family financial capacity. Simplifying the FAFSA and the financial aid application process is one thing we can and must do to help more students get to college, persist, and complete.

Appendix A: Current FAFSA Questions Answered by Less than One Percent of Applicants

The following questions currently garner a non-zero response for less than 1 percent of FAFSA applicants. Due to skip-logic, not every applicant receives each question, but regardless of how many applicants receive a question, a response rate of less than 1 percent indicates to us that the question could be eliminated from the FAFSA and have minimal impact on 99 percent of filers:

1. Student's business/farm net worth
2. Student's need-based employment
3. Student's combat pay
4. Student's co-op earnings
5. Student's pension payments
6. Student's IRA payments
7. Student's interest income
8. Student's IRA deductions
9. Student's untaxed pensions
10. Student's military/clergy allowances
11. Student's veterans non-education benefits
12. Student's other untaxed income
13. Student's other non-reported money received
14. Student's SSI
15. Student's TANF
16. Parents' SSI
17. Parents' TANF
18. Parents' WIC
19. Parents' child support paid
20. Parents' need-based employment
21. Parents' grant/scholarship aid
22. Parents' combat pay
23. Parents' co-op earnings
24. Parents' IRA payments
25. Parents' interest income
26. Parents' IRA distributions
27. Parents' untaxed pensions
28. Parents' military/clergy allowances
29. Parents' veterans non-education benefits
30. Parents' other untaxed income

Appendix B: Non-IRS Data Elements No Longer Used to Determine EFC

1. **Income of dependent students –** The income of dependent students is currently counted as part of a family's resources and can increase EFC (currently, 50 percent of their income above $6,800 is factored in as part of their family contribution) and reduce the amount of aid they receive. **Rationale for Elimination:** This effectively penalizes students for working to help pay for college.

2. **Assets of dependent students –** Assets of dependent students are also counted as family financial resources and can increase the EFC. **Rationale for Elimination:** Less than 1 percent of students applying for federal aid enter a non-zero answer for student's investment net worth.

3. **Taxable earnings from need-based programs such as Federal Work Study and the need-based employment portions of fellowships and assistantships –** If a student reports these items as taxable income, the current methodology removes them, lowering their income and making the student eligible for more aid. **Rationale for Elimination:** Students and families do not gain significantly from this provision (less than 1 percent of student filers enter a non-zero amount). In addition, it can be difficult for filers to determine which part of their fellowships and/or assistantships are "need-based" if they don't realize they will be receiving a Form 1099 from their institution.

4. **Taxable student grant and scholarship aid –** If a student reports these items as taxable income, the current methodology removes them, lowering their income and making the student eligible for more aid. **Rationale for Elimination:** Students and families do not gain significantly from this provision (only 2 percent of student filers and less than 1 percent of parent filers enter a non-zero amount for this question). Also similar to #3 above, it can be difficult for students and their parents to know what grant and scholarship aid is "taxable."

5. **Combat pay or special combat pay –** This provision helps filers because combat pay and special combat pay are removed in calculating a family's EFC. **Rationale for Elimination:** Less than 0.1 percent of student and parent filers enter a non-zero amount for this question.

6. **Earnings from work under a cooperative education program offered by a college –** The current methodology removes earnings from work under a cooperative education program from income when calculating an EFC. **Rationale for Elimination:** Less than 0.1 percent of students enter a non-zero response for this question.

7. **Housing, food and other living arrangements paid to members of the military, clergy and others (including cash payments and cash value of benefits) –** The current methodology does not count these benefits as family financial resources in the calculation of an EFC. **Rationale for Elimination:** Less than 0.3 percent of filers enter a non-zero amount for this question.

8. **Cash, savings, and checking accounts –** The balance on the day that the FAFSA is filed is currently counted as a family financial resource and included in EFC calculations. **Rationale for Elimination:** It is logistically very difficult if not impossible to verify these

amounts. Additionally, knowing this information is collected could encourage students and their families not to save for postsecondary education. Finally, the odds are small that a filer has a sizeable sum held in cash or a checking account without also having a sizeable income, which would be indicated elsewhere on the FAFSA and in IRS information.

9. **Untaxed income such as workers' compensation, disability, etc. –** This income is currently counted in the calculation of an EFC. **Rationale for Elimination:** Less than 1 percent of student and parent filers enter a non-zero response for this question.

10. **IRA deductions or contributions to tax deferred pensions and retirement savings plans –** These assets are currently included in the calculation of an EFC. **Rationale for Elimination:** Less than 1 percent of students and 5 percent of parents enter a non-zero response for this question. Additionally, the rollover issue complicates reporting of these questions and elimination of these questions will eliminate that complexity for filers.

11. **Education tax credits (American Opportunity Tax Credit and Lifetime Learning Tax Credit) –** Education Tax Credits are currently counted as part of family financial resources and can impact an EFC. **Rationale for Elimination:** Tax credits of other types are not counted, so it seems unfair to count these. In addition, less than 8 percent of student and adult filers enter a non-zero amount for this question.

12. **Questions that do not help us to assess family wealth –** There are currently questions on the FAFSA added by groups other than the federal government that pertain only to very small groups of filers. **Rationale for Elimination:** These questions do not affect EFC and the special circumstances of these students can be handled through the professional judgment process.

Appendix C: Proposed EFC Formulas for Tax Schedule Filers and Non-Tax Schedule Filers

NOTE: All tables referenced in formulas can be found at http://ifap.ed.gov/efcformulaguide/attachments/091913EFCFormulaGuide1415.pdf (except Tables A6 and C6, cited below).

<u>EFC Formula – Non-Schedule Filer / Dependent Student</u>

Parents' AGI (if a tax filer) – from IRS-DRT

OR

Parents' Income Earned from Work (if not a tax filer) – from IRS-DRT

MINUS

U.S. Income Tax Paid – from IRS-DRT

MINUS

State Tax Allowance – Table A2 – automatically calculated based on state of legal residence

MINUS

Social Security Tax – Income $113,700 or lower: 7.65% of income; Income $113,701 or higher: $8,698.05 + 1.45% of amount over $113,700.

MINUS

Income Protection Allowance – Table A3 +$4,000

EQUALS

AVAILABLE INCOME
CONVERT to ADJUSTED AVAILABLE INCOME (AAI) – Shifted Table A6 (below)

DIVIDED BY

Number in College – FAFSA

EQUALS

EXPECTED FAMILY CONTRIBUTION (if number is negative, enter zero).

EFC Formula – Non-Schedule Filer / Independent Student without Dependents

Student's and Spouse's AGI (if a tax filer) – from IRS-DRT

OR

Student's and Spouse's Income Earned from Work (if not a tax filer) – from IRS-DRT

MINUS

U.S. Income Tax Paid – from IRS-DRT

MINUS

State and Other Tax Allowance – Table B2 – automatically calculated based on state of legal residence

MINUS

Social Security Tax Allowance – Income $113,700 or lower: 7.65% of income; Income $113,701 or higher: $8,698.05 + 1.45% of amount over $113,700.

MINUS

Income Protection Allowance

- $9,730 for single, separated or divorced/widowed student
- $9,730 for married student if spouse is enrolled at least ½ time
- $15,600 for married student if spouse is not enrolled at least ½ time

MINUS

Employment Expense Allowance

- If student is married and both student and spouse are working – $4,000
- Else – zero

EQUALS

AVAILABLE INCOME

MULTIPLIED BY

Assessment Rate of .50

DIVIDED BY

Number in College – FAFSA

EQUALS

EXPECTED FAMILY CONTRIBUTION (if number is negative, enter zero).

EFC Formula – Non-Schedule Filer / Independent Student with Dependents

Student's and Spouse's AGI (if a tax filer) – from IRS-DRT

OR

Student's and Spouse's Income Earned from Work (if not a tax filer) – from IRS-DRT

MINUS

U.S. Income Tax Paid – from IRS-DRT

MINUS

State Tax Allowance – Table C1 – Automatically calculated based on state of legal residence.

MINUS

Social Security Tax – Income $113,700 or lower: 7.65% of income; Income $113,701 or higher: $8,698.05 + 1.45% of amount over $113,700.

MINUS

Income Protection Allowance – Table C3

MINUS

Employment Expense Allowance

- If student is married and both student and spouse are working – $4,000
- Else – zero

EQUALS

AVAILABLE INCOME
CONVERT to ADJUSTED AVAILABLE INCOME (AAI) – Shifted Table C6 (below)

DIVIDED BY

Number in College – FAFSA

EQUALS

EXPECTED FAMILY CONTRIBUTION (if number is negative, enter zero).

EFC Formula – Schedule Filer / Dependent Student

Parents' AGI (if a tax filer) – from IRS-DRT

OR

Parents' Income Earned from Work (if not a tax filer) – from IRS-DRT

MINUS

U.S. Income Tax Paid – from IRS-DRT

MINUS

State Tax Allowance – Table A2 – automatically calculated based on state of legal residence

MINUS

Social Security Tax – Income $113,700 or lower – 7.65% of income; Income $113,701 or higher: $8,698.05 + 1.45% of amount over $113,700.

MINUS

Income Protection Allowance – Table A3 +$4,000

EQUALS

FAMILY CONTRIBUTION FROM INCOME

PLUS

Net Worth of Investments Including Real Estate (Not Primary Residence) – FAFSA / Adjusted Net Worth of Business or Farm – FAFSA and Table A4

EQUALS

Net Worth

MINUS

Education Savings and Asset Protection Allowance – Table A5

EQUALS

Discretionary Net Worth

MULTIPLIED BY .12 / EQUALS

FAMILY CONTRIBUTION FROM INCOME AND ASSETS
CONVERT to ADJUSTED AVAILABLE INCOME (AAI) – Shifted Table A6 (below)

DIVIDED BY

Number in College – FAFSA

EQUALS

EXPECTED FAMILY CONTRIBUTION (if number is negative, enter zero).

EFC Formula – Schedule Filer / Independent Student without Dependents

Student's and Spouse's AGI (if a tax filer) – from IRS-DRT

OR

Student's and Spouse's Income Earned from Work (if not a tax filer) – from IRS-DRT

MINUS

U.S. Income Tax Paid – from IRS-DRT

MINUS

State and Other Tax Allowance – Table B1 – automatically calculated based on state of legal residence

MINUS

Social Security Tax Allowance – Income below $113,700 – 7.65% of income; Income $113,701 or higher - $8,698.05 + 1.45% of amount over $113,700 – Table B2

MINUS

Income Protection Allowance

- $9,730 for single, separated or divorced/widowed student OR married student if spouse is enrolled at least ½ time
- $15,600 for married student if spouse is not enrolled at least ½ time

MINUS

Employment Expense Allowance

- If student is married and both student and spouse are working – $4,000
- Else – zero

EQUALS

FAMILY CONTRIBUTION FROM INCOME

MULTIPLIED BY

Assessment Rate of .50

EQUALS

FAMILY AVAILABLE INCOME

PLUS

Net Worth of Investments Including Real Estate (Not Primary Residence) – FAFSA

PLUS

Adjusted Net Worth of Business or Farm – FAFSA and Table B3

EQUALS

Net Worth of Assets

MINUS

Asset Protection Allowance – Table B4

MULTIPLIED BY

Asset Conversion Rate of .20

EQUALS

FAMILY CONTRIBUTION FROM INCOME AND ASSETS

DIVIDED BY

Number in College – FAFSA

EQUALS

EXPECTED FAMILY CONTRIBUTION (if number is negative, enter zero).

<u>EFC Formula – Schedule Filer / Independent Student with Dependents</u>

Student's and Spouse's AGI (if a tax filer) – from IRS-DRT

OR

Student's and Spouse's Income Earned from Work (if not a tax filer) – from IRS-DRT

MINUS

U.S. Income Tax Paid – from IRS-DRT

MINUS

State Tax Allowance – Table C1 – Automatically calculated based on state of legal residence.

MINUS

Social Security Tax – Income $113,700 or lower – 7.65% of income; Income $113,701 or higher: $8,698.05 + 1.45% of amount over $113,700 – Table C2

MINUS

Income Protection Allowance – Table C3

MINUS

Employment Expense Allowance

- If student is married and both student and spouse are working – $4,000
- Else – zero

EQUALS

FAMILY AVAILABLE INCOME

PLUS

Net Worth of Investments Including Real Estate (Not Primary Residence) – FAFSA
Adjusted Net Worth of Business or Farm – FAFSA and Table C4

MINUS

Asset Protection Allowance – Table C5

EQUALS

Discretionary Net Worth

MULTIPLIED BY

Asset Conversion Rate of .07

EQUALS

FAMILY CONTRIBUTION FROM ASSETS AND INCOME
CONVERT to ADJUSTED AVAILABLE INCOME (AAI) – Shifted Table C6 (below)

DIVIDED BY

Number in College – FAFSA

EQUALS

EXPECTED FAMILY CONTRIBUTION (if number is negative, enter zero).

Tables A6 and C6

Table A6 from *The EFC Formula*, 2011-2012	
Parents' Available Income	**Parents' Contribution from Available Income**
Less than -$3,409	-$750
-$3,409 to $14,500	22% of available income
$14,501 to $18,200	$3,190 + 25% of available income over $14,500
$18,201 to $21,900	$4,115 + 29% of available income over $18,200
$21,901 to $25,600	$5,188 + 34% of available income over $21,900
$25,601 to $29,300	$6,446 + 40% of available income over $25,600
$29,300 or more	$7,926 +47% of available income over $29,300

Table C6 from *The EFC Formula*, 2011-2012	
Students' Available Income	**Students' Contribution from Available Income**
Less than -$3,409	-$750
-$3,409 to $14,500	22% of available income
$14,501 to $18,200	$3,190 + 25% of available income over $14,500
$18,201 to $21,900	$4,115 + 29% of available income over $18,200
$21,901 to $25,600	$5,188 + 34% of available income over $21,900
$25,601 to $29,300	$6,446 + 40% of available income over $25,600
$29,300 or more	$7,926 +47% of available income over $29,300

Option 2 Shifted Table A6	
Parents' Available Income	**Parents' Contribution from Available Income**
Less than $0	-$750
$0 to $14,500	30% of available income
$14,501 to $21,900	$4,350 + 40% of available income over $14,500
$21,900 or more	$7,310 plus 50% of available income over $21,900

Option 2 Shifted Table C6	
Students' Available Income	**Students' Contribution from Available Income**
Less than $0	-$750
$0 to $14,500	30% of available income
$14,501 to $21,900	$4,350 + 40% of available income over $14,500
$21,900 or more	$7,310 plus 50% of available income over $21,900

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