



SIMPLIFYING THE FAFSA: WHAT WE KNOW, AND HOW TO MOVE FORWARD

Statement of
Kim Rueben*
Senior Fellow, Urban Institute

before the
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United States Senate

REAUTHORIZING THE HIGHER EDUCATION ACT:
EXAMINING PROPOSALS TO SIMPLIFY THE FREE
APPLICATION FOR FEDERAL STUDENT AID (FAFSA)

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*The views expressed are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

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Chairman Alexander, Ranking Member Murray, and members of the Senate Committee on Health, Education, Labor and Pensions, thank you for inviting me here today to discuss simplifying how students access higher education using the Free Application for Federal Student Aid. The views I am going to express today are my own and should not be attributed to the Tax Policy Center, the Urban Institute, the Brookings Institution, their boards, or their funders.

The Free Application for Federal Student Aid (FAFSA) has grown more and more complex as officials have sought to ensure that they are providing aid to those who need it—and *only* those who need it. The current application, while enabling millions of students to apply for college aid, presents significant barriers for low-income and first-generation students. In an American Council on Education brief, King (2004) estimates that in 2000 1.7 million low- and moderate-income students did not apply for aid including approximately 850,000 that would have been eligible for a Pell grant.¹

Policymakers have made some progress in recent years. In addition to a shorter application with skip-logic embedded to eliminate irrelevant questions, the IRS Data Retrieval Tool (DRT) now allows aid applicants to import data into the FAFSA. The prior administration also changed a policy to allow many more applicants to take advantage of the DRT. Instead of relying on income (and tax) data from the calendar year preceding the student's enrollment, the system uses income information from two years before (prior-prior year) for filing for aid. Students and families are able to apply for aid in the fall, rather than waiting until they have filed their taxes in the spring—just months before enrolling in college.²

But there is still work to be done. The application process is cumbersome, and the complex expected family contribution (EFC) formula makes it difficult for students to know their aid eligibility before they apply for college. Further simplification is a low-cost way of increasing the effectiveness of the federal commitment to broadening educational opportunities. And it is especially important for low-income students, who are least likely to attend college and who could benefit the most from an improved student aid application system.

Particularly promising steps are

1. determining Pell grant eligibility using just a few pieces of information, such as family income, family size, and family relationships;
2. making Pell grant eligibility and application available through an app or a tool that can be accessed using a smart phone or tablet rather than a computer;
3. maintaining a separate, universal application form for other aid that relies on branching systems, which eliminate the need for applicants to view questions that may ask for information that they don't understand;
4. including far fewer questions and an application process that allows data to be downloaded directly from tax returns; and

¹ See Jacqueline E. King, "Missed Opportunities: Students Who Do Not Apply for Financial Aid" (Washington DC: American Council on Education, 2004).

² "Fact Sheet: The President's Plan for Early Financial Aid: Improving College Choice and Helping More Americans Pay for College," White House Office of the Press Secretary, press release, September 13, 2015, <https://obamawhitehouse.archives.gov/the-press-office/2015/09/14/fact-sheet-president%E2%80%99s-plan-early-financial-aid-improving-college-choice>.

5. changing the information included in the DRT to make simplification possible through indicator information about sources of nonwage income.

My testimony is largely based on work I carried out with colleagues at the Urban Institute, as part of the Gates Foundation’s Reimagining Aid Design and Delivery (RADD) project. RADD brought together 16 organizations to conduct independent research and analysis to uncover challenges created by the current federal financial aid system. While Urban’s work included advising and analyzing a simplification plan proposed by the Gates Foundation, RADD also provided funding for Urban researchers to examine our own reform proposals, analyze different initiatives put forth by other organizations, and provide technical assistance to a wide range of policy analysts and advocates.

The FAFSA calculates an expected family contribution (EFC), or how much families can reasonably pay toward college. Pell grants are then calculated as the difference between maximum Pell and the EFC. Though the 2017–18 academic year maximum Pell grant (\$5,920) is enough to pay the tuition and fees at many community colleges, many students—especially low-income students—fail to apply.³

My colleagues and I originally examined eight different proposals for simplifying the FAFSA and application for Pell grants, allowing comparisons that will help observers and policymakers make better choices about how to move forward. The actual simplification plan the committee adopts will undoubtedly differ from the ones we modeled. Table 1 summarizes the characteristics of these plans, while tables 2 and 3 present the relative costs compared with the 2011–12 \$5,550 Pell grant and what types of students get higher versus lower awards.

The proposals, which came from both policy analysts and education advocates, highlight the trade-off between vastly simplifying the Pell grants award process so more potential students will apply and ensuring that federal dollars go to the students who need aid most. Most proposals would increase aid to low-income students, sometimes through increased expenditures, but also by better targeting existing dollars. These proposals often built on each other, with good ideas (like eliminating questions that apply to very few applicants) adopted in multiple proposals. This exercise was also incredibly collaborative, with analysts and advocates communicating and comparing ideas. For example, many proposals were created by shifting teams of collaborators, including some of my fellow panelists; we also worked closely with proposal sponsors and other researchers (most notably Mark Weiderspan) to confirm that we understood the intent behind the proposals and were modeling things consistently.

In addition to these proposals, my colleagues and I looked at the Financial Aid Simplification and Transparency (FAST) Act introduced by Senators Alexander and Bennet in 2015,⁴ along with the National College Access Network streamlined FAFSA prototype introduced last year.

³ King, Jacqueline E. (2004) “Missed Opportunities: Students who do not Apply for Financial Aid,” American Council on Education Issue Brief.

⁴ [Financial Aid Simplification and Transparency Act of 2015](#), S. 108, 114th Cong. (2015).

TABLE 1

Proposal Summaries

Proposal	Outcome	Key elements
Original Pell on a postcard	Pell grant	Based on AGI with extra dollars for additional children in family; added in funds from current education tax credits
Modified Pell on a postcard	Pell grant	Tax credits removed from original version in the calculation of Pell grants, so more aid is focused lower down the income distribution
Two-factor model	Pell grant	Based on AGI relative to the FPL, which varies with family size
Three-factor model	Pell grant	Based on AGI relative to the FPL, which varies with family size; also includes factor based on number of family members in college
Hamilton Project	Pell grant	Based on AGI relative to the FPL, which varies with family size, for dependent students; independent students receive full, half, or no Pell based on AGI
IRS data only	EFC	Computed automatically from IRS data with no consideration of assets
Gates	EFC	Based on IRS data, with additional information required for filers with additional tax schedules
NASFAA	EFC	Three paths to calculation depending on participation in income support programs and tax filing requirements, with additional information required for filers with additional schedules; also modifies base income used for calculating EFC

Note: AGI= adjusted gross income; EFC = expected family contribution; FPL = federal poverty level; NASFAA = National Association of Student Financial Aid Administrators.

TABLE 2

Effect of Estimated Simplification Proposals on Pell Grant Awards for 2011–12 Financial Aid Applicants

Proposal	Change in cost	Change in number of recipients	Change in average award	Share of baseline recipients within \$500 of baseline Pell
Original Pell on a postcard	\$1.69 billion	2,468,411	-\$624	58%
Modified Pell on a postcard	-\$0.06 billion	1,146,115	-\$419	54%
Two-factor Pell	\$0.14 billion	-201,192	\$102	73%
Three-factor Pell	\$0.91 billion	-11,753	\$114	74%
Hamilton Project	\$1.06 billion	-116,646	\$177	74%
IRS data only	\$0.85 billion	191,719	\$22	91%
Gates	\$1.62 billion	332,094	\$57	88%
NASFAA	\$0.73 billion	69,090	\$59	91%

Notes: Proposal estimates are for a National Postsecondary Student Aid Study data sample of 64,440 observations representing 12.5 million students who applied for financial aid in 2011–12. Baseline estimates are as follows: cost: \$28.32 billion; number of recipients: 8,314,267; average award: \$3,407. NASFAA = National Association of Student Financial Aid Administrators.

TABLE 3

Distribution of Benefits in Simplified Pell Proposals

Proposal	Share receiving maximum Pell awards ^a	Who Benefits the Most?	
		Dependent versus independent	Low income versus high income
Baseline	41.5%	—	—
Original Pell on a postcard ^b	33.8%	Larger increase in dependent recipients, but independent students account for most of cost increase	Larger increase in higher-income recipients but with small grants; higher average Pell for lower-income recipients
Modified Pell on a postcard	40.1%	Decrease in average awards greatest for dependent recipients, driving cost decrease for dependent students	Larger increase in number of higher-income recipients but with small awards; higher average Pell for lower-income recipients
Two-factor Pell	48.0%	Both with higher average awards, but decrease in awards for higher income dependents	Higher average awards for lower-income recipients
Three-factor Pell	49.2%	Both with higher average awards	Higher average awards for lower-income recipients
Hamilton Project	44.8%	Increase in average awards greatest for independent students	Lower-income recipients increase in count and average award size
IRS data only	44.6%	Increase in recipients largely from dependent students	Larger increase in higher-income recipients
Gates	46.2%	Increase in recipients largely from dependent students	Larger increase in higher-income recipients; higher average awards to lower-income recipients
NASFAA	44.6%	Higher average awards for independent students	Largest increase in recipients and award amounts for higher-income students

Notes: Proposal estimates for a National Postsecondary Student Aid Study data sample of 64,440 observations representing 12.5 million students (6.5 million dependent and 6.0 million independent) who applied for financial aid in 2011–12. NASFAA = National Association of Student Financial Aid Administrators.

^a The maximum Pell award accounted for here (generally \$5,550) is before adjusting for enrollment intensity. The percentage given is out of the full student sample (not limited to recipients under the proposal).

^b These models include any student receiving an award of at least \$5,550. Students from larger families can receive awards up to \$6,550 under these proposals.

About half the proposals vastly simplified how eligibility for Pell grants is determined, replacing the current 100-plus questions with a system based on two or three pieces of information. These simplified proposals would allow students to calculate how large a Pell grant they are eligible for well before applying for college using information on income and family composition. A recent proposal (not examined here) even fully eliminates the application form and has students access Pell grants information through their tax returns.⁵ A college scholarship program in Kalamazoo, Michigan, demonstrates the benefits of predictable aid: knowing

⁵ Susan Dynarski, “Fafsa Follies: To Gain a Student, Eliminate a Form,” *The Upshot* (blog), *New York Times*, August 21, 2015, http://www.nytimes.com/2015/08/23/upshot/fafsa-follies-to-gain-a-student-eliminate-a-form.html?_r=0.

that college would be free led to more low-income students preparing for and attending college.⁶ In addition, the Urban Institute has created an interactive calculator that allows users to enter income and family composition and see how much federal grant aid would be awarded.⁷

Four proposals would base Pell grants on a formula, similar to the current system. These proposals would use better input technology, along with information already provided through the income tax system, to simplify how the EFC is calculated. The prior administration's decision to use income tax information from two years earlier already means that more applicants can access data directly from the IRS. By using information based on a family's eligibility for other federal programs and the complexity of its tax return, the processes greatly reduce the questions students and their families can face.

To fully implement some of these proposals or simplifications, the data elements accessed by the DRT system would need to change. Specifically, to distinguish which applicants should be asked questions about their wealth or nonwage income, the system needs better indicators for whether taxpayers rely primarily on wage versus nonwage income. Many proposals use the filling out of tax forms to indicate self-employment or farm or capital income. This information can be obtained by examining specific entries on the various 1040 tax forms. These more complex formulas could provide a basis for determining both Pell and other types of financial aid, including federal loans and awards from states and institutions. Even with far fewer questions than the current FAFSA, however, the complexity and lack of transparency in the calculation of the EFC could keep students from applying.

Given the advantages of both approaches, I believe the best approach would be assigning Pell grants using a simple two- or three-factor model, then using a longer, optional FAFSA for awarding other aid. This system would let applicants know their calculated Pell grant amounts first, then ask if they filed taxes and if their tax return information can be accessed. Students applying to community colleges might not need additional aid, but the information about what their Pell grant would be may make students more likely to continue the application process. In addition, younger students (such as middle schoolers) could calculate what they might get in federal assistance, helping them realize that college is attainable.

Families who are not required to file taxes could automatically be given an EFC of zero and would be done applying for aid after just a handful of questions, though there would need to be a way to confirm they do not need to file a tax return. Maintaining some simplified federally supported FAFSA form would ensure that incoming students could fill out only one form without returning to a world where students would have to fill out separate state and institutional aid forms because the FAFSA is overly simple.

The specifics of such a system, including the maximum Pell grant and how quickly Pell amounts decline with income, would be needed to be set by federal policy. Decoupling Pell awards from the EFC would prevent changes in Pell policy from directly affecting eligibility for other forms of aid. At the same time, states and institutions would have the information they need to award a total aid package. Indeed, independent systems

⁶ See Timothy J. Bartik, Brad J. Hershbein, and Marta Lachowska. 2015, "The Effects of the Kalamazoo Promise Scholarship on College Enrollment, Persistence, and Completion," Working Paper 15-229 (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2015).

⁷ "Simplifying Pell Grants: How Different Would Awards Be across Different Tools?" Urban Institute, accessed November 21, 2017, <https://www.urban.org/simplifying-pell-grants-how-different-would-awards-be-across-different-tools>.

would be a return to the way things were;⁸ before 1992 the Pell grant formula and the Congressional Methodology—the precursor to the FAFSA—were separate. Though the revised FAFSA would not be necessary for the Pell grant, maintaining the form will ease the burden for students by having a consistent aid system across schools and states.

My colleagues and I estimated that simplifying the process will likely encourage more students to participate and therefore could raise the cost of the Pell grant program. However, expanding use among eligible populations is an advantage if it means more people who thought higher education was out of reach end up attending college. Further, program and proposal details can be adjusted to meet desired cost targets. Below I provide more information on possible ways forward and the costs and trade-offs of different changes.

Making the FAST Act Even Better

In our analysis, my colleagues and I recommended splitting Pell grants from other forms of aid using just two or three factors. It would drastically simplify the Pell award calculation and remove the curtain from the current black-box based on the EFC calculation.⁹ Splitting also could mean federal budget limits on Pell won't lead to families with higher incomes facing higher EFCs when the formula changes to limit the costs of Pell grants.

The FAST Act is one proposal using a two-factor model. The FAST Act's stated aim was to ensure awards of federal Pell grants and student loans get to the students who need them most. Under that bill, Pell awards would be calculated using just two inputs: prior-prior year income and family size.

The FAST Act legislation included look-up tables and phased-out awards based on income as a percentage of federal poverty guidelines, which vary by family size.¹⁰ Maximum Pell awards would go to families with income up to 100 percent of the federal poverty level (FPL), and awards would go to zero at 250 percent (except for families of one, where awards phase out at 200 percent of FPL). But while the awards decreased as income increased (save for a few typos), they didn't do so uniformly. If Congress would like to make awards more uniform, a formula with a smooth phase down from maximum awards to zero would make the award dollars less arbitrary. A FAST Act formula for those between 100 and 250 percent of FPL could look like this:

$$Pell = Max\ Pell - (AGI - 100\% \text{ of } FPL) * \left(\frac{Max\ Pell}{250\% \text{ of } FPL - 100\% \text{ of } FPL} \right)$$

that is, it would subtract funds from the Pell grant amount based on a formula related to how much a family's income is above the FPL. The formula is complicated, but applicants would never see it; an app would calculate the amount from easy-to-understand input questions.

Comparing the FAST Act to other options and current awards illustrates the factors to consider. As part of our RADD research, my colleagues and I modeled a more generous two-factor formula than the FAST formula

⁸ "History of the FAFSA and Need Analysis," Edvisors, accessed November 21, 2017, <https://www.edvisors.com/fafsa/estimate-aid/history-fafsa-need-analysis/>.

⁹ See "The EFC Formula, 2016–2017" (no date or author).

¹⁰ "U.S. Federal Poverty Guidelines Used to Determine Financial Eligibility for Certain Federal Programs," US Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, accessed November 21, 2017, <https://aspe.hhs.gov/poverty-guidelines>.

above, with the phase down from maximum award starting at 150 of FPL rather than 100 percent. After comparing both formulas and an intermediate one with the distribution of awards for a 2011–12 sample of students and examining which students received smaller and larger awards, we found that the details mattered (table 4). Unsurprisingly, if the level of income allowed to receive the maximum Pell grant is increased, awards for these income groups and the cost of the program increased.

A critique of basing Pell only on family size and income is whether it is fair to treat a single parent with a child going to college or a college student with a child the same as a married couple with no dependents with one spouse in college. Indeed, two- or three-person families with a dependent made up most of the students that did worse under either two-factor plan compared with the existing system.

To ensure that small families would not lose out under such models, policymakers could use the poverty level for a family of four in the Pell formula for two- or three-person families with dependent(s). This adjusted formula would cover small families where the student has a dependent child or where the student is a dependent.

TABLE 4

Pell Formulas Using Two Factors

	Maximum Pell	No award	Family size cap	% with Pell as Generous as Current Awards	
				Original	Small-family alternative
FAST formula	≤100% of FPL	≥250% of FPL	8	71%	80%
Two-factor model	≤150% of FPL	≥250% of FPL	6	85%	91%
Combo	≤125% of FPL	≥250% of FPL	8	80%	87%

Source: Authors’ calculations using 2011–12 National Postsecondary Student Aid Study undergraduate data.

Notes: “Original” uses actual family size with specified cap. “Small-family alternative” uses family size of four for small families of two or three with dependent(s). As *generous* awards are within \$500 of or greater than actual 2011–12 awards.

The families receiving smaller awards or losing their awards under these simple formulas are mostly those further up the income distribution: less than 1 percent of families with income below \$25,000 would have a smaller Pell under the two-factor model. This alternative formula for small families with children provides even better coverage for eligible Pell recipients under all three two-factor models (table 5).

The original two-factor proposals are all fairly cost neutral relative to actual 2011–12 Pell costs, ranging from a savings of almost 9 percent (under the FAST Act formula) to an additional cost of less than 1 percent (under the two-factor model). Switching to the small-family model would serve more students and increase average awards, though it would also lead to some cost increases for each plan. Even so, the FAST Act formula would remain less expensive than the current Pell program, and the increased cost under the two-factor model outlined on page 8, the most generous of the three, would only be about 6 percent.

TABLE 5

Effect of Estimated Simplification Proposals on Pell Grant Awards for 2011–12 Financial Aid Applicants

Proposal	Change in cost	Change in number of recipients	Change in average award	Share of baseline recipients within \$500 of baseline Pell
Original				
Two-factor model	\$0.14 billion	-201,192	\$102	73%
FAST Act model	-\$2.50 billion	-283,665	-\$191	64%
Intermediate model	-\$1.07 billion	-225,316	-\$37	69%
Small-family alternative				
Two-factor model	\$1.72 billion	117,261	\$157	76%
FAST Act model	-\$0.84 billion	42,821	-\$118	72%
Intermediate model	\$0.56 billion	92,277	\$29	76%

Note: Proposal estimates are for a National Postsecondary Student Aid Study data sample of 64,440 observations representing 12.5 million students who applied for financial aid in 2011–12. Average awards are for those who receive a nonzero award. Baseline estimates are as follows: cost: \$28.32 billion; number of recipients: 8,314,267; average award: \$3,407.

Simplifying the FAFSA for Everything Else

During our RADD research, my colleagues and I examined proposals that removed questions from the FAFSA form and used technology to both import much of the income data needed from student’s family tax returns and to implement a skip-question format where students would only see questions relevant to their circumstances. Such streamlining can help avoid applicants feeling overwhelmed when faced with the prospect of answering (and understanding) more than 100 questions. Critical to this innovation is the IRS Data Retrieval Tool (IRS DRT), which allows importing of tax information directly into the FAFSA, and the use of prior-prior income, which makes the relevant information available for importing.

We looked at proposals that used only tax data, along with proposals put forth by the Gates Foundation, the National Association of Student Financial Aid Administrators (NASFAA), and NCAN. Many proposals made similar changes, both routing students into specific pathways and eliminating questions that only affected less than 1 percent of students.

Setting up pathways based on information that families already have can help make applying to college less daunting. Families who are not required to file federal taxes due to very low incomes or those participating in specific federal safety net programs can be assigned an EFC of zero. Families with limited wealth, as indicated by a lack of reported nonwage income, could import required income information from their tax returns and not be asked about assets or wealth. And students whose families have more complicated tax returns, which signal that income might understate their ability to pay for college, could be required to answer questions about assets and wealth. Because the taxpayers in this last group have already filled out complicated tax forms, they are less likely to be intimidated by a FAFSA process that requires more information. Moving these reforms forward would require some changes to the DRT system, specifically accessing more information on the presence of nonwage income or indicators of more complicated family finances.

It is important to note that maintaining some federally supported form would be important, so students don’t need to fill out different forms for different universities during the application process.

To highlight how this could work, let's review the streamlined FAFSA proposal put forth by NCAN. It is similar to both the Gates and NASFAA proposals and builds on some characteristics of these earlier proposals. It also outperformed the current FAFSA form when tested with focus groups of students and potential students. In addition to proposing changes NCAN actually redesigned the interface for this exercise, thus highlighting which changes were feasible and which were remaining obstacles or sticking points for users. To begin, NCAN shortened the series of questions about the student's eligibility and demographics. With an updated Federal Student Aid ID and expanded access to the IRS DRT, many identifying and financial questions were automatically filled in, saving time and reducing errors. The NCAN proposal also guided applicants down one of three pathways, limiting the number of questions to 25. Finally, it allowed for state pages if specific states wanted to maintain some of the FAFSA's eliminated questions. This helped ensure that the streamlined FAFSA could maintain its universality for all federal and state aid needs.

NCAN's independent testing found that the streamlined FAFSA resulted in far fewer questions needing to be answered, improved completion times, half as many errors, and greater reported satisfaction and usability by applicants. The report also highlighted some potential redesign elements to accessing the FAFSA that could be helpful even if simplification of the process were limited.¹¹

Conclusion

It is an auspicious time to continue simplifying how potential students apply for financial aid. While simplification could increase costs by about 5 percent or \$1.4 billion annually (according to Urban Institute estimates), these costs represent new opportunities for potential students who may have felt that higher education was unattainable.

The move to using prior-prior year income for the FAFSA (and calculating Pell) was a big step forward to improving the timing of calculating students' financial aid. But policymakers can go further.

A simplified Pell formula can make aid more predictable and effective for low-income students, even for those who are not yet attending college. Further, using an alternate higher poverty level for small multigenerational families is a simple modification that recognizes the difference between a married student without any dependents and a family with a parent and child, one of whom is in college. Because of technology, this could be programmed into an app for a smartphone or tablet with the student needing to answer only three questions to determine the size of the Pell grant they would be eligible for:

1. What is your family income?
2. How many people are in your family?
3. Are you or one of your family members a dependent child?

I would also advise maintaining a federal system for accessing other aid but decoupling this from Pell awards, so we don't return to a system where students need to fill out a myriad of forms to access other aid during the application process. I am excited to see the committee continue this important work that hopefully helps more people thrive and leads to a more prosperous tomorrow for us all.

¹¹ See Ben Harper and Iva Stoyneva. *Performance Study for Streamlined Prototype Free Application for Federal Student Aid (FAFSA): Task Duration, Error Rate, and User Satisfaction* (Washington, DC: ICF, 2017).

Further Reading

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