

ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE

July 23, 2004

The Honorable Judd Gregg
Chairman
Senate Health, Education, Labor, and Pensions Committee
393 Senate Russell Office Building
Washington, DC 20510

Dear Chairman Gregg:

The Advisory Committee on Student Financial Assistance (Advisory Committee) is pleased to submit its interim legislative recommendations for the Special Study of Simplification of Need Analysis and Application for Title IV Aid (Simplification Study). Created by the 1986 amendments to the Higher Education Act (HEA), the Advisory Committee is an independent source of advice and counsel to Congress and the Secretary of Education on student financial aid policy. The Advisory Committee's most important legislative charge is to make recommendations that maintain and enhance access and persistence for low- and moderate-income students in postsecondary education.

In the FY2004 Consolidated Appropriations Act, signed into law on January 23, 2004, Congress charged the Advisory Committee to conduct the Simplification Study in order to identify ways to streamline the financial aid system to make it easier, more responsive, and fairer for students and families. Congress also called for us to examine ways to reduce significantly the student work penalty in the current calculation of the Expected Family Contribution (EFC) and to eliminate the unfairness resulting from the manner in which the current allowance for state and local taxes is updated. In carrying out the study, Congress directed us to focus on the needs of low- and moderate-income students and to identify and assess any potential adverse effects of proposed changes on program costs, integrity, delivery, or distribution of awards.

In authorizing the Simplification Study, members of Congress recognized the importance of simplifying the application process for Title IV programs in order to improve college access. Simplifying the Free Application for Federal Student Aid (FAFSA) helps ensure that application complexity does not hinder access to higher education for any student. Eliminating barriers posed by application complexity is particularly important for low- and moderate-income students, who may already face significant academic and financial barriers to college and may have the least resources available to assist them in completing the FAFSA.

Other aspects of the Simplification Study would also enhance college access. Reducing the work penalty enables low- and moderate-income students to work in order to reduce unmet need without being significantly penalized in subsequent years with lower grant aid eligibility. In addition, providing students with earlier information regarding their financial aid eligibility positively impacts students' aspirations and preparations for college. Taken as a whole, the benefits of financial aid simplification are an important step forward in Congress's efforts to increase access to higher education.

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An independent committee created by Congress to advise on higher education and student aid policy

Overview of Interim Legislative Recommendations

The Advisory Committee's interim legislative recommendations are enclosed. Advisory Committee members unanimously agree that the benefits provided by each of the recommendations clearly and significantly outweigh any potential adverse effects. Indeed, each recommendation was crafted with that in mind.

In developing and analyzing the recommendations, we used a variety of study methods including a comprehensive literature review, a systematic examination of Congressional and higher education community proposals, three public hearings, a request for public comment, individual consultations and interviews, and focus groups and site visits. Pursuant to our charge, we consulted with a broad range of interested parties in higher education, including parents and students, high school guidance counselors, financial aid and other campus administrators, state officials, administrators of intervention and outreach programs, and officials from the Department of Education (ED)—all of whom provided valuable insights. In particular, we recognize the contributions of the following individuals from ED without whom the necessary analyses for this study could not have been conducted: Assistant Secretary for Postsecondary Education Sally L. Stroup and Chief Operating Officer for the Office of Federal Student Aid Theresa S. "Terri" Shaw, as well as other ED staff members, including Dan Madzellan, Stephen D. Carter, and Jeffrey Baker.

If implemented, the recommendations would provide significant simplification benefits and increased fairness to millions of students and families of all income levels:

For Low-Income Students: The recommendations would extend eligibility for a maximum Pell Grant through the automatic-zero EFC (auto-zero) to a much larger number of the nation's poorest students now and in the future. Annually adjusting the auto-zero income threshold using the Consumer Price Index ensures its alignment with the income criteria for other federal means-tested programs, making it easier to provide low-income students with earlier information regarding their likely eligibility for a maximum Pell Grant. A substantially simplified short, paper form (FAFSA-EZ) would significantly reduce application burden and complexity for students who file paper forms. In addition, increasing the use of all appropriate forms of technology to overcome the digital divide would increase access to simplified application forms. Finally, we recommend implementing a comprehensive early awareness system that delivers grade-appropriate financial aid information to students in middle school and high school.

For Low- and Moderate-Income Students: Significant additional benefits would accrue to both low- and moderate-income students. The recommendations would expand and further streamline the current simplified federal need analysis and application form. Simplifying the criteria for the Simplified Needs Test (SNT) would expand access to simplified application forms. Our recommendations would also minimize the work penalty on student earnings in federal need analysis—one of Congress's most important objectives in authorizing the Simplification Study.

For all students: Finally, implementing the recommendations would benefit all students in several important additional ways. These recommendations would allow students to apply for financial aid earlier in the college application process. Further simplifying and reducing the number of data elements in the current web-based FAFSA would reduce application complexity for all students and would also permit phasing out the current complex paper application form as soon as is practicable.

Our recommendations would simplify the treatment of non-taxable income and subsequently the worksheets associated with non-taxable income. Simplification could also be achieved by eliminating from the federal application form the questions related to drug convictions and Selective Service registration status. Finally, these proposed changes would reform the state and local tax allowance in federal need analysis—another of Congress's most important objectives in creating the Simplification Study.

Taken together, the enclosed interim legislative recommendations deliver an impressive set of benefits in the form of improvements in simplification and fairness. For example, from an application question reduction standpoint alone, implementation would reduce aggregate student responses by approximately 300 million each year. The recommendations would achieve this level of simplification through a comprehensive strategy of creating a simplified paper form for the lowest-income students, exempting larger segments of the low- and moderate-income student population from completing certain unnecessary questions, eliminating some questions for all students, moving as many students as possible as soon as possible to a tailored web-based form, and phasing out the current full paper form as soon as is practicable.

Parallel Reauthorization Imperatives

Although eliminating complexity and enhancing the fairness of student aid delivery is an important goal of the upcoming reauthorization, it is important to recognize that progress in these areas will not fully address the underlying access problem facing low- and moderate-income students. This HEA reauthorization presents an important opportunity for Congress to make progress in solving the nation's core college access and persistence problem.

On May 22, 2003, in its initial reauthorization recommendations, the Advisory Committee recommended the creation of an innovative national partnership linking the federal government, states, colleges, and K-12 schools across existing Title IV programs in pursuit of measurable gains in access and persistence for the nation's neediest students. This proposed partnership was based on existing models that have been proven effective and could take full advantage of existing public and private resources. The partnership would provide students with adequate and continuing grant aid in order to reduce unmet need for low-income students. In addition, the partnership embodies an early assurance of financial access, simplified application forms and processes, and reduction of the work penalty, as proposed in the enclosed recommendations.

This reauthorization offers a unique opportunity to make significant improvements to federal financial aid programs that would open the door to higher education for larger numbers of students. The enclosed interim legislative recommendations can make the application process simpler and fairer for all students and can enhance access for some groups of students. Furthermore, our proposal for a renewed federal-state partnership assures the availability of sufficient grant aid to stem the increase in the number of students for whom access to higher education is nothing more than an empty promise. Congress can utilize these proposals to make considerable progress toward renewing the nation's commitment to college access and successful persistence to degree completion. The resulting statute could begin to ensure that the hard work of the neediest Americans who attempt to enroll in college over the next decade will be rewarded.

The Honorable Judd Gregg
July 23, 2004
Page 4

Next Steps in the Simplification Study

The Advisory Committee looks forward to working with Congress on the further development and implementation of these interim legislative recommendations. In accordance with the charge from Congress, we will also continue to develop additional legislative recommendations, as well as regulatory recommendations, which will be delivered to Congress and the Secretary on January 23, 2005.

I have asked our staff director, Dr. Brian Fitzgerald, to schedule briefings on these recommendations for your staff. If our members or staff can provide other assistance, please contact us at your convenience.

Sincerely,



Mr. Clare M. Cotton
Chairperson

Enclosure

cc: Advisory Committee members
 The Honorable Edward M. Kennedy (Identical letter sent)
 The Honorable John A. Boehner (Identical letter sent)
 The Honorable Howard "Buck" McKeon (Identical letter sent)
 The Honorable George Miller (Identical letter sent)
 The Honorable Dale Kildee (Identical letter sent)
 Members of the Committee on Health, Education, Labor and Pensions
 Members of the Committee on Education and the Workforce
 The Honorable Roderick R. Paige
 The Honorable Eugene Hickok
 The Honorable Sally L. Stroup
 Ms. Theresa S. Shaw

ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE

Special Study of Simplification of Need Analysis and Application for Title IV Aid

Interim Legislative Recommendations

Expand the automatic-zero EFC (auto-zero) by increasing the income threshold to \$25,000

Increasing the auto-zero income threshold from \$15,000 to \$25,000 makes any student with an Adjusted Gross Income (AGI) of \$25,000 or less automatically eligible for the maximum Pell Grant. This enables the lowest-income students, who are most likely to be eligible for a maximum Pell Grant, to determine their eligibility with certainty and to utilize a simplified application form. It also eliminates the work penalty for students with an AGI of \$25,000 or less and aligns the income threshold for auto-zero eligibility with the income thresholds of other federal means-tested programs, making it easier to notify students earlier about their likely eligibility for the auto-zero.

Adjust the auto-zero income threshold annually using the Consumer Price Index

Annually adjusting the income threshold for the auto-zero according to the Consumer Price Index (CPI) ensures that this threshold remains aligned with those of other federal means-tested programs, which also are adjusted annually using the CPI. Currently, the auto-zero is updated according to the Earned Income Tax Credit (EITC). Using the CPI maintains the benefits of expanding the auto-zero so that its threshold is aligned with the income limits of other federal means-tested programs.

Expand and streamline the Simplified Needs Test (SNT)

Streamlining the Simplified Needs Test (SNT) by aligning eligibility for the SNT with eligibility for other federal means-tested programs enables more students to take advantage of the simplified application form for SNT eligible students. Students currently qualify for the SNT if they have an AGI of \$50,000 or less and if they filed, or were eligible to file, IRS tax forms 1040A or 1040EZ. However, because they complete the wrong tax form, many students with incomes below \$50,000 who qualify for benefits from other federal means-tested programs do not qualify for the SNT and therefore are not able to access simplified application forms. This recommendation enables students who have an AGI of \$50,000 or less and who have participated in federal means-tested programs, such as the Free and Reduced Price Lunch Programs, Temporary Assistance to Needy Families (TANF), and the Food Stamps Program, to also qualify for the SNT. Regularly evaluating the impact of this recommendation helps to ensure that the SNT continues to be targeted to low- and moderate-income students.

Implement a paper FAFSA-EZ and phase out the full paper FAFSA

Implementing a paper FAFSA-EZ for auto-zero eligible students provides the lowest-income students with access to a simplified paper application form for federal and state aid and ensures that low-income students who lack adequate access to the Internet are able to utilize simplified

application forms. Given an expansion of the auto-zero income threshold to \$25,000, this recommendation impacts approximately 700,000 applicants. To the extent practicable given the existing digital divide, phasing out the full paper form within five years encourages more students of all incomes to take advantage of the simplified application forms available in FAFSA on the Web. In addition, making a printable version of the form available on-line provides students with the option of completing a paper form. Requiring the Secretary to report annually to Congress regarding the impact of the digital divide on Title IV applications and the steps the Secretary is taking to eliminate the digital divide and phase out the paper form also helps to ensure that all students are able to utilize a simplified on-line application process.

Reduce the number of data elements required in FAFSA on the Web

Further simplifying FAFSA on the Web ensures that each individual student utilizes an on-line application form that is tailored to the student's circumstances and includes the minimum number of questions necessary to apply for federal and state aid. Adequately tailoring the on-line application to a student's state of residence reduces the number of responses required to complete FAFSA on the Web. Additional responses would be eliminated by enabling more students to access the simplified application forms for the auto-zero and SNT available via FAFSA on the Web. This recommendation reduces the FAFSA's complexity for at least nine million applicants. Implementing a mechanism for the Secretary to systematically collect information from states on an annual basis about their data requirements and acceptance of the SNT and auto-zero enables the Secretary to maximize the effectiveness of FAFSA on the Web and use all available technology to reduce application complexity for on-line FAFSA filers.

Expand and integrate the use of appropriate technology

Providing greater access to technology simplifies the application process and reduces data elements for many low-income students. Relying solely on web-based technology as a means for simplification could potentially exclude families and communities for whom there still exists a digital divide. Providing more students with access to FAFSA on the Web and increasing the use of other appropriate technology for filing the FAFSA, such as a telephone-based application system for low-income filers, helps ensure that all students have access to simplified application forms. Almost 700,000 low-income applicants who currently file using a paper form could benefit from this recommendation.

Implement a comprehensive system of early awareness of financial aid information

Implementing an early awareness system provides middle and high school students with grade appropriate information about financial aid. Such a system enables low-income students, who are most likely to be eligible for federal grant aid, to learn about financial aid in a way that appreciably increases college aspirations and academic preparation. Providing students and families with better and earlier information about the amount of aid for which they may qualify also increases the effectiveness of existing early intervention programs, making it easier to provide accurate and targeted financial aid information to program participants. An appropriate early awareness system

provides middle school students with general information regarding financial aid and the academic requirements for preparing for college and high school students with specific estimates of their financial aid eligibility. Expanding the auto-zero to align its income threshold with those of other federally means-tested programs also makes it easier to provide low-income students and their families with early information regarding their likely eligibility for a maximum Pell Grant and for other sources of financial aid.

Allow all students to apply for financial aid earlier

Permitting students to apply for financial aid prior to January 1 enables students to receive their EFC earlier in the college application process and provides students with additional time to complete the FAFSA in order to meet deadlines for state grant aid. First, starting the federal application processing cycle as early as is practicable in the fall before the year of enrollment aligns the college admissions and financial aid application processes. Rather than having to wait until January 1, students could apply in the fall preceding their enrollment in college by estimating their income information and updating this information after filing their taxes (as many applicants currently do). ED's application processing system could facilitate this process by estimating tax information, which students would also later update.

Second, allowing students to apply even earlier than the preceding fall, such as the preceding spring, provides students with an early estimate of their federal financial aid eligibility. Students would report income and tax information for the recently completed tax year and would later update those data after filing their taxes the following year in order to determine final awards. Finally, to test the feasibility of not having to update their information to determine final awards for federal, state, and institutional aid, a pilot program for dependent students would be implemented in conjunction with states and institutions. This would enable dependent students to receive their EFC and eligibility for various sources of financial aid in their junior year of high school. A data match with the Internal Revenue Service (IRS) could also be used to verify students' income information, thereby decreasing the administrative burden on financial aid administrators. A pilot program would enable the Secretary to measure any effects on student decision-making and weigh the benefits of such a system against potential adverse effects on program integrity and award delivery.

Reduce application complexity by eliminating data elements and questions wherever possible

Assuming an expansion of the auto-zero income threshold to \$25,000, eliminating certain non-taxable income data elements that are currently found on Worksheets A and B simplifies the FAFSA and reduces application complexity for all students. This recommendation reduces the number of data elements required to complete the FAFSA. Candidates for elimination are non-taxable income data elements that meet at least one of the following criteria: a majority of eligible recipients have an income under \$25,000, the average benefit is not large enough to be significant, or only a small portion of the population receives this benefit. Viable options for exclusion include the EITC, the additional child tax credit, TANF benefits, untaxed social security benefits, foreign income exclusion, and the credit for federal tax on special fuels. This recommendation benefits more than 10 million applicants.

Eliminate the drug conviction and Selective Service registration questions

After implementing the previously described recommendations and maintaining questions on the FAFSA required for identification and for federal or state need analysis, eliminating the question related to drug convictions and the two questions related to Selective Service registration status would further simplify the FAFSA and reduce application complexity. Although several redundant questions could also be eliminated through administrative mechanisms, only these additional three questions can be eliminated through statutory changes after implementing the aforementioned recommendations. Eliminating these questions reduces application burden for all 13 million applicants.

Minimize the work penalty on student earnings

Reducing the work penalty supports working students and reduces the current disincentive for students to work to meet unmet need. Raising the Income Protection Allowance (IPA) by \$1,000 allows students who earn relatively modest amounts to protect all of those earnings from need analysis and is perhaps the most transparent and understandable option to address the work penalty. Lowering the assessment rate on student earnings to 40 percent for dependent students and for independent students without dependents enables these students to protect more of their earnings above their IPA from contribution and use more of their earnings to lower their unmet need. At a minimum, two million applicants are expected to benefit from these changes.

Eliminate the unfairness associated with updates to the state and local tax allowance

Eliminating entirely the allowance for state and local taxes while raising the IPAs ends the unpredictable program disruptions that occur because of the infrequent updates to these allowances. The increase in IPAs should hold the maximum number of students harmless from award changes. Both the elimination of the state and local tax allowance and the increase to the IPAs should be phased in proportionately over the course of three years to avoid any sudden changes to individuals' expected contributions. However, if funds are not available to increase IPAs to a level that holds the maximum number of students harmless, then the Advisory Committee recommends retaining the current allowance for state and local taxes and phasing in periodic updates to avoid loss of Pell Grant eligibility for large numbers of students.