Exploring Ways to Enhance FAFSA Efficiency: 2020 NASFAA FAFSA Simplification Proposal Update

NASFAA
NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Published August 2020

This report is based on research funded by the Bill & Melinda Gates Foundation. The findings and conclusions contained within are those of the authors and do not necessarily reflect positions or policies of the Bill & Melinda Gates Foundation or NASFAA.

Contents

Acknowledgements:

NASFAA wishes to thank the following members of the financial aid community for their thoughtful feedback during this project:

Vickie Crupper, University of Michigan

David Gelinas, Davidson College

Gail Holt, Amherst College

Pat Hurley, Glendale Community College (retired)

Mark Lindenmeyer, Loyola University, Maryland

Dan Madzelan, U.S. Department of Education (retired)

Sylvia Martinez, Colorado State University

Matthew Moore, Sinclair College

Christina Tangalakis, Glendale Community College

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NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

The National Association of Student Financial Aid Administrators (NASFAA) is a nonprofit membership organization representing more than 20,000 financial aid professionals at nearly 3,000 colleges, universities, and career schools across the country. NASFAA member institutions serve nine out of every 10 undergraduates in the United States. Based in Washington, D.C., NASFAA is the only national association with a primary focus on student aid legislation, regulatory analysis, and training for financial aid administrators. For more information, visit https://www.nasfaa.org.

Introduction and Background

As Congress and the higher education community work toward the reauthorization of the Higher Education Act, broad themes are beginning to emerge. While the specifics are yet to be determined, draft bills, hearings, and conversations have signaled that the upcoming reauthorization will have a strong focus on college cost and affordability, transparency and accountability, and simplification. Of these themes, the concept of simplification has garnered the strongest bipartisan support, with a particular focus on the federal student aid application process.

The National Association of Student Financial Aid Administrators (NASFAA) has long been interested in ways to make the Free Application for Federal Student Aid (FAFSA) and the overall application process simple and more efficient for students and families. Over the years, NASFAA has offered recommendations to simplify the form and has been generally pleased by the improvements over time, including "smarter" skip-logic and the implementation of the IRS Data Retrieval Tool (DRT).

In the summer of 2014, Sens. Alexander (R-TN) and Bennett (D-CO) released a proposal to eliminate the FAFSA and instead calculate federal financial aid eligibility by using a two-question postcard asking applicants only about their family size and adjusted gross income (AGI). Around the same time, the Obama administration released a proposal to eliminate approximately 30 questions from the current form by removing many of those related to untaxed income and assets. As a result of these proposals, NASFAA naturally received frequent inquiries about which questions financial aid administrators think should be on the FAFSA form.

Concerned about the implications of a two-question FAFSA, but at the same time acknowledging there is always room for improvement, in 2015 NASFAA established the FAFSA Working Group (FWG) consisting of practicing aid administrators. The FWG developed a model that would expand the use of existing technology to simplify the process while still ensuring program integrity and accurate targeting of federal funds.

Rather than a "one size fits all" simplification proposal, the FWG recommended a tiered approach that steers applicants down an application pathway based on their status as a federal means-tested benefit recipient and their tax filing status. This model presents the bare minimum of FAFSA questions to applicants who have low presumed financial strength based on means-tested benefits and tax filing status, and presents more questions to applicants with higher levels of presumed financial strength. In this way, we can target FAFSA questions about certain types of income or assets to those populations who are most likely to have those resources.

A flowchart describing the 2015 NASFAA FAFSA Simplification Proposal appears in Appendix A.

Current Work

In 2019, NASFAA received a grant from the Bill & Melinda Gates Foundation to further explore ways to make the Free Application for Federal Student Aid (FAFSA) and the overall federal aid application process more efficient and streamlined for students and families. The ideas and research produced through this grant work will help address the main challenge in simplifying the application process: creating an application that simultaneously makes the process easier for applicants and accurately distinguishes those who are truly in need of Title IV aid from those who are not.

Through the grant, NASFAA has commissioned a series of papers on pre-identified FAFSA topics to be written by associations, think tanks, and scholars. As part of the paper series, NASFAA has updated our 2015 FAFSA simplification proposal in light of newfound information and changes to federal tax forms implemented since its publication. We consulted a small group of our members, including the former members of the 2015 FWG, for their ideas and feedback as we developed the updated proposal. The NASFAA Board of Directors has approved the recommendations included here, which have been incorporated into NASFAA's recommendations for reauthorization of the Higher Education Act.

In addition to the following recommendations, a flowchart and table describing the 2020 NASFAA FAFSA Simplification Proposal appear in Appendices B and C.

Recommendation 1: Implement and expand direct data sharing between the IRS and the Department of Education.

Rationale: NASFAA predicated its updated FAFSA simplification proposal on the implementation and expansion of the direct data sharing permitted by the FUTURE Act, enacted in December 2019. Generally speaking, the goals of simplicity and accuracy/program integrity are at odds with each other; creating a highly accurate need analysis system is not simple. However, using more information obtained directly from the IRS would allow for a simpler application and reduce burden for applicants while retaining a high standard of accuracy.

As a reminder, the DRT, which is currently in use during development and implementation of direct data sharing between the Internal Revenue Service (IRS) and U.S. Department of Education (ED), includes the following line items:

- Type of tax return filed
- Filing status
- AGI
- Taxes paid
- Income earned from work
- Exemptions
- Education credits
- Individual retirement account (IRA) deductions
- Tax-exempt interest income
- Untaxed IRA distributions
- Untaxed pensions

We recommend expanding data sharing to include information about the filing of specific IRS forms and schedules as well as specific line items.

When ED first introduced the DRT, the FAFSA used prior-year income data. Because the IRS cannot provide Form W-2 information from the prior year in a time frame that works for financial aid application purposes, ED has never had a realistic opportunity to include W-2 information in the DRT. Now that the FAFSA uses prior-prior year (PPY) income data instead of prior-year data, there is an opportunity to explore expanding the data sharing capabilities to include information from W-2 forms, which would permit retrieval of income earned from work for non tax filers. The direct data sharing permitted by the FUTURE Act also includes non-filing status, which is an important linchpin for our proposal.

Recommendation 2: Institute a three-level application process where, after answering demographic and dependency status questions, applicants would be steered down one of three paths based on screening questions and the results of IRS/ED direct data sharing.

NASFAA's 2015 FAFSA simplification proposal included a three-level application process. The updated proposal maintains the same basic framework with changes to reflect new information and new IRS tax forms.

Path 1 (Automatic-Zero EFC Group):

After the applicant answers the initial questions on identifiers, demographics, and dependency status, IRS/ED data sharing would be conducted.

Applicants whose data sharing results indicate a non-filing tax status would only list the chosen school codes, sign and date the FAFSA, and submit it. The FAFSA would gather no further financial information and the applicant would automatically be eligible for the maximum Federal Pell Grant.

Applicants whose data sharing results indicate an income tax return with an AGI of $50,000 or above would proceed to Path 2 or Path 3.

Applicants whose data sharing results indicate a tax return with an AGI of less than $50,000 would be asked if a parent (for dependent students) or anyone in their household (for independent students) was a recipient of any of the following means-tested benefits:

- Supplemental Nutrition Assistance Program (SNAP)
- Medicaid
- Supplemental Security Income (SSI)
- Temporary Assistance for Needy Families (TANF)
- Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

Applicants answering "yes" to the means-tested benefit question would list the chosen school codes, sign and date the FAFSA, and submit it. The FAFSA would gather no further financial information, and the applicant would automatically be eligible for the maximum Pell Grant.

Applicants answering "no" to the means-tested benefit question would proceed to Path 2 or Path 3.

Rationale for Path 1: A high priority for the working group was to reduce application burden for the neediest FAFSA applicants, many of whom have already been determined to qualify for other federal means-tested benefit programs. One way to reduce application burden is to move the IRS/ED data sharing process to earlier in the application and use the verified information provided by the data sharing to sort applicants.

Non-filing status "verified" by the IRS through data sharing is, by definition, more accurate than a self-reported item, thus justifying an automatic-zero EFC without further eligibility criteria. The minimum income to file taxes is $12,200 for single filers and $24,400 for joint filers, both of which are below the current automatic-zero income threshold of $26,000.

While the FWG unanimously supported relying on other government agencies' determinations of neediness, the working group also felt concerned about program integrity and the desirability of a simple verification process (ideally a real-time database match). With these priorities in mind, the 2015 working group decided SNAP and SSI were the most appropriate programs to use for this purpose.

Since the release of the 2015 proposal, we have learned more about the administration of federal means-tested benefit programs. It appears that, in most cases, automatic, real-time verification of receipt of means-tested benefits with the appropriate federal agency would not be logistically possible because these programs do not report recipient-level data to the federal government. Because of this limitation, we are proposing an AGI threshold of $49,999 as an additional eligibility criterion for automatic-zero EFC for recipients of means-tested benefits. The income threshold addresses concerns about applicants being eligible for an automatic-zero EFC based solely on their self-reported receipt of benefits and avoids the complexity of requiring the applicant to somehow document their receipt of means-tested benefits.

The infeasibility of a database match confirming receipt of means-tested benefits also prompted us to expand the qualifying benefit programs to all of those currently on the FAFSA, minus the Free and Reduced Price Lunch program, which we excluded due to its perceived imprecise targeting under the Community Eligibility Provision.

It is difficult to pinpoint an appropriate AGI threshold because means-tested benefit program requirements vary, both across programs and among states. Eligibility may vary based on family size as well, which means there may be applicants who are means-tested benefit recipients but whose AGI is $50,000 or higher. However, there is less need to pinpoint a threshold because applicants with an AGI > $50,000 who also receive a means-tested benefit would only be ineligible for the automatic-zero EFC. They would have to answer more FAFSA questions, but they may end up with a "calculated" zero EFC.

Because of the $50,000 AGI threshold, applicants whose verified AGI is > $50,000 would not be presented with the questions about receipt of means-tested benefits since they are ineligible for the automatic-zero EFC. Applicants with a verified AGI > $50,000 would proceed straight to Path 2 or Path 3, depending on whether they filed tax schedules other than Schedule 1 as verified by IRS/ED data sharing.

Path 2:

Applicants who do not meet the conditions for Path 1 (the automatic-zero EFC group) and who filed no tax schedules or only filed Schedule 1 would be directed to Path 2. The filing of tax schedules would have already been confirmed earlier in the process by IRS/ED data sharing, so the funneling of applicants would be seamless from their perspective.

The EFC formula would be functionally the same as it is currently, except with the elimination of some fields related to untaxed income, excludable income, and assets.

Untaxed income fields would include:

- IRA deductions
- Tax-exempt interest income
- Untaxed IRA distributions
- Untaxed pensions
- Child support received

Excludable income would include only education tax credits (American Opportunity Tax Credit and Lifetime Learning Tax Credit).

Related to assets, the FAFSA would ask Path 2 applicants only about cash, savings, and checking accounts. This question would apply only to dependent students (not parents of dependent students), and independent students without dependents.

Rationale for Path 2: There are nine sub-questions related to untaxed income on the FAFSA, yet only small percentages of FAFSA applicants report untaxed income. According to data NASFAA received from ED, for the 2018-19 application cycle, every untaxed income question received an answer from less than .5% of dependent applicants. Independent students most frequently reported receiving child support, at 1.93% of independent applicants. For parents of dependent students, the fields with the highest response rates were child support received (4.86%) and untaxed pensions (3.04%).

A cost-benefit analysis led us to propose retention of only those questions that can be retrieved via IRS/ED data sharing plus child support received, which can be a significant source of financial support.

Similarly, very small percentages of FAFSA applicants report excludable income, yet the FAFSA includes six related sub-questions. For the 2018-19 application cycle, less than 1% of dependent applicants answered each question about excludable income except for education tax credits (1.2%). Independent students reported education tax credits with the most frequency at 14.34% of independent applicants. Less than 2% of independent applicants reported income on any of the other excludable income questions. For parents of dependent students, education tax credits had the highest response rate (20.42%), and less than 2% of applicants reported income in all other fields.

Based on these data, we propose retaining the question about tax credits and eliminating the other five.

Fifty-five percent of all 2018-19 dependent applicants reported cash, savings, and checking amounts, and 4.08% reported real estate/investments. Independent students reported cash, savings, and checking amounts at the rate of 27.41%, and 5.15% reported real estate/investments. For parents of dependent students, 37.23% reported cash, savings, and checking amounts, and 17.49% reported real estate/investments.

The 2018-19 application cycle used 2016 tax-year information. These percentages reflect all FAFSA applicants, including those who were not presented asset questions (i.e., those eligible for the simplified needs test and automatic-zero EFC). Schedule 1 also did not exist in 2016, so the percentages are likely lower for current FAFSA applicants who have not filed a schedule other than Schedule 1. By definition, applicants who do not file schedules other than Schedule 1 do not have significant assets. If they did, they would most likely be required to file other schedules.

Given the generally low response rate for assets as well as the low assessment rate for assets in the EFC formula, we recommend eliminating all asset questions for parents and independent students with dependents other than a spouse.

Assets have a much larger impact for dependent students since they do not receive an asset protection allowance and their assets are assessed at a higher rate. For that reason and the higher response rate from dependent students, we recommend retaining the cash, savings, and checking question for dependent students.

Although we do not believe independent students without dependents other than a spouse have significant assets as a group, historically the methodology for dependent students and independent students without dependents have been analogous, and the FWG wanted to retain that alignment. Therefore, we also recommend retaining the cash, savings, and checking accounts question for independent students without dependents other than a spouse.

Path 3:

Having not qualified for Path 1 or Path 2, applicants who filed a 1040 with forms and/or schedules other than Schedule 1 would be steered to Path 3.

All of the taxable and untaxed income questions would be the same for Path 3 as for Path 2. However, under Path 3 any dollar amount listed in line 45 of IRS Form 2555, Foreign Earned Income, would be counted as untaxed income.

For assets, the FAFSA would ask all applicants the cash, savings, and checking accounts question. It would present the other existing asset questions on investments and business/farms if IRS/ED data sharing indicated that a specific line item on the 1040 or Schedule 1 was populated, which suggests the potential for assets. For example, if line 3 on Schedule 1 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.

Rationale for Path 3: Foreign income reported on IRS Form 2555 but not subject to U.S. taxation is currently not included in the EFC formula, called Federal Methodology (FM). Although this affects a low percentage of applicants, the dollar amounts can be very significant, and the omission of the foreign earned income exclusion from the FM often makes affected applicants appear to be needier than they actually are. Including this foreign income as untaxed income is a fair treatment.

Recommendation 3: Adjust the AGI reported through IRS/ED data sharing to account for any negative income reported on Schedule 1 and use that adjusted AGI in need analysis.

Rationale: As federal budgets have tightened and Congress has instituted eligibility changes solely to save money, aid administrators have become increasingly concerned about FAFSA applicants who can claim a loss for tax purposes even though that loss does not indicate a reduction in the family's actual financial strength. Under the current formula, many of these applicants appear to be much needier than they actually are. Prohibiting negative figures from Schedule 1 (specifically lines 3 – 6 and line 8) levels the playing field somewhat while still allowing financial aid administrators to retain their ability to consider a family's special circumstances under their professional judgment authority in situations where a family's losses on the tax return do reflect an actual loss in financial strength.

Recommendation 4: Eliminate the term expected family contribution (EFC) and replace it with a term that reflects an indexing of financial strength.

Rationale: The FWG felt strongly that because FM has been modified over the years to accommodate political whims and cost concerns, the term "expected family contribution" is now a misnomer that misleads and confuses students and families. Rather than representing a financial contribution by the applicant, the results of the FM function more as an index that ranks applicants according to their financial strength. The name of the index should be changed to reflect that reality.

Conclusion

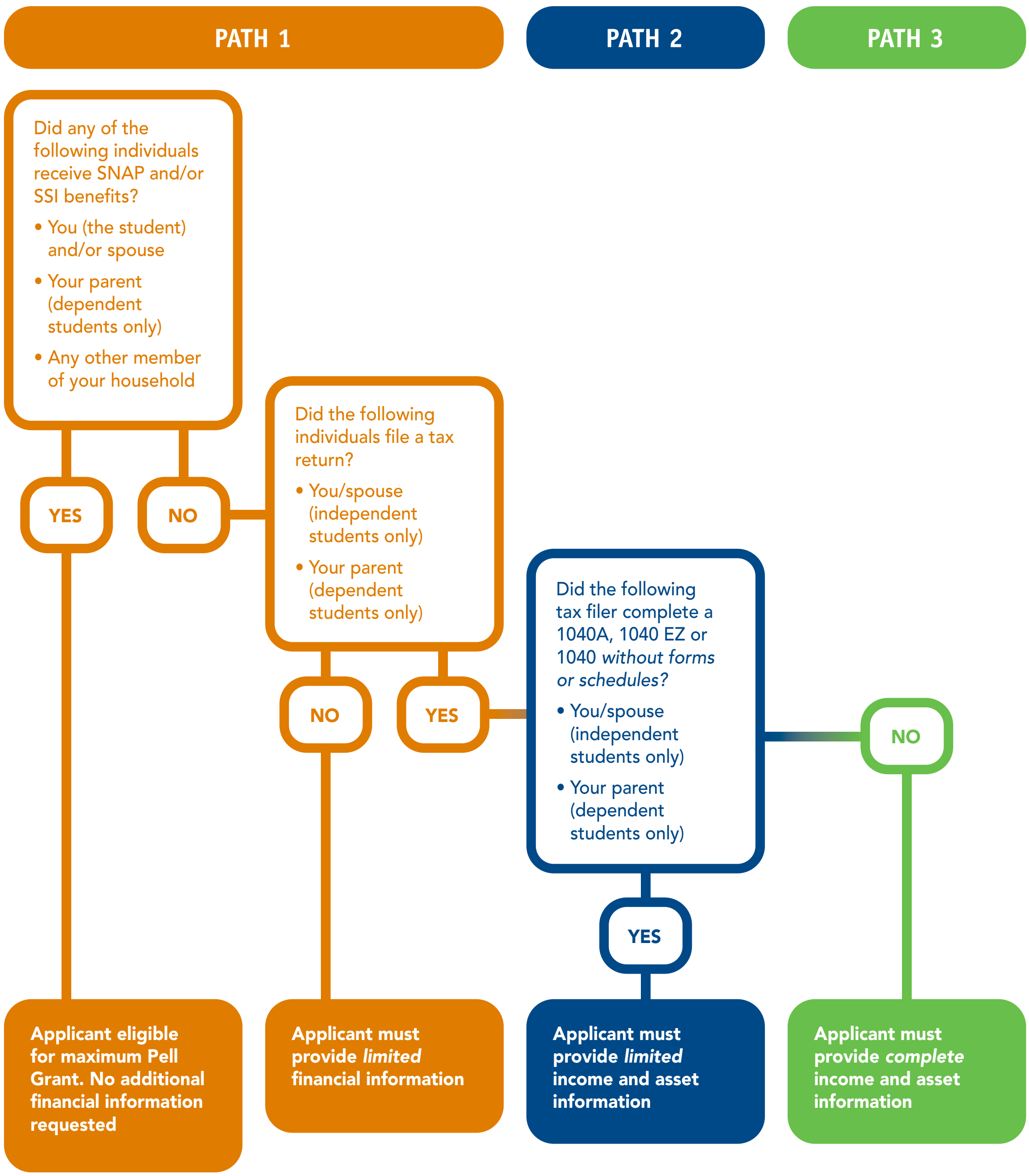
Five years after NASFAA released its original FAFSA simplification proposal, we continue to face the same challenge: creating an application that simultaneously makes the process easier for applicants and accurately distinguishes those who are truly in need of Title IV aid from those who are not.

We are optimistic that the IRS/ED direct data sharing authorized by the FUTURE Act will streamline the FAFSA process, and we are hopeful that proposals such as ours, which build off the FUTURE Act, will inform policymakers as they continue their bipartisan discussions about FAFSA simplification in the next reauthorization of the Higher Education Act.

Appendix A

FAFSA Application Process, 2015 Proposal: Three Pathways

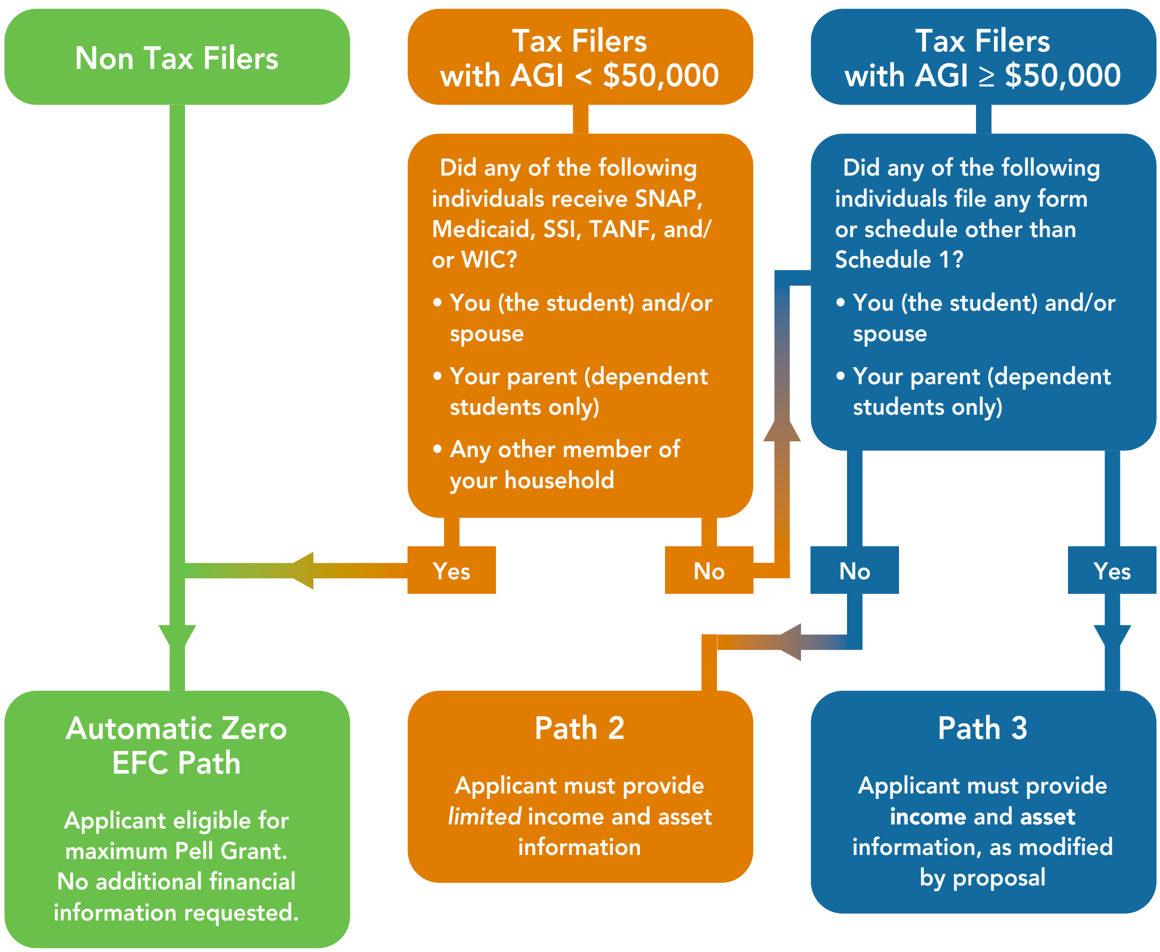
After initial questions related to demographics and dependency status, the FAFSA will ask applicants about receipt of SNAP and/or SSI benefits and for those who answer "No", tax filing status. The applicant's response(s) will then steer the applicant down one of three pathways.



Appendix B

FAFSA Application Process, 2020 Proposal: Three Pathways

After initial questions related to demographics and dependency status, IRS/ED data sharing would be conducted. he results of the data sharing will then either steer the applicant to the Automatic-Zero EFC Path (Path 1) or to Path 2 or 3, depending on whether they filed tax schedules other than Schedule 1.



Appendix C

2020 NASFAA FAFSA Simplification Proposal: Number of FAFSA Questions by Pathway

Maximum number of questions	Benefit recipients with AGI < $50,000 and non tax filers	Tax filers with no schedules other than Schedule 1	Tax filers with schedules other than Schedule 1
29	Demographic questions: • Name • Address • Social Security Number • Date of birth • Telephone number • Driver's license • Email address • Citizenship • Marital status • State of legal residence • Parent education • High school completion status • Grade level • Academic program • Interest in FWS	Demographic questions: • Name • Address • Social Security Number • Date of birth • Telephone number • Driver's license • Email address • Citizenship • Marital status • State of legal residence • Parent education • High school completion status • Grade level • Academic program • Interest in FWS	Demographic questions: • Name • Address • Social Security Number • Date of birth • Telephone number • Driver's license • Email address • Citizenship • Marital status • State of legal residence • Parent education • High school completion status • Grade level • Academic program • Interest in FWS
13	Dependency status	Dependency status	Dependency status
1	Recipient of a means-tested benefit program		
2		Adjusted gross income	Adjusted gross income
2		Taxes paid	Taxes paid
3		Income earned from work	Income earned from work
1		Child support received	Child support received
5		Other untaxed income	Other untaxed income
2		Education tax credits	Education tax credits
2		Household size/number in college	Household size/number in college
1		Cash, savings, checking (dependent students and independent students without dependents only)	Cash, savings, checking
1			Investments
1			Business/investment farms
1	School codes	School codes	School codes
2	Signature/date	Signature/date	Signature/date
Range of questions minus demographics	6 - 28	22 - 33	24 - 35

Note. The 2020-21 FAFSA has a maximum of 137 questions for dependent students. Blue shading indicates items that would be retrieved via IRS/ED data sharing.

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