NASFAA

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Testimony
of
The National Association
of Student Financial Aid Administrators

Reauthorizing the Higher Education Act: Simplifying the FAFSA
and Reducing the Burden of Verification

Presented to the
United States Senate Committee on
Health, Education, Labor and Pensions

March 12, 2019

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

The National Association of Student Financial Aid Administrators (NASFAA) respectfully submits the following written testimony for inclusion in the Simplifying the FAFSA and Reducing the Burden of Verification hearing, to be held on March 12, 2019. NASFAA represents financial aid administrators at 3,000 colleges across the country. Collectively, our schools serve nine out of every ten undergraduate students in the country.

Background: The Tradeoff

To address the complexity of the Free Application for Federal Student Aid (FAFSA), we must first underscore the basic tenets that underpin the philosophy behind the federal student financial aid programs:

1. Federal student financial aid is predicated on the idea that the primary responsibility to pay for college is that of the student and the family.
2. In instances where students and families do not have the means or ability to pay for college, the federal government will provide need-based financial aid.
3. Because need-based financial aid dollars are limited, the federal government asks students to complete an application that helps to determine the financial strength of each family, and then aid is awarded accordingly. Students and families of strong financial means receive little to no need-based aid, and those with less means receive more need-based aid.

As Congress explores ways to simplify the FAFSA, it is important to remember these three tenets, because, taken together, the formula and form implement these philosophical underpinnings. Inherent in this implementation is a tension between two key goals: (1) The desire to make the form as easy as possible to complete, and; (2) creating a form that allows the federal and state governments, and schools to accurately measure the financial strength of applicants to ensure need-based grants are well targeted. Put more simply, the real challenge is to put together an application that is as simple as possible yet allows us to distinguish the truly needy from those who are not.

Ultimately, it is this tension that causes most debates within the application simplification discussion, and historically, trying to balance these two objectives has meant tradeoffs between simplification and accuracy. For example, the most accurate measure of the financial strength of an applicant would be assessed by asking detailed questions about income, sources of income, assets, savings rate, tax brackets, annual expenditures, and more. However, such a structure would make the form complex, tedious, difficult to verify, and most importantly,

extremely daunting for low-income students. First generation students with no experience with the college application process would be deterred by such a complex FAFSA, potentially losing the opportunity to attend college simply due to the form.

On the other hand, we could, as has been proposed,[1] greatly simplify the form by asking only two questions to determine the financial strength of a family: adjusted gross income and household size. While this would make the form very easy to fill out, it would likely yield a greater rate of "false positives," that is, the numbers of students who appear poor by AGI only, yet come from financially strong families who have resources elsewhere.

Because we use proxies like income to determine a family's financial strength, we will always have some false positives, even today. For example, at one large, public 4-year research institution, nearly 10 percent of their students who received federal Pell Grants did not qualify for institutional need-based aid. At this school, institutional aid is awarded using a more sophisticated financial need analysis model, suggesting that the school's assessment of need was more accurate that the federal government's. In the course of doing business, some false positives are fine, but the more we simplify the federal form, the more false positives we create.

Even if we found a very simple, generally strong proxy like AGI as a determinant for federal student aid programs, that doesn't mean that same proxy would work for all other forms of need-based grants. Similar to the federal government, schools, states, and private scholarship providers all provide need-based aid and want to make sure their funds are going to truly needy students. In fact, while the federal government provides $42 billion[2] in need-based aid per year, it is important to remember that the largest source of need-based financial aid is institutional financial aid, not federal Pell Grants[3]. Preliminary data for award year 2017-18 show institutions awarding $60 billion in institutional aid, while Pell Grants only totaled $28 billion.

The Higher Education Amendments of 1992[4] created the FAFSA in order to offer a free, centralized financial aid application for students that, in addition to federal eligibility, could be used to help inform aid eligibility for states, institutions, and other private entities. Prior to the FAFSA, students filled out multiple applications, often with the same information, making the process complicated and unnecessarily burdensome. The development of the FAFSA greatly streamlined the application process for students. While ten states still have a supplemental financial aid application, virtually all students from those states are able to pre-populate their

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[1] S. 108, Financial Aid Simplification and Transparency Act of 2015

[2] The College Board. *Trends in Student Aid, 2018.* Table 1.

[3] Ibid

[4] Public Law 102-630

state application from the FAFSA[5]. In addition, most--nearly 4,000-- institutions use data solely from the FAFSA to award their own aid.[6] The important point here is that if we go too far in simplifying the federal application we could inadvertently complicate this process even further by driving states, institutions, and private scholarship providers to return to requiring their own separate applications.

To that end, we offer what we believe should be the two core tenets of any FAFSA simplification effort: 1) While any change in public policy creates winners and losers, Congress must ensure that any modifications in the name of simplification do not do more harm than good to students; and 2) Congress should work to ensure that efforts to simplify the FAFSA will not result in states or institutions creating additional financial aid applications.

Today's FAFSA

Over the years, the federal government has grappled with the simplification versus accuracy tradeoff, sometimes adding questions to the FAFSA to try to achieve more specificity about a family's circumstances, and in other years taking away questions that were so complex they were deterring some students and families from even completing the form. For example, in 2006 Congress added active duty military as one of the criteria for independent student status,[7] and a new question was added to the FAFSA as a result. In 2009, the Department of Education (ED) added dependency status skip-logic that only asks the minimum number of questions necessary to determine an applicant's status.[8] Also in 2009-10 the IRS Data Retrieval Tool (DRT) was first made available, which allowed applicants to pull their tax information directly from the IRS. Starting with the 2011-12 award year, ED eliminated questions about enrollment status and interest in the teaching profession[9]

There are many examples of small tweaks throughout the years, that taken together, have reduced the time it takes for a student to fill out the FAFSA. For example, the average

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[5] National Association of State Student Grant and Aid Programs. *48th Annual Survey Report on State-Sponsored Student Financial Aid*.

[6] This number was calculated by NASFAA using The College Board's list of institutions using the CSS Profile and/or IDOC for 2019-20 and U.S. Department of Education. Institute of Education Sciences, National Center for Education Statistics. 2016-17 Data on institutional grant aid to first-time full-time students

[7] Public Law 109-171

[8] "Application Processing Update," presentation from ED, 2009 FSA Training Conference for Financial Aid Professionals, December 2009: https://ifap.ed.gov/presentations/attachments/GS2ApplicationProcessingSystemUpdateV1.ppt

[9] "Summary of Changes for the Application Processing System: 2011-2012," U.S. Department of Education Office of Federal Student Aid, November 2010: https://ifap.ed.gov/sumchngsappsys/attachments/111810ChangesAppProcessSys1112.pdf

completion time was approximately 31 minutes the 2017-18 application cycle[10], a vast improvement from the time it took to fill out the form when it was first developed.

Recommendations for Improvement

Even with such improvements, we can still do better. With today's technology we no longer need to make the tradeoff between simplification and accuracy, as we've had to do in the past. By relying on timing and technology, NASFAA believes Congress can dramatically reduce the number of questions for all applicants, but most of all for low-income students.

In 2015, NASFAA convened a group of diverse (geographic and sector) financial aid professionals to examine how to simplify the FAFSA. They were charged with finding a balance between simplification and assessing applicant need. Their approach sorts students and families up-front to direct them down one of three potential application pathways based on their predicted financial strength.[11] We highlight the proposal below and offer it to you as a well-developed concept for FAFSA simplification.

Broadly, NASFAA supports a three-level application process, bolstered by a robust Internal Revenue Service (IRS) Data Retrieval Tool (DRT) made possible by the recent move to the use of prior-prior year (PPY) income information.[12] With the DRT, applicants can automatically import tax data directly into their FAFSA. Since, under PPY, most applicants will use the DRT, NASFAA recommends the DRT be expanded to include all line items of the 1040 and W2.

The DRT currently includes only the following line items:
- Type of tax return filed
- Filing status
- Adjusted gross income
- Taxes paid
- Income earned from work
- Exemptions
- Education credits (1040 and 1040A only)
- IRA deductions (1040 and 1040A only)
- Tax-exempt interest income (1040 and 1040A only)

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[10] Federal Student Aid, Federal Student Aid FAFSA Volume Reports: FAFSA Data by Demographic Characteristics, 2017-18 Application Cycle

[11] "FAFSA Simplification," NASFAA FAFSA Working Group Report, July 2015: https://www.nasfaa.org/fafsa-report

[12] "The President's Plan for Early Financial Aid: Improving College Choice and Helping More Americans Pay for College" The White House, September 13, 2015: https://obamawhitehouse.archives.gov/the-press-office/2015/09/14/fact-sheet-president's-plan-early-financial-aid-improving-college-choice

- Untaxed IRA distributions (1040 and 1040A only)
- Untaxed pensions (1040 and 1040A only)

The expansion to include all 1040 line items, for example, would allow for the inclusion of other forms of income like business and investment income, and the W2 would allow for information on income earned from work for non tax filers--all without requiring the applicant to manually complete more lines. The DRT expansion would tee up the opportunity for a simple, three-pathway approach for applicants.

Path #1: After answering the initial questions on identifiers, demographics, and dependency status, all applicants would be asked if a parent (for dependent students) or anyone in their household (for independent students) was a recipient of the Supplemental Nutrition Assistance Program (SNAP) and/or Supplemental Security Income (SSI) benefits. If the applicant answered "yes", they would go through some type of automated database match to verify receipt, and the FAFSA would be complete with the applicant being eligible for the maximum Pell Grant. All asset questions would be eliminated under Path #1 across the board, since these applicants are likely to have very few assets.

If the applicants did not qualify for those federal means-tested benefits, then the FAFSA would ask if the applicant filed a tax return or was required to file. For all non-filers, the FASFA would ask about income earned from work, which could be retrieved via the expanded DRT, and child support received only. All asset questions would be eliminated.

The goal of Path #1 is to ensure that our country's neediest students, especially those who have already proven themselves poor through their eligibility for SNAP and/or SSI, do not have to yet again fill out a cumbersome form that yields the same results.

Path #2 Applicants who do not meet the conditions for Path #1, but have uncomplicated financials as demonstrated by filing a 1040EZ, 1040A, or 1040 without schedules, would be directed to the IRS Data Retrieval Tool. The infrastructure for this process already exists, we would only add the small expansion on the items being indexed and imported, as noted above.

Under Path #2 information retrieved via the DRT would include:
- Tax filing status
- Adjusted Gross Income
- Taxes paid
- Income earned from work
- IRA deductions and payments to self-employed SEP, SIMPLE, Keogh and other qualified plans

- Tax exempt interest income
- Untaxed portions of IRA distributions
- Untaxed portions of pensions
- Education tax credits
- Payments to tax-deferred pension and retirement savings plans

All of those figures would be automatically imported from the DRT, requiring no additional effort on behalf of an applicant. Related to assets, by definition, applicants who file a 1040EZ, 1040A or 1040 without forms or schedules do not have significant assets. Therefore, under Path #2, the FAFSA would ask only about cash, savings, and checking accounts. This question would apply only to dependent students (not parents of dependent students), and to independent students without dependents.

Path #3 Having not qualified for paths #1 nor #2, applicants who filed a 1040 with forms and/or schedules would be steered toward Path #3. These families have more complicated and sophisticated financial situations and would therefore be asked to complete a more sophisticated application form. However, even under Path #3, most questions can be answered through the expanded IRS DRT. All of the taxable and untaxed income questions are the same for Path #3 as for Path #2, along with the same expanded use of the DRT.
However, under Path #3, the following adjustments to income would be made:

- Negative numbers carried over from a schedule to the front of the 1040 will not be allowed. The AGI reported through the DRT will be adjusted to account for any negative income and that adjusted AGI will be used in need analysis. This would address the issue where applicants with AGIs that are significantly reduced by tax write-offs appear more financially needy than they actually are.
- Any dollar amount listed in line 21 of the 1040 with "Form 2555," for foreign income not subject to taxation, would be counted as untaxed income.

For assets, the cash, savings, and checking question would be asked of all applicants in Path #3. The other existing asset questions on investments and business/farms would be presented if a specific line item on the 1040 is populated, which indicates the potential for assets. For example, if line 12 on the 1040 is populated, that may indicate a business that should be reported on the FAFSA, and the appropriate FAFSA question would then be presented to that applicant.

Finally, the result from these changes would be to produce an index that ranks applicants according to their financial strength, instead of creating the current "expected family contribution," a misnomer and major point of confusion for students and families. This three-

pathway approach, along with the indexed ranking, is a simple, streamlined, fair, and accurate way to reform the FAFSA.

The Lynchpin: The FAFSA Act

NASFAA's proposal is predicated on the expansion of the DRT and ability to bring over more data from the IRS. A better solution, however, would be to allow ED and the IRS to directly share data with one another, thereby avoiding the pass-through of the applicant. The bipartisan Faster Access to Federal Student Aid Act (FAFSA) of 2018, would do just that. Passed by unanimous consent in the Senate in December of 2018, the FAFSA Act would would amend both the Internal Revenue Code (IRC) and HEA to allow for cross-agency data-sharing. The allowable information to be disclosed would include all items currently brought over from the DRT, and would also include "the filing status of such taxpayer," including whether the applicant had filed taxes.

We believe the authorizing of direct data-sharing between ED and the IRS, as found in the FAFSA Act, is the lynchpin to any future simplification effort. If we do not utilize and strengthen existing technology, a great opportunity will be missed. We urge the 116th Congress to re-introduce and pass this important piece of legislation.

Impact on Verification

Unfortunately, the application process does not end after a student submits a FAFSA. Many applicants are then required to *verify* the information they've just submitted. One of the major benefits of the NASFAA proposal, taken together with the FAFSA Act, is the positive impact this approach would have on reducing verification burden for both students and schools. Verification of FAFSA information can be a confusing and tedious process for students, particularly for disadvantaged students who are unfamiliar with the process. In some cases, the verification requirements can be cumbersome enough to deter some students from completing the process. Whether through direct data-sharing between ED and the IRS, or an expansion of the DRT, the need for verification will be greatly reduced because more information will be coming directly from the IRS. This eliminates hurdles for low-income students, and free up more time for financial aid administrators to counsel students, rather than push paperwork.

Conclusion

In order to strengthen the FAFSA for those who need it the most, we will need to work to balance the tension between simplification and accuracy, and be willing to accept that there might be some imperfection in pursuit of balancing these goals.

Creating an application process with these three tiers does create some complexity, but *not for*

the applicants. The complexity in programming, indexing tax returns, and transferring that data over to the Department of Education is all on the backend. And we ought not eschew complexity on the backend if it helps us maintain integrity and accuracy in the program and prevents more states, schools, and private scholarship providers from developing their own forms. Thank you for the opportunity to testify. We look forward to working with you to continue to ensure higher education access and promote college success.