Simplifying Federal Student Aid

An Overview of Eight Plans

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Researchers and advocates have long bemoaned the complexity of the federal student aid application process. A strong body of research, numerous policy and advocacy reports, and several bills recently introduced in Congress are all in agreement. The system is too complicated. Students do not understand it and parents fear it. Aid policies are less effective than they could be because they are difficult to explain and access. It is past time to simplify the application process and allow students to predict well in advance of enrolling in college how much aid they are likely to receive.

The need for simplification is especially important for low-income students, who could benefit the most from an improved student aid application system. Although the process has become simpler over the past few years, most notably with the system allowing information to be imported directly from tax forms and the recent move to using earlier and more readily available income data, there is more to be done (White House 2015). There is agreement about the need for simplification, but competing proposals make the actual path forward unclear.

This brief and its accompanying report focus on the costs and distributional effects of eight proposals for determining Pell grant eligibility (Rueben et al. 2015). We also consider ways of streamlining the entire process of calculating the expected family contribution (EFC), on which eligibility for other types of student aid is based. Using data from the 2011–12 National Postsecondary Student Aid Study (NPSAS), we estimate how students with financial aid would fare under these proposals.[1]

Potential Policy Changes

Proposals focusing only on Pell grant eligibility generally suggest linking grant amounts to income levels and skipping the step of determining an index of ability to pay—like the current EFC. This strategy would make it possible to create a simple table that students and families could refer to well in advance of college enrollment. It would not eliminate the policy of calculating an EFC for use in the allocation of other forms of aid. Other proposals would simplify the calculation of the EFC and use it to determine Pell grant award levels.

Some proposals would award Pell grants without asking for any information on assets, and others would request information not available on Internal Revenue Service (IRS) forms from aid applicants filing income tax forms with additional schedules. Collecting asset information increases the complexity of the application process for a subset of students, but reduces the cost of the program by lowering awards for students whose incomes do not fully represent their financial strength.

Some of the reform options would eliminate the current adjustment for the number of students in college, a change that would decrease the Pell grants of students with siblings in school at the same time and reduce the cost of the program. It would also make a high percentage of the higher-income students currently eligibility for Pell grants ineligible.

Another idea common to several proposals is to eliminate consideration of the income and assets of dependent students, relying only on their parents' financial information to determine their eligibility for Pell grants. This change would increase some award levels, but 72 percent of dependent students had annual incomes under $5,000 in 2010 (according to 2011–12 NPSAS data).

FAFSA as a Barrier to Applying for Federal Student Aid

The immediate barrier to applying for student financial aid is filling out the Free Application for Federal Student Aid (FAFSA). We know many Pell-eligible students do not complete the application process, but we do not know how much of the problem is lack of knowledge of the potential benefits, fear of the complexity of the form or the repercussions of making errors, or failure to follow through on good intentions.

The simplest aid application process for students would involve automatically calculating eligibility based on IRS data and awarding the maximum Pell grant to students from families who are not required to file an IRS tax return.[2] In addition to removing the barrier of the FAFSA, the automatic calculation of eligibility would let undecided students know aid is available and could make it clear to low-income families with younger children that money will be available to help pay for college, assuming their income levels do not change significantly.

Before looking at specific proposals, it is useful to examine how individual changes to the current formula would affect costs and eligibility independently (table 1). This allows us to disentangle the change in cost and number of recipients coming from a specific stand-alone adjustment to the Pell

calculation before analyzing proposals that incorporate a number of simplifications. The interaction of the various changes under a proposal can lead to changes in cost and number of recipients that are greater than the sum of the effects of each component. Combining two changes (for example, not including student contributions in a dependent student's EFC and not adjusting Pell for cost of attendance), as shown in modification 5 of table 1, demonstrates the effect of such an interaction. Intuitively, even if neither of two modifications on their own would bring measured income down far enough to generate Pell eligibility, the combined impact, for example, of eliminating both assets and dependent student income from consideration could make more students eligible.

TABLE 1

Potential Formula Modifications for Calculating Pell

Baseline estimates		Cost $28.32 billion	No. of recipients 8,314,267	Average award $3,407
Modification to baseline		**Change in cost**	**Change in no. of Pell recipients**	**Change in average Pell award**
1	Do not divide EFC by number of students in a family in college	-$0.90 billion	-270,474	$3
2	Do not include any income information outside of AGI [a]	$0.31 billion	88,221	$1
2a	Do not include child support received in total income [b]	$0.16 billion	30,347	$6
3	Do not include student contribution for dependent students	$0.55 billion	152,564	$4
4	No cost of attendance adjustment [c]	$0.30 billion	45,439	$17
5 (3+4 combined)	No student contribution for dependent students and no cost of attendance adjustment [d]	$0.94 billion	227,919	$19

Note: Proposal estimates are for a NPSAS data sample of 64,440 observations representing 12.5 million students who applied for financial aid in 2011–12.

[a] Income information other than AGI refers to any additions to income from untaxed income and benefits or deductions from additional financial information.

[b] Child support received is a component of untaxed income and benefits, which is fully excluded under modification 2.

[c] Do not lower Pell to equal cost of attendance in cases where the Pell award exceeds a student's estimated cost of attendance.

[d] The change in cost and number of recipients from the interaction of two modifications to the baseline, not adjusting awards for cost of attendance and also not including student contributions for dependent students, is greater than the sum of the changes in cost and recipients from each modification independently.

Eight Proposals for Calculating Pell Grant Eligibility

Many of the changes to the EFC and Pell formulas in table 1 above are components of the eight proposals analyzed in this report. Table 2 summarizes the key elements of these eight proposals. The first five involve simple formulas for Pell eligibility. The other three involve revisions to the way EFCs are calculated.

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, but also includes additional factor based on number 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 Foundation	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: FPL = federal poverty level; NASFAA = National Association of Student Financial Aid Administrators.

The Pell-on-a-postcard proposals give a Pell grant based on income, with additional grant aid available if there are more children in the family (Dynarski and Scott-Clayton 2007). The original proposal suggested boosting Pell grants with money now allocated through tax credits. It was introduced when tax credits were less generous and more targeted at middle-income families than they are today. We model a version (labeled here as original) of the proposal that is updated to reflect 2011–12 aid values, and a modified version that redesigns Pell grants but assumes education tax credits are maintained. Our modified postcard proposal would generate many fewer new participants than the original Pell on a postcard, and it focuses the benefits on lower-income applicants.

Benefits in the two-factor and three-factor models vary with family size and income. Our two-factor model ties Pell amounts to how family income compares with the federal poverty level. Our three-factor model is similar but takes into account whether more than one family member is in college.

The Hamilton Project proposal has different rules for dependent and independent students (Baum and Scott-Clayton 2013). Because independent students are typically in smaller-sized families, look-up tables based on the federal poverty level and family size are less generous for these students. Thus independent students receive more benefit under this proposal than under the other look-up table proposals.

The IRS-data-only proposal, which would generate EFCs in addition to Pell grant eligibility, would simplify the application process by using technology and data available from the IRS to automate applying for aid (Dynarski, Scott-Clayton, and Wiederspan 2013). This approach does not take wealth into account. IRS information on dividends, capital gains, and interest could be used to impute wealth (Baum et al. 2012). An alternative would be to ask for asset information from families who have these types of income as indicated by the presence of additional tax schedules. The Gates Foundation proposal and the National Association of Student Financial Aid Administrators (NASFAA) proposal ask for this additional information.

The Gates Foundation proposal eliminates many questions that are irrelevant for most applicants and excludes asset questions for applicants with simple tax returns who do not file additional tax schedules (Bill & Melinda Gates Foundation 2015). It simplifies the process by focusing only on parental information and excluding student income and assets for dependent students. NASFAA sets up three paths toward an award (NASFAA 2015). The first path allows households that receive federal benefits or are not required to file taxes to automatically receive a maximum Pell award.[3] For the second path, NASFAA uses a formula similar to the simple Gates Foundation formula that excludes most asset information. The third path uses a different formula for those with more complicated tax returns and varies the definition of income to include some nontaxable elements and add back any business or capital losses.

General Effects of the Pell Simplification Proposals

These proposals tend to shift Pell grants to students with lower reported incomes, either by increasing participation or increasing grant levels. The costs of the proposals vary from being effectively budget neutral to increasing annual spending by $1.7 billion, with higher costs related to serving more students. These estimates do not account for any added costs of expanding the number of students either attending college or applying for aid that could result from automatic calculation of awards or a simpler application process.

If we assume all students who do not apply for aid are awarded Pell grants at the same rate as existing students with the same AGI, the number of Pell recipients could increase up to 4.5 million students, expanding the size of the program by up to one-half and the cost of the Pell program could increase substantially. However, assuming all students participate in the financial aid system is a strong assumption; a conservative approach is to consider the possibility of a large number of new Pell grant recipients, expecting an average award of about $3,000 per new Pell grant recipient.

Separate estimates not reflected in the table below indicate that moving from using the previous year's income to using income from two years earlier will likely increase costs by about $0.6 billion. Adjusting the income levels for a given amount of aid could reduce these added costs.

Beyond explaining the implications of the different proposals, our goal is to point out that simplification is possible, with variations in the details leading to different costs and benefits. Costs and effects of the proposals can vary widely (table 3). More costly proposals give grants to more recipients and/or give larger grants to specific groups.

TABLE 3

Effects of Estimated Simplification Proposals on 2011–12 Pell Grant Awards

Baseline estimates	Cost $28.32 billion	No. of recipients 8,314,267	Average award $3,407	
Proposal	Increase in cost from baseline	Change in no. of Pell recipients from baseline	Increase in average Pell award	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 Foundation	$1.62 billion	332,094	$57	88%
NASFAA	$0.73 billion	69,090	$59	91%

Note: Proposal estimates are for a NPSAS data sample of 64,440 observations representing 12.5 million students who applied for financial aid in 2011–12.

Recommendations

Our analysis shows the tradeoffs between simplifying the application process and targeting the students most in need. Look-up tables are straightforward, but may assign aid to households that are

income poor but asset rich. In addition, this approach introduces a disconnect between Pell grants and other aid, including loans and state and institutional grants.

However, the neediest students do not have significant assets and we believe that the advantages of knowing Pell grant eligibility early and easily outweigh potential shortcomings. We propose a hybrid system that determines Pell eligibility with a look-up table but maintains EFC by using a simplified FAFSA with a check-the-box feature on tax returns for most applicants. This method would require additional information for applicants whose tax returns suggest they have assets and less need than what might be expected solely looking at their income levels.

This combined approach would separate Pell calculations from the rest of the financial aid application process. For students eligible for a maximum Pell grant, especially those who do not file tax returns, having a zero EFC could carry over to other types of aid. Separating Pell grant calculations could also limit the cost of the federal Pell program without generating higher EFCs that would unduly burden middle- and higher-income families by limiting their eligibility for aid from states and institutions.

Notes

1. We use the same sample and assume a maximum grant of $5,550 (the maximum Pell grant award for the 2011–12 school year) for full-time students for all proposals. We also apply the same rules about minimum size of grant awarded and how grants vary with enrollment intensity (whether the student is attending full or part time for one or two semesters).The exception is the Pell-on-a-postcard proposals: these proposals can have a higher maximum for families with more children and we assume that the minimum sized Pell is $550 instead of $555 to keep with their format of awards which gives the same Pell grant for students over a range of income and rounds awards to the nearest $50.

2. Baum and Scott-Clayton (2013) have suggested the federal government should automatically calculate Pell grant eligibility for high school students.

3. Under the NASFAA proposal, if a household does not receive federal benefits but is not required to file taxes, they provide information on earnings and child support received to determine their Pell. Our modeling exercise revealed that the number of these nonfiler students receiving less than the maximum Pell award was very small and we suggest simply awarding these students a maximum Pell award without requesting additional information, as we have done in these estimates.

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