

**Financial Aid Simplification:
Why It Matters and Which Aspects Matter Most**

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FULL COMMITTEE HEARING
Reauthorizing the Higher Education Act:
Examining Proposals to Simplify the Free Application for Federal Student Aid (FAFSA)

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Note: The views expressed are those of the author and should not be attributed either to Teachers College, Columbia University; the Community College Research Center; or the National Bureau of Economic Research.

Biography

Judith Scott-Clayton is Associate Professor of Economics and Education at Teachers College, Columbia University, where she teaches courses on labor economics and causal methods. She is also a Research Associate of the National Bureau of Economic Research, a Senior Research Associate at the Community College Research Center (CCRC), and a Nonresident Senior Fellow of the Brookings Institution. Scott-Clayton's research lies at the intersection of labor economics and higher education, with a particular focus on financial aid policy, community colleges, and post-college outcomes. Scott-Clayton's work crosses disciplinary boundaries and has been published in economics, education, and policy journals as well as in general-interest media including the Brookings Institution's *Evidence Speaks* series and the *New York Times*' Economix and Upshot blogs. Scott-Clayton has testified to the U.S. Senate twice previously as an expert on financial aid policy and research, and actively participates in higher education policy discussions at the state and federal level. Scott-Clayton holds a B.A. from Wellesley College and a Ph.D. in Public Policy from Harvard University.

Overview of Testimony

1. Why Access to College Matters Now More Than Ever

- Gaps in enrollment rates for high- and low-income students are widening.
- The returns to college degrees are near historically high levels.
- More students should take advantage of these high returns, but costs remain a barrier.

2. Evidence on the Benefits of Financial Aid and Financial Aid Simplification

- Financial aid can improve college enrollment, completion, and post-college outcomes, and evidence is strongest for programs with simple applications and eligibility rules.
- The FAFSA required to access federal student aid is, for most families, longer and more burdensome than filing an income tax form.
- The complexity of the FAFSA and lack of transparency in the EFC and Pell award calculations undermine the effectiveness of financial aid.
- Several recent, rigorous studies demonstrate that the FAFSA is a real barrier, and show that making the process easier for students can significantly increase college access.

3. Why Simplification Is Feasible and Which Aspects are Most Important

- Most of the financial information on the FAFSA is not necessary to accurately estimate Pell eligibility or EFCs.
- Recent efforts to improve the FAFSA process are heading in the right direction, but have not sufficiently reduced the hassle or improved the transparency of aid eligibility.
- Since IRS tax forms already collect the key items needed to predict aid and EFCs, a truly simplified system would enable families to apply automatically simply by checking off a box on their tax return.
- There is more than one path to meaningful simplification, as long as reforms achieve the twin goals of minimizing application hassle and maximizing transparency.

4. Responding to Common Concerns

- While some worry that eliminating information on assets would degrade the targeting of aid, assets already play no role in the aid calculation for the vast majority of applicants.
- Some also worry about the effects federal simplification would have on the administration and targeting of state financial aid, but the key information most frequently used by states (EFC and sometimes AGI) could easily be preserved and shared with states even under the most radical proposals for simplification.

5. Concluding Recommendations

- Base Pell awards on a limited number of data elements that are available from the IRS so that eligibility is transparent and no separate financial application is needed.
- Continue to provide states and institutions with an EFC, or simulated EFC, as well as basic demographic and institutional information, to use in distributing other financial aid.
- Fix eligibility for several years, allowing students to securely plan for a multi-year course of study without the need to reapply.
- Summarize Pell eligibility by family income on a postcard – even if some fine print is required – that schools, counselors, and community organizations can post and distribute.
- Use IRS information to proactively communicate to prospective students and their families about their likely Pell eligibility.

Full Testimony

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

My name is Judith Scott-Clayton. I am an Associate Professor of Economics and Education at Teachers College, Columbia University, as well as a Research Associate of the National Bureau of Economic Research and a Senior Research Associate at the Community College Research Center. Over the past decade, I have conducted my own research on the impacts of financial aid policy, reviewed the evidence from others doing work in the field, and participated in policy working groups examining financial aid and other college access interventions at both the state and federal level. Thank you for your committee's longstanding, bipartisan interest in this important topic and for the opportunity to testify.

In the following testimony, I first summarize the evidence that access to college matters more now than ever. I then focus on three questions: What does the latest evidence tell us regarding the impact of financial aid and financial aid simplification? Which aspects of simplification are the most important? And how can we allay some of the most common concerns regarding FAFSA simplification? I conclude with recommendations for reform.

1. Access to College Matters Now More Than Ever

Over half a century ago, upon signing the Higher Education Act of 1965, President Lyndon Johnson stated his intent that the Act ensure that “the path of knowledge is open to all that have the determination to walk it.” Since then, college enrollment rates have increased substantially for qualified students across the income spectrum. Yet significant inequities remain, and while the levels of college enrollment are higher across the board, the gaps in enrollment between high and low income families are actually *greater* for recent cohorts than for those born in the early 1960s (Bailey & Dynarski, 2011). Socioeconomic gaps in degree completion are even higher than for college entry, and these gaps cannot be fully explained by differences in preparation.

These gaps are troubling because the return to postsecondary education is near historically high levels. Full-time workers with a bachelor's degree currently earn \$24,600 more annually than workers with only a high school diploma. And while bachelor's degrees offer the most substantial payoff, associate's degrees also confer earnings gains of around \$10,000 annually relative to workers with only a high school credential. Those with a college education also have substantially higher employment rates, receive better employment benefits, are less likely to smoke, more likely to vote, and pay more in taxes (Ma, Pender, & Welch, 2016).

More students should be taking advantage of these high returns to college, but costs remain a significant barrier. As college tuition has risen over time, while family incomes at the bottom of the income distribution have declined (in real terms), college costs represent an increasing fraction of family resources (Baum & Ma, 2014). Our ability to ensure that “the path of knowledge remains open to all that have the determination to walk it” thus rests heavily on ensuring access to financial aid—particularly the federal Pell Grant, which is the nation's single largest grant program, used at over 7,000 eligible institutions nationwide, and providing up to \$5,815 per student per year for up to 6 years of undergraduate study.

2. Evidence on the Benefits of Financial Aid and Financial Aid Simplification

Thirty years of research convincingly demonstrates that financial aid can influence college enrollment, persistence, and completion. As early as 1983, a review of available research indicated that a \$1,000 decrease in net price was generally associated with a 3 to 5 percentage point increase in college attendance (Hansen, 1983). Subsequent research using more rigorous experimental and quasi-experimental methods, which can separate out the true causal impact of financial aid from pre-existing differences between recipients and non-recipients, finds positive effects of a similar magnitude, across a range of contexts (see Page & Scott-Clayton, 2016, for a comprehensive review).

Evidence regarding the positive impacts of financial aid has only grown in recent years. The latest research indicates that financial aid influences not just college enrollment and completion, but also important post-college outcomes like earnings and homeownership (Bettinger, Gurantz, Kawano, & Sacerdote, 2016; Scott-Clayton & Zafar, 2016; Denning, Marx, & Turner, 2017). The benefits of financial aid are shared by taxpayers as well: Denning, Marx, & Turner (2017) estimate that the costs of grant aid are fully recovered in the form of higher federal tax payments within ten years of college entry.

While financial aid clearly *can* influence college enrollment, this does not imply that all aid programs are equally effective. Many of the studies that have found positive impacts of financial aid examined programs with simple, easy-to-understand eligibility rules and application procedures. In contrast, accessing federal financial aid requires students to submit a Free Application for Federal Student Aid (FAFSA), the complexity of which has been well-documented (Dynarski & Scott-Clayton 2006; Dynarski, Scott-Clayton & Wiederspan, 2013; Bill & Melinda Gates Foundation, 2015). With over 100 questions about income, assets and expenses, the FAFSA approaches the IRS Form 1040 in length, and is longer and more complicated than the 1040A and 1040EZ, the tax forms filed by a majority of taxpayers.

The FAFSA isn't just an annoyance. Its complexity and lack of transparency undermine the effectiveness of financial aid, making it harder to reach students who need aid most. Many students never receive the federal aid for which they would qualify: of the 30 percent of undergraduates who fail to file a FAFSA, one-third would have qualified for a Pell Grant.¹ Some of those who do successfully file may submit the form too late to qualify for state and institutional aid they otherwise could have received (King, 2004). And even those who submit in one year may fail to reapply the next year, increasing the risk of dropout (Bird & Castleman, 2014).

Of even greater concern are those who never show up in college because they never knew they would qualify for aid. Misperceptions about college costs and financial aid are widespread and are most prevalent among students from the lowest-income backgrounds (ACSFA, 2005; Grodsky & Jones, 2007; Horn, Chen, & Chapman 2003; Hoxby & Avery, 2013; Hoxby & Turner, 2013; Radford, 2013). For lower-income and first-generation students who are particularly uncertain about their ability to afford college, when the time comes to file a FAFSA

¹ Author's calculations based on data from the 2011–2012 National Postsecondary Student Aid Study (NPSAS).

it may already be too late. College preparation needs to start well before the end of high school. But if students assume college is out of reach, they may never seek out the information that would challenge that assumption, and may not take the steps they need to take academically to be prepared.

We don't have to speculate about the importance of simplification: two influential experiments show that reducing application hurdles is a highly cost-effective strategy for reducing inequality in college access. In one, researchers randomly selected a subset of low-income families who visited tax-preparation centers and were offered personal assistance with completing and submitting the FAFSA. The intervention increased immediate college entry rates by 8 percentage points (24 percent) for high school seniors and 1.5 percentage points (16 percent) for older participants with no prior college experience (Bettinger, Long, Oreopoulos, & Sanbonmatsu, 2012). After three years, participants in the full treatment group had accumulated significantly more time in college than the control group.

In a second experiment, researchers randomly selected high-achieving, low-income students from a College Board database and mailed them packets of information on net costs and application procedures at different types of institutions, along with vouchers for automatic application fee waivers (Hoxby & Turner, 2013). The intervention significantly increased enrollment rates at highly selective colleges and universities.

Since I first testified to this committee in 2013, the evidence has only grown regarding the consequences of aid complexity and the potential value of simplification. For example, a national “nudge” campaign that sent students text messages and e-mails prompting them to plan when and how to complete the FAFSA increased college enrollment by 1.1 percentage points overall, and by 1.7 percentage points for first-generation college students—at a cost of just \$0.50 per student (Bird, Castleman, Goodman, & Lambertson, 2017). Several additional studies also document even larger positive effects (up to 8-14 percentage point increases in enrollment or persistence) of providing students additional support navigating aid paperwork, and reminding them about deadlines for financial aid application and renewal (Castleman, Page, & Schooley, 2014; Castleman & Page, 2014).

3. Why Simplification Is Feasible and Which Aspects Are Most Important

The research discussed above demonstrates the benefits of providing students with extra support to navigate a complicated system. Simplifying the FAFSA at its source might prove even more effective. But an oft-expressed concern is that simplification would reduce the ability for policymakers to accurately target aid.

A separate body of research definitively shows that this is not the case: most of the financial information collected on the FAFSA contributes very little to aid eligibility determination. Pell eligibility and even the Expected Family Contribution (EFC) itself can be approximated with a high level of precision using just a handful of elements from the form, primarily relying upon adjusted gross income and family size (Dynarski & Scott-Clayton, 2006, 2007; Dynarski, Scott-

Clayton, & Wiederspan, 2013; Reuben, Gault, & Baum, 2015).² Thus, while the benefits of simplification are substantial, the tradeoff in terms of less accurate targeting is surprisingly minimal.

This holds true even when considering state aid programs, which often piggyback their own eligibility determination on the federal EFC. One study used detailed financial aid application data to examine the consequences of formula simplification for state aid programs in five states, and found that no more than 2 percent of applicants would become newly eligible for state aid as a result, and that overall increases in grant amounts would be minimal (Baum, Little, Ma, & Sturtevant, 2012).

To be effective, a simplification strategy needs to address two related but distinct problems. First is the burden of completing the application itself, which imposes compliance costs, stress, and may deter even some applicants who intend to apply. Second is the overall lack of transparency which makes aid eligibility difficult to predict and communicate (ACSFA, 2005; Dynarski & Scott-Clayton, 2007). Thus, in evaluating “how much simplification is enough,” the critical criteria should be: will the reform both *substantially reduce application hassle* and *substantially improve transparency*?

Efforts to simplify the FAFSA have a long history. In 1986, Congress introduced a “simplified needs test” so that some families could omit asset information from the form, and in 1992 Congress introduced the “automatic-zero EFC” for families with incomes below a cutoff amount. More recently, some questions on the form have been eliminated, and the “skip-logic” has been improved in the online application so that students don’t have to answer questions that aren’t relevant to their circumstance. Two particularly helpful changes are that students can now automatically import tax information from the IRS via the IRS Data Retrieval Tool (DRT), and because the formula now uses prior-prior year tax information, students can apply several months earlier than they could before.

All of these changes are heading in the right direction. But many of the most complicated questions remain (such as questions about untaxed income and the value of investments), and because students are advised to assemble their documents and even to fill out a paper “worksheet” prior to beginning the online form, it is not clear whether these reforms have meaningfully reduced the time and hassle required.³ Moreover, while applicants can now file a FAFSA earlier, the eligibility formula remains opaque, so it remains difficult for students and families to discern their likely eligibility well in advance of application.

Since the main determinants of Title IV aid eligibility are already collected via the IRS Form 1040, some (including myself) have proposed eliminating the FAFSA completely and instead

² For example, when Dynarski and Scott-Clayton (2006) estimated Pell awards and EFCs for dependent students using only parental adjusted gross income, marital status, family size, and number in college, the correlation between estimated and actual Pell awards was 0.88 and the correlation between estimated and actual EFC was even higher at 0.91.

³ See, for example, this blog post from the U.S. Department of Education, “7 Things You Need Before You Fill Out the 2018–19 FAFSA® Form,” which doesn’t mention the auto-zero or simplified needs test. It does mention the IRS-DRT, but notes that since not everyone will be able to use it, applicants should still have their tax forms available for reference (<https://blog.ed.gov/2017/09/7-things-need-fill-2018-19-fafsa-form/>).

determining eligibility automatically, using income and other data from tax forms. Various teams have articulated how a simplified formula could work (including the bipartisan Financial Aid Simplicity and Transparency [FAST] Act introduced by Senators Alexander and Bennet in 2014; as well as proposals by The Institute for College Access and Success, 2007; Dynarski & Scott-Clayton, 2007; Baum & Scott-Clayton, 2013; Bill & Melinda Gates Foundation, 2015; Rueben, Gault, & Baum, 2015).

Making application automatic—via a check-off box on an income tax form—would substantially reduce application hassle. Dynarski and Scott-Clayton (2007) note that if it takes about 10 hours for a typical applicant (including student, parent, and administrative support time) to learn what information is required for the FAFSA, gather the necessary documents, fill out and submit the form, and then follow up on any additional requests for documentation, then the total time spent to submit 7-10 million applications per year represents the equivalent of nearly 50,000 full-time workers. Beyond the time saved, reducing the “hassle factor” of application will reduce the likelihood that applicants will walk away before they finish the process, or even before they start (Dynarski & Scott-Clayton, 2006). And the precious time and expertise of guidance counselors and college advisors nationwide could be reallocated to helping students navigate other key aspects of the college transition, like choosing the right school and major.

Simplifying the Pell eligibility formula to the point it could be expressed on a postcard would also substantially improve transparency. Under the current system, describing how the EFC is calculated, and how Pell Grant awards are calculated from that, is difficult to explain in simple terms.⁴ While many calculators and estimators are available online, the students most in need of assistance may not even know these exist, let alone go looking for them in the 9th grade. The opacity of Pell eligibility may be one reason why the program lacks the name recognition of the simpler, highly-advertised aid programs now in place in many states, like the Georgia HOPE scholarship or the Tennessee Promise. To promote early awareness of Pell eligibility will require clear communication tools and proactive outreach, both of which would be much easier with a more transparent formula.

There is more than one path to achieving the goals of simplification while still accurately targeting aid to the students who need it most. While different analysts may have different favorite plans, the commonalities between these proposals outweigh their differences. As long as simplification meets two key standards—minimizing application hassle and maximizing transparency—we need not get bogged down on whether the formula is based upon two factors, or three, or five.

4. Responding to Common Concerns

In the debate around various simplification proposals, two concerns are commonly raised that I believe are fully surmountable.

One common concern is that if the formula doesn't include asset information, then wealthy families with low incomes will claim aid that they don't really need. But surprisingly, although

⁴ The document that outlines the EFC formula is currently 36 pages long, and the Federal Student Aid Application and Verification Guide that explains the FAFSA process for financial aid professionals is 116 pages long.

the FAFSA questions about net worth are arguably among the most challenging to answer, the answer is basically ignored for the vast majority of applicants. Why? Retirement accounts and home equity are excluded, and this is where most families hold their assets. Other assets are considered only if they fall above a threshold that rises with the age of the oldest parent (the current threshold is \$24,100 if the older parent is age 55 – well above the median assets of families with children, after excluding home equity and retirement accounts).⁵ Dynarski and Scott-Clayton (2006) found that assets had no effect on Pell eligibility for 99 percent of dependent applicants and no effect on EFC for 85 percent of dependent applicants. Asset information likely matters even less for independent students.

The number of households with incomes low enough to qualify for Pell, but assets high enough to disqualify them, is thus exceedingly small. The benefit of preventing these few “mistakes” is not sufficient to outweigh the cost levied on all other applicants in the form of unnecessary stress and complication.

A second common concern is that while simplified formula might work fine for federal student aid, states and institutions may need more detailed information for their own programs. A recent survey by the Pingel (2017) finds that 32 states plus Washington, D.C. use “at least three of five major FAFSA data elements to administer state aid program,” and raises concerns about the spillover effects of federal simplification. The five elements considered in the report include 1) demographic information, 2) EFC, 3) “other income or asset information,” 4) date the application was filed, and 5) institutions listed by the student.

By far the most common financial element used for state aid eligibility is the EFC—which is explicitly preserved under some simplification proposals, and could be easily estimated under others. As discussed above, EFCs can be closely approximated using only a fraction of the information currently collected on the FAFSA. Baum, Little, Ma, and Sturtevant (2012) show that these minor changes in EFC have only small effects on the distribution of state aid. While the specific effects may vary from state to state, data on current applicants could be used to predict state-specific effects so that states have time to make any necessary adjustments.

Adjusted gross income is another element that could easily be preserved and passed to states under even the most radical proposals for simplification. Finally, if aid eligibility were determined automatically via the tax system, information on demographics, institutions, and application date could easily be collected via a supplementary non-financial form. Once students know what they qualify for, they may be much more likely to fill out a simple form that doesn’t require complex information on income and assets.

Institutional aid presents a somewhat different challenge. Changes in EFC that have little implication for federal or state need-based aid may matter more for institutional aid that often extends to much higher-income households. However, schools with substantial institutional aid

⁵ The median net worth of households with children age 18 or younger, excluding home equity but including retirement accounts, is \$14,993 (U.S. Census Bureau, Survey of Income and Program Participation, 2014 Panel, Wave 1). On average, retirement savings represent about 40 percent of remaining assets, suggesting the median net worth excluding both home equity and retirement savings could be well under \$10,000. Unfortunately the Census Bureau does not directly compute median net worth excluding both home equity and retirement savings.

typically *already* use an additional financial aid form, the CSS Profile, and would continue to do so even if the FAFSA were dramatically simplified. The federal aid process need not burden all applicants with questions required for only a fraction of institutions.

5. Concluding Recommendations

As noted above, I don't believe there is one single path to meaningful FAFSA simplification (and indeed, over the past decade I have proposed more than one alternative). But my general recommendations for FAFSA simplification are to:

- Base Pell awards on a limited number of data elements that are available from the IRS so that eligibility is transparent and no separate financial application is needed.
- Continue to provide states and institutions with an EFC, or simulated EFC, as well as basic demographic and institutional information, to use in distributing other financial aid.
- Fix eligibility for several years, allowing students to securely plan for a multi-year course of study without the need to reapply.
- Summarize Pell eligibility by family income on a postcard – even if some fine print is required – that schools, counselors, and community organizations can post and distribute.
- Use IRS information to proactively communicate to prospective students and their families about their likely Pell eligibility.

The first recommendation dramatically reduces application hassle. The second recommendation ensures continuity for states, while the latter three recommendations improve transparency.

As the U.S. falls behind other countries on measures of educational attainment and social mobility and leaps ahead on measures of inequality, now is the time to reinvest in education, and to ensure that every dollar spent has the maximum impact. And research suggests that FAFSA simplification has the potential to substantially improve the effectiveness of federal investments in postsecondary education.

Figuring out the FAFSA is a major hurdle in the process of applying for college, but it is hardly the only one. If federal policymakers can simplify the cost calculus for students and their families, it could free up armies of high school counselors, aid administrators, college advisors, and volunteers nationwide that are currently devoted to helping students fill out FAFSAs. Instead, these “boots on the ground” could redirect their valuable time and expertise to helping students identify a high-quality college option that not only fits their budget, but furthers their educational aspirations. And students themselves could worry a little less about money, and a little more about what they need to do academically to prepare for and succeed in college.

Thank you again for the opportunity to provide these comments to the committee. I look forward to your questions.

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