

October 2009

FEDERAL STUDENT AID

Highlights of a Study Group on Simplifying the Free Application for Federal Student Aid

This report was revised on December 3, 2009, to correct how some legal information is characterized. The text on pages 16 through 18, on both the Web and printed versions, has been revised to reflect a statutory provision that authorizes the Secretary of Education, as of July 1, 2010, to use income data one year older than is currently used to determine student aid eligibility.



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Highlights of [GAO-10-29](#), a report to congressional committees

Why GAO Did This Study

Federal student aid is intended to play an integral part in fulfilling the promise of greater academic access and success for less affluent students. However, many experts have expressed concern about the length and complexity of the Free Application for Federal Student Aid (FAFSA) and the statutory need analysis formula used to determine aid eligibility. The Higher Education Opportunity Act required GAO to form a study group to examine options and implications in simplifying the financial aid process. The study group focused on (1) identifying ways to shorten the FAFSA and make it less burdensome to complete, (2) identifying changes to the statutory need analysis formula that would reduce the amount of financial information required by the FAFSA without causing significant redistribution of federal and state student aid, and (3) determining how any changes to the FAFSA and the statutory need analysis formula could be implemented. To address these questions we convened an expert panel on May 7, 2009, and conducted additional interviews with experts. This summary captures the ideas and themes that emerged at the panel and during interviews. It does not necessarily represent the views of GAO or of the organizations whose representatives participated in the study group.

GAO makes no recommendations in this report. The Departments of Education, Treasury, and the Internal Revenue Service had no comments on the draft report.

[View GAO-10-29 or key components.](#)
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FEDERAL STUDENT AID

Highlights of a Study Group on Simplifying the Free Application for Federal Student Aid

What GAO Found

Study group participants said using federal income tax data that the government already collects and revising the form could shorten the application process, making it easier on students and their families. Many participants proposed that relevant federal income tax data be directly transferred to the appropriate answer fields on each applicant's online FAFSA, an approach that the Department of Education (Education) plans to pilot for some applicants in January 2010. Such a change could decrease the amount and complexity of some of the financial questions on the application. In addition, many participants proposed changes to the design and contents of the form to clarify and streamline the application. Education has recently taken steps to shorten and reorganize the online form and has plans for further improvements.

Participants said changing the federal formula to reduce required financial information would ease applicants' burden, but such a shift would likely result in some change in the distribution of aid. Many study group participants supported changing the need analysis formula to rely solely on a family's income and number of tax exemptions to determine aid eligibility. These changes would greatly reduce the number of complicated financial questions on the FAFSA. However, reducing the amount of financial information collected could change the distribution of federal, state, and institutional aid, prompting some concern about this approach. Education's recent legislative proposal to limit the formula to financial information available through tax forms would eliminate 26 financial questions, including those on assets.

Participants said technology and public outreach efforts could improve the federal student aid application process, but successful implementation of changes hinges on the ability of federal and state agencies to address several challenges. While it is feasible to electronically transfer tax data directly from the Internal Revenue Service (IRS) to the FAFSA by using income data one year older than what is currently required, participants expressed some concern about the potential implications of such a change. Specifically, using older tax data might result in increased aid eligibility for some applicants whose data may not reflect their current economic needs. In addition, it may be more difficult for applicants who do not file taxes to provide sufficient documentation of their income from two years earlier. Education and the IRS have begun developing a plan to allow some applicants to electronically access their tax data when they apply for aid online. However, because taxpayers can submit their data as late as April 15, these data will not be available in time to accommodate most aid applicants. Many participants also called for linking state aid Web sites to the online federal application to mitigate the potential effects of federal formula changes on state aid. Education plans to offer this option to states in January 2010. In addition, participants said that efforts to simplify the application process should be accompanied by a public outreach strategy aimed at increasing knowledge of the availability of federal student aid. Education plans to undertake a public outreach campaign beginning in fall 2009.

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Abbreviations

AGI	adjusted gross income
COA	cost of attendance
EFC	expected family contribution
Education	Department of Education
FAFSA	Free Application for Federal Student Aid
HEA	Higher Education Act of 1965
IRS	Internal Revenue Service

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United States Government Accountability Office
Washington, DC 20548

October 29, 2009

The Honorable Tom Harkin
Chairman
The Honorable Michael B. Enzi
Ranking Member
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable George Miller
Chairman
The Honorable John P. Kline
Ranking Member
Committee on Education and Labor
House of Representatives

Federal student aid is intended to play an integral part in fulfilling the promise of greater academic access and success for less affluent students. In fiscal year 2008, the Department of Education (Education) delivered about \$96 billion in federal student aid through grant, work-study, and loan assistance to almost 11 million postsecondary students and their families. Additionally, the College Board estimates that states and postsecondary institutions provided approximately \$37 billion in grant aid to students in the 2007 to 2008 academic year.¹ Completion of the Free Application for Federal Student Aid (FAFSA) is the first step in securing federal financial assistance, such as need-based grants and loans, for postsecondary education. Federal aid is currently awarded based on a formula specified in the Higher Education Act (HEA), as amended, that takes into account such factors as income, assets, and tax expenses that students and their families report. Many state and postsecondary institutions rely on the information provided in the FAFSA and the federal statutory need analysis formula to calculate their own aid awards. However, many experts, both within and outside of government, have expressed concern about the length and complexity of the FAFSA and the formula used to determine aid eligibility, including the possibility that the application process itself may discourage some students from applying. Education estimates that nearly eight million college students never apply for federal aid, and further contends that most of these students would be eligible for some

¹The College Board, *Trends in Student Aid 2008* (2008).

type of assistance if they applied.² In addition, another study estimates that of the students who did not apply for federal aid in the 2007 to 2008 academic year, 2.3 million would have qualified for Pell Grants, which are targeted at low-income students.³ Although the potential impact of FAFSA simplification on the number of applicants is unknown, many experts presume that it would increase the number of applicants for federal student aid. Despite a general consensus on the need to simplify and streamline the student aid application process, there are varying views on how best to achieve this aim.

The Higher Education Opportunity Act⁴ required GAO to form a study group to examine options and implications for simplifying the financial aid process. In convening this group, we focused on the following objectives: (1) identifying ways to shorten the FAFSA and make it less burdensome to complete, (2) identifying changes to the statutory need analysis formula that would reduce the amount of financial information required by the FAFSA without causing significant redistribution of federal and state student aid, and (3) determining how any changes to the FAFSA and the statutory need analysis formula could be implemented.

To form a study group, we convened an expert panel and conducted interviews to examine options for simplifying the student aid application process. The panel, held on May 7, 2009, was composed of 20 experts from the Departments of Education and Treasury, the Internal Revenue Service (IRS), the Office of Management and Budget, the Congressional Budget Office, postsecondary institutions, state executive offices of higher education, and other experts, as required by the Higher Education Opportunity Act. We selected these participants to represent a range of views on the issues. See appendix I for the panel agenda and appendix II for a list of participants. To gain a better understanding of issues related to FAFSA simplification, we conducted interviews with officials from the Departments of Education and Treasury and the Congressional Budget Office. As part of the study group, we also interviewed representatives from four higher education professional associations, seven state aid agencies, and financial aid administrators from eight 2-year and 4-year

²Department of Education, *Report to Congress on Efforts to Simplify the Free Application for Federal Student Aid (FAFSA)* (Jan. 16, 2009).

³Kantrowitz, Mark, *Student Aid Policy Analysis: Analysis of Why Some Students Do Not Apply for Financial Aid* (Apr. 27, 2009).

⁴Pub. L. No. 110-315, § 483(f)(3).

postsecondary institutions, including public, private not-for-profit, and private for-profit institutions. In addition, we reviewed relevant federal laws and regulations. Following Education's June 2009 announcement of its plan for simplifying the aid application process and conducting outreach, we provided study group participants—both those who attended our expert panel and several people we interviewed—with the opportunity to comment on the plan.

This summary captures the ideas and themes that emerged at the panel and during interviews. This summary does not necessarily represent the views of GAO or of the organizations whose representatives participated in the study group. Panel participants reviewed a draft of this summary, and their comments were incorporated where appropriate. We conducted this engagement from November 2008 to October 2009 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions.

Background

Federal Need Analysis Methodology

The HEA, as amended, specifies a formula, known as the federal need analysis methodology, to determine students' eligibility for federal need-based student aid. A student's need for financial aid is calculated using a formula that subtracts a student's expected family contribution (EFC) from the student's cost of attendance (COA). The EFC represents the applicant's household financial resources that are considered available to help pay for postsecondary education expenses and is calculated by reducing the financial resources reported by applicants by certain expenses and allowances, including state and other tax allowances.

The factors used to calculate the EFC differ based on whether students are classified as financially dependent on their parents or are independent. For dependent students, the EFC is based on such factors as the student's and parents' income and assets, as well as family size and whether the family has other children enrolled in college. For independent students, the EFC is based on such factors as the student's and, if married, spouse's income and assets and whether the student has any dependents other than a spouse, as well as the number of family members enrolled in college.

The COA at a postsecondary institution includes tuition, fees, books, and living expenses. If the COA is greater than the EFC, the difference between the two represents the student's financial need. For example, if a postsecondary institution has a COA of \$10,000 and a student has an EFC of \$4,000, the student is eligible for up to \$6,000 of federal need-based aid. If the EFC is greater than the COA, the student is not eligible for federal need-based aid but may qualify for aid that is not need-based.

The Financial Aid Application Process

In the 2007 to 2008 academic year, more than 12 million prospective students applied for federal student aid. Education requires student aid applicants to complete the FAFSA to collect students' data for the federal need analysis formula. Although the primary purpose of the FAFSA is to help Education distribute federal student aid, the form also accommodates the needs of state and institutional aid programs that rely on the FAFSA data for their own eligibility calculations. Prior to the creation of the FAFSA, separate application forms were required to apply for various types of federal, state, and institutional aid. As required by law, in 1992, Education streamlined the student aid application process by consolidating many of these forms into a unified FAFSA. Since then, Education has undertaken periodic efforts to modify the form's design and instructions and reduce data elements required of applicants. In addition, several amendments to the HEA have also modified the FAFSA by adding, for example, some new questions to the application.

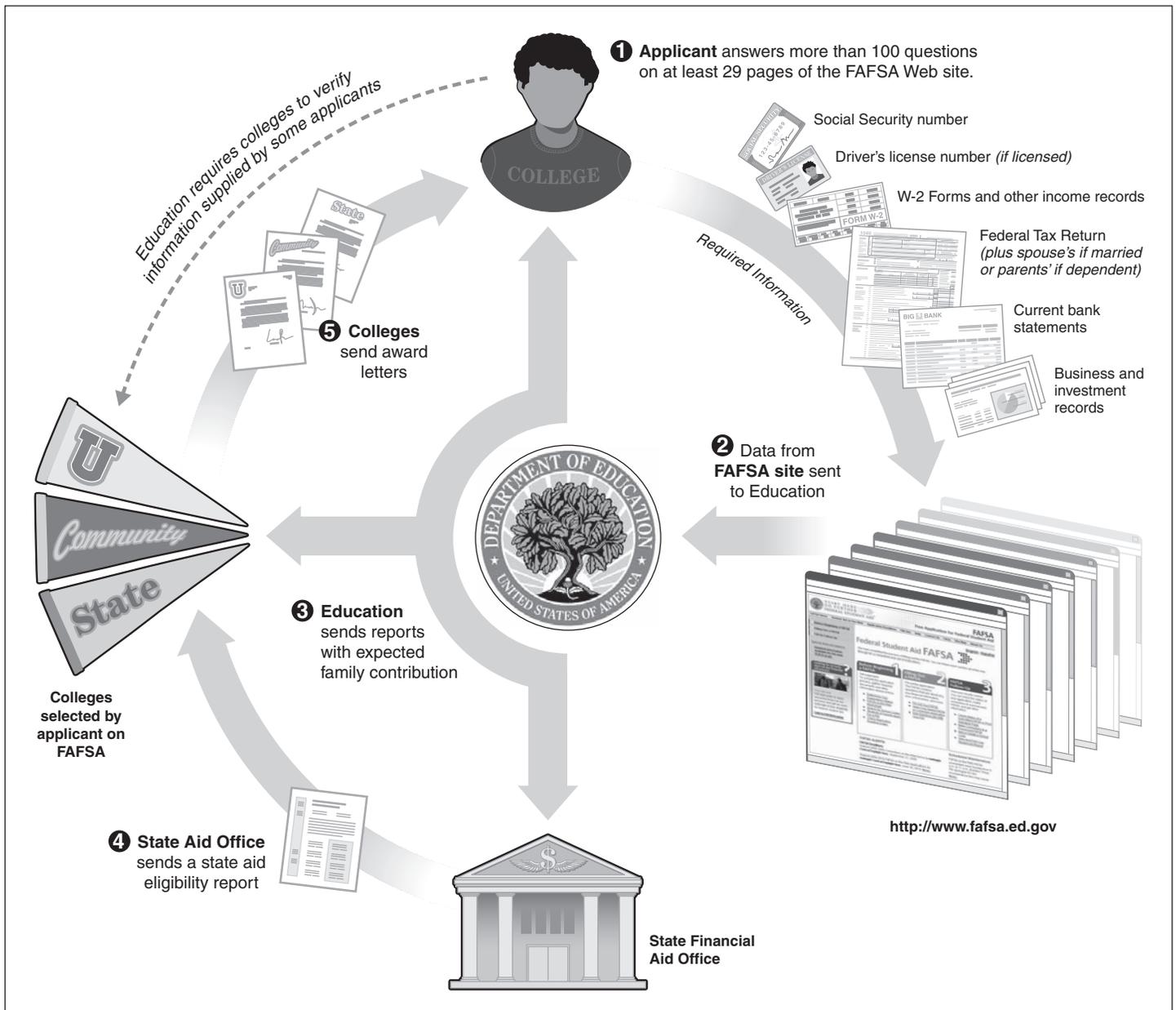
The 2009 to 2010 FAFSA consists of more than 100 questions that collect information ranging from basic contact information to the current value of assets. While less than half of the questions ask for financial information, many of these questions require applicants and the parents of dependent applicants to search for information located on tax returns as well as bank, business, and investment records.

While both online and paper versions of the FAFSA are available, Education recommends that applicants file online to take advantage of features that are not available on the paper form, such as skip-logic, which allows applicants to skip questions that do not pertain to them. For example, independent students are not asked for their parents' financial information. The online FAFSA can also detect many errors prior to applicants' submission and allow the applicant to make corrections. If such errors are made on the paper form, they may take weeks to resolve, delaying financial aid eligibility notification from Education. According to Education, 98 percent of FAFSA applications are submitted online. Education's student aid application processing cycle covers an 18-month

period. For example, applicants seeking federal aid for the 2009 to 2010 award year can submit a FAFSA from January 1, 2009, through June 30, 2010; however, most states and institutional aid programs have earlier FAFSA deadlines.

After Education processes an applicant's FAFSA, a report is sent to the applicant or made available online. This report includes the applicant's EFC, the types of federal aid for which the applicant qualifies, and information about any errors—such as questions the applicant did not complete—that Education identified during FAFSA processing. Colleges send applicants award letters after admission, providing students with types and amounts of federal, state, and institutional aid, should the student decide to enroll (see fig. 1).

Figure 1: Student Aid Application Process



Source: GAO analysis of Department of Education procedures.

Federal Aid Provided
under Title IV of the HEA

Title IV of the HEA, as amended, authorizes the following federal aid programs.

Grants. Generally, grants do not need to be repaid unless the recipient withdraws from school and owes a refund. They include the following types:

- *Pell Grant.* Grants to low-income undergraduate and certain postbaccalaureate students who are enrolled in a degree or certificate program and have federally defined financial need. For the 2009 to 2010 award year, the maximum award is \$5,350.
- *Supplemental Educational Opportunity Grant.* Grants to undergraduate students with federally defined financial need. Priority for this award is given to Pell Grant recipients. In general, an annual award may not be less than \$200 and may not exceed \$4,000.
- *Academic Competitiveness Grant.* Grants to Pell-eligible students enrolled at least half-time in their first or second year of study who completed a rigorous secondary school program of study. First year students may receive up to \$750, and second year students who have at least a 3.0 cumulative GPA at the end of the first year of study may receive up to \$1,300.
- *National Science and Mathematics Access to Retain Talent (SMART) Grant.* Grants up to \$4,000 per year to Pell-eligible students in their third or fourth year of study (or fifth year of a 5-year program) majoring in certain subject areas with at least a 3.0 cumulative GPA.
- *Teacher Education Assistance for College and Higher Education (TEACH) Grant.* Grants to undergraduate, postbaccalaureate, and graduate students who are taking or will be taking course work necessary to begin a career in teaching. TEACH provides up to \$4,000 per year to recipients who agree to teach full-time in a designated teacher shortage area for 4 years, or the grant will be converted to a loan that must be repaid with interest.

Work-study. Work-study is employment in on-campus or certain off-campus jobs for which students who have federally defined need earn at least the current federal minimum wage. The college or off-campus employer pays a portion of their wages, while the federal government pays the remainder. Work-study is awarded based on a student's need minus other aid awarded. Colleges participating in the program administer the funds and make award decisions based on the student's financial need.

Loans. These are funds that are borrowed and must be repaid, with interest.

- *Perkins Loan.* Low interest—5 percent—loans made through participating schools to undergraduate and graduate students. Interest does not accrue while the student is enrolled at least half-time in an eligible program. Priority is given to students who have exceptional federally defined need. Undergraduate students can borrow up to \$5,500 annually, and graduate students can borrow up to \$8,000 annually.
- *Stafford and Plus loans.* Loans made by private lenders and guaranteed by the federal government (Federal Family Education Loan Program) or made directly by the federal government through a student’s school (Direct Loan Program).
 - *Subsidized Stafford Loan.* A loan made to students enrolled at least half-time in an eligible program of study and have federally defined financial need. The federal government pays the interest costs on the loan while the student is in school. The amount students can borrow is based on their year in school and whether they are classified as financially dependent on their parents or independent.
 - *Unsubsidized Stafford Loan.* A nonneed-based loan made to students enrolled at least half-time in an eligible program of study. Although the terms and conditions of the loan (i.e., interest rates, etc.) are the same as those for subsidized loans, students are responsible for paying all interest costs on the loan.
 - *PLUS Loan.* A nonneed-based loan made to credit-worthy parents of dependent undergraduate students enrolled at least-half-time in an eligible program of study, and credit-worthy graduate and professional degree students. Borrowers are responsible for paying all interest on the loan, and can borrow up to the cost of attendance minus any financial aid the student receives.

Currently, dependent students may borrow combined subsidized and unsubsidized Stafford loans up to \$5,500 in their first year of college, \$6,500 in their second year, and \$7,500 in their third year and beyond. Independent students can borrow combined subsidized and unsubsidized Stafford loans up to \$9,500 in their first year, \$10,500 in their second year, and \$12,500 in their third year and beyond. There are aggregate limits for an entire undergraduate education of \$31,000 for dependent students and \$57,500 for independent students. Graduate and professional degree

students can borrow combined subsidized and unsubsidized Stafford loans up to \$20,500 per year, and their aggregate limit for undergraduate and graduate education generally cannot exceed \$138,500.

Participants Said Using Federal Income Tax Data and Revising the FAFSA Could Reduce Applicants' Burden

Obtaining IRS Tax Data Could Decrease the Burden on Applicants

Many study group participants said using federal income tax data the government already collects on annual income tax forms could shorten the application process, making it easier on students and their families. Specifically, these participants proposed that relevant federal income tax data be directly transferred to the appropriate answer fields on each applicant's online FAFSA. With answers to as many as 20 FAFSA questions already collected on federal tax forms, such a change could decrease the quantity and complexity of the financial questions for the majority of applicants who complete the FAFSA with information from tax returns.

Several participants said the FAFSA questions that take the longest to complete tend to be those that require applicants to search their tax forms for answers, such as questions on combined income and untaxed portions of retirement accounts. One participant noted that directly populating the FAFSA with tax data could particularly ease the burden on many first-generation college students and their parents, who may have less familiarity with the application process. Several participants also suggested that the use of federal income tax data could increase the number of applications completed, because fewer applicants would be discouraged by the number of questions they had to answer. One participant referred to her research showing that, by electronically populating an applicant's FAFSA with IRS data, an independent applicant could complete the online FAFSA in less than 10 minutes, on average. Another participant noted that financial questions are the source of most errors on the FAFSA, resulting in students and colleges spending additional time making corrections and verifying information. Currently, Education requires colleges to verify that up to 30 percent of their federal aid recipients provided accurate financial information. This process

involves the school's financial aid office comparing an applicant's or his family's information on the FAFSA to supporting documentation, including tax returns that the student must provide to the school.

Although 98 percent of applicants submit the FAFSA electronically, a few participants noted that some low-income applicants may not have reliable internet access in their homes. These participants said that applicants without such access would be more likely to complete a paper FAFSA and would not benefit from an electronic transfer of IRS data.

Changes to the Design and Contents of the Form Could Streamline the Application

Many study group participants proposed changes to the design and contents of the FAFSA that could help streamline the form and make the application process less daunting for prospective students.

Instructions. Although Education has worked to clarify the online and paper FAFSA instructions in recent years, some participants said the length and complexity of the instructions continue to confuse applicants and should be further reduced and clarified. Beginning in January 2010, Education plans to improve instructions for the online FAFSA by customizing the directions for each question based on information the applicant has already provided. For example, if applicants enter their marital status as single, the directions for each question will only provide information pertinent to single FAFSA applicants.

Tone. A few participants raised concerns about the tone of some questions on the FAFSA—saying they conveyed the wrong message to applicants—with one participant likening the application to a “beware of dog” sign instead of a welcome mat. For example, two participants recommended rewording a question that asks if applicants will attend college full-time or part-time, saying the question erroneously gives applicants the impression that they must commit to one of these options in order to apply for aid. However, this question is not used to determine federal aid eligibility, and students do not have to make this decision until they decide to enroll in college. Education has recently announced plans to make changes to the online FAFSA that are designed to encourage applicants to complete the application process. For example, in January 2010, Education plans to begin providing status indicators throughout the application that will inform students of their progress in completing the FAFSA.

Skip-logic design. Several participants praised the online FAFSA feature—known as skip-logic—which allows applicants to bypass some

questions that are not relevant to their student aid eligibility, based on their answers to previous questions.

Education's recent expansion of skip-logic now allows applicants to bypass

- a selective service registration question unless they are male and younger than 26,
- most dependency questions if they are at least 24 years of age or married,
- three homeless determination questions unless they are 21 years of age or younger and answered yes to a question asking if they are homeless or at risk of being homeless, and
- all parental data for dependent applicants who only wish to apply for an unsubsidized loan if their parents refuse to provide their data on the FAFSA and refuse to provide financial support to the applicant.

In addition, upcoming enhancements planned for January 2010 will allow applicants to skip

- asset information if they have low incomes and assets are not required to determine their eligibility;
- drug conviction questions if they are first-time college students, as federal aid eligibility is not affected by drug convictions that occur prior to college enrollment; and
- the state of legal residence and date of residency question if they confirm that, for at least the previous 5 years, their state of legal residence is the same as the state on their mailing address.

Two participants recommended improving the skip-logic for financial questions by grouping together all questions requiring applicants to reference their tax forms and reordering the FAFSA questions to match the order in which data are collected on tax forms. Another participant noted that while skip-logic may be helpful for online applicants, it does not benefit the approximately 2 percent of individuals who complete the paper FAFSA.

Content. Many participants offered recommendations to streamline the FAFSA's contents. A few participants suggested it would be helpful to know the extent to which each question is used in determining eligibility for federal, state, and institutional aid, since the value of information gained from particular questions may be outweighed by the potential loss of applicants due to the form's length. In addition, a few participants recommended significantly shortening the FAFSA by removing all questions not used to determine federal eligibility or financial need. For example, some states consider the highest level of education an applicant's parents have completed in targeting aid. However, some participants expressed concern that eliminating such questions from the FAFSA may cause states and colleges to develop additional forms in order to get the data they need, which could in turn increase the overall burden on applicants. One participant added that it might be difficult for colleges to get a comparable response rate if they tried to collect nonfinancial data. However, another participant suggested that colleges could collect this information on the acceptance form students submit after receiving letters of admission. Two participants also suggested eliminating questions currently asked on the FAFSA to determine aid eligibility—such as those regarding selective service registration and drug convictions—that are not used to calculate financial need.

Participants Said Reducing the Financial Information Required by the Need Analysis Formula Could Ease Applicants' Burden, but Some Aid Redistribution Is Likely

Using Less Financial Information to Determine Eligibility Could Reduce Burden on Applicants

Many study group participants supported changing the need analysis formula to require less financial information from federal student aid applicants. Because the formula is specified by federal statute, any modifications would require legislative change. In discussing the need for a simpler formula, several participants noted both the sheer number of questions required to compute aid eligibility and the relative difficulty of answering the financial questions. For example, one participant stated that applicants have a far easier time answering questions about their marital status than they do complicated questions about their assets. In particular, participants discussed the merits of relying solely on a family's income—as measured by adjusted gross income (AGI) on federal income tax forms—and the number of tax exemptions to determine aid eligibility. Similar proposals have been suggested previously.⁵ Such a shift would greatly reduce the number of financial questions asked on the FAFSA—from more than 45 items to only 2—which several participants said could decrease the burden applicants face in completing the form. Nevertheless, a few state aid administrators we interviewed said they saw no need to

⁵The Rethinking Student Aid Study Group, The College Board, *Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid*, (September 2008); Susan M. Dynarski and Judith E. Scott-Clayton, The Hamilton Project, *College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid* (February 2007); and The National Association of Student Financial Aid Administrators, *The National Conversation Initiative on Access and Aid for Student Success in Postsecondary Education: Preliminary Recommendation*, (Washington D.C., Apr. 21, 2009)

change the current formula, and one added that the online form's skip-logic keeps the formula from being too burdensome for most applicants.

Several participants also noted that a simpler formula could increase applicants' awareness of their potential financial aid eligibility, and perhaps increase the probability that they will go to college. For example, if eligibility were determined solely by AGI and number of tax exemptions, Education could publish a reference table that would allow students to estimate their aid eligibility far earlier in the aid application process and plan accordingly. Supplying applicants with earlier, more precise information on eligibility could ultimately render the EFC unnecessary, replacing the estimate of an applicant's or family's contribution to the cost of education with a direct calculation of federal aid eligibility. Several participants said that providing this type of early information could lead to an increase in the number of financial aid applications submitted and could encourage prospective students to apply for aid earlier in the cycle.

In addition, participants said that reducing the financial information required by the formula could in turn simplify the verification process for financial aid administrators and applicants. If fewer financial items were included in the formula, financial aid administrators would have to collect and verify less information, and students selected for verification would similarly be relieved of the burden of providing large amounts of documentation.

Reducing the Amount of Financial Information Collected Could Result in Redistribution of Federal and State Aid

Many participants said that although it would make the application process easier on prospective students, reducing the amount of financial information collected would likely result in some change in the distribution of federal, state, and institutional aid, and would create new winners and losers among the pool of aid applicants. Participants differed in their assessment of whether the benefit of simplifying the formula outweighed the potential cost in how federal aid is distributed among applicants. For example, several participants were concerned that eliminating asset information from the federal formula could result in some applicants with high-value assets, such as large bank accounts or trust funds, receiving more need-based aid—such as Pell Grants—than they would under the current system. By potentially increasing the pool of applicants who qualify for need-based aid, eliminating assets could result in a smaller award amount for each Pell Grant recipient, as the maximum amount of the grant depends on program funding and can change each year.

Several other participants, however, asserted that simplifying the formula would be beneficial to applicants—particularly those with the greatest need and those who do not currently apply—and is therefore worth the potential cost of a shift in who receives federal aid. One participant’s research suggests that redistribution at the federal level would be relatively small if the formula included only AGI and number of tax exemptions. Specifically, she said she has found that approximately 85 to 90 percent of the variation in how the Pell Grant is awarded can be explained by those two factors.⁶

According to participants, formula changes could also affect the distribution of state and institutional aid to varying degrees, as many states and institutions use the eligibility determinations from the FAFSA to allocate their awards. Consequently, some participants were concerned that—much like with federal aid—the removal of asset data from the formula could increase the overall pool of eligible award recipients, and in turn reduce the size of state and institutional financial aid awards available to the neediest applicants. Some participants asserted that, while a change in the formula may not greatly affect Pell-eligible students, state and institutional need-based aid reaches into middle income ranges where the implications may be far greater. One of these participants added that when her state modeled what would happen to its aid program if it eliminated assets from the eligibility formula, it found that expenditures would increase by 12 percent. Because her state, like many others, has a program in which all eligible applicants are entitled to receive aid, she explained that such a change would result in the state either having to cover additional costs or providing less money to each eligible student. For a few participants, concerns over how formula changes might affect state aid extended to the way in which family size is calculated. These participants said that the number of tax exemptions is a poor measure of the household size of an applicant or applicant’s family. For example, some children or other family members may live with an applicant but not be listed as dependents on tax forms. However, other participants countered that household size is already difficult to measure accurately under the current formula. Several participants recommended further analysis on how and to what extent applicants for both federal and state aid would be affected by possible changes to the federal formula.

⁶Dynarski, Susan M. and Judith E. Scott-Clayton, *College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid*, The Hamilton Project (February 2007).

Many participants stressed that, as federal aid does not cover the entire cost of education for most students, the information needs of states and institutions must be addressed in any plan to simplify the federal formula. Two participants, however, maintained that it was not reasonable to expect a single application to serve the needs of both the federal aid program and programs from all states and institutions.

Education's recent proposal to limit the federal formula to financial information available through federal income tax forms would eliminate 26 financial questions—including those on assets—while retaining up to 20 financial questions that could all be answered with federal income tax data. Although such a formula would decrease the burden on applicants, one participant noted that it would not be concise enough to allow for a simple reference table that prospective students could use to estimate aid eligibility, as it would if it were limited to AGI and tax exemptions. Proposed legislation passed by the House of Representatives and under consideration in the Senate would simplify the student need analysis formula by setting an asset cap for some aid programs and eliminating assets from the need analysis of students whose families do not equal or exceed the cap.⁷

Participants Said Technology and Public Outreach Are Central to Implementing Changes, but Several Challenges Must Be Addressed

Using IRS Tax Data to Populate the Electronic Form Is Feasible, but Presents Challenges

While many study group participants noted the potential benefits of using IRS data to populate the online FAFSA, some raised questions about the feasibility and limitations of this approach. Applicants currently complete the FAFSA with income information from the tax year prior to the beginning of the school year for which they are applying for aid. For

⁷Student Aid and Fiscal Responsibility Act of 2009, H.R. 3221, 111th Cong. (2009).

example, an applicant who completed the FAFSA with the intent of beginning college in fall 2009 is required to use 2008 income information. However, Education officials said that because the tax calendar permits most tax filers to file their income taxes for the prior calendar year as late as April 15, the IRS could not make tax data electronically available to student aid applicants until July. Some participants said that besides not giving students sufficient time to plan for college costs, completing the FAFSA this late would cause many students who plan to enroll in the fall to be ineligible for aid from states and colleges.

Acknowledging these limitations, Education officials said making the electronic transfer of IRS tax data to the FAFSA feasible for fall college applicants would likely require the use of income data that would be one year older than the information Education currently uses to determine financial aid eligibility. For example, under this scenario, an online applicant who completed the FAFSA in March 2009 with the intent of beginning college in August 2009 would be required to use income tax data from 2007. As of July 1, 2010, the Higher Education Opportunity Act authorizes the Secretary of Education to allow such older data to be used in calculating applicants' aid eligibility.⁸

However, some participants expressed concern that by using older data—often referred to as prior-prior year data—there is an increased risk that the data may no longer reflect an applicant's current economic need. For example, a college applicant could have a higher or lower income than they did two years prior to attending college. Currently, school financial aid officials can use professional judgment to change an applicant's eligibility for aid upon an applicant's request, if they determine that there are special circumstances. For example, applicants may request professional judgment if they think their financial aid award does not match their current economic need. Participants said that while professional judgment may be used to increase or decrease an applicant's financial aid, it is unlikely that applicants with an improved economic status will ask their colleges to use professional judgment to decrease their student aid award. Therefore, some participants said they think that this will lead to increases in the numbers of applicants eligible for federal and state aid. However, one participant noted that although the implementation of using prior-prior year tax data would likely cause an

⁸Pub. L. No. 110-315, § 473(a)(1).

initial increase in applicants qualifying for aid, the cost might level off in subsequent years.

In addition, some participants expressed concern about the possible effects of using prior-prior year data on applicants who are not required to file income taxes. According to Education, about 6 percent of dependent applicants' parents and about 13 percent of independent applicants who completed the FAFSA in the 2008 to 2009 academic year did not file taxes. One participant said that although it may be challenging for tax-filing applicants who submit paper forms to find tax forms from up to 2 years earlier, it would likely be particularly difficult for applicants who do not file taxes to provide information on their income from 2 years earlier. A few participants also expressed concern that Education had not offered a plan to simplify the FAFSA for applicants not required to file income taxes. Education's recent proposals do not address how changes would affect these applicants.

Education plans to begin providing applicants who both complete the FAFSA and enroll in college between January 1 and June 30, 2010, with the option of electronically transferring IRS data into the online FAFSA. Education officials said this pilot is feasible since spring 2010 applicants are required to use income tax information from 2008, which the IRS can make available electronically. Education officials stated that during the spring 2010 online FAFSA sessions, a question on the screen will ask if applicants would like to electronically retrieve their IRS tax data—or their parents' data if they are dependents—to answer financial questions. If the applicants agree, they will be taken to an IRS Web site to confirm their identity and obtain tax information that they can electronically transfer into the appropriate FAFSA fields with a single push of a button. After piloting this electronic transfer of tax data with spring applicants, Education plans to make it available to all students who apply online for aid between July and December 2010. Some study group participants said Education's plan to pilot the electronic transfer of IRS tax data to the FAFSA is a good initial step. Eventually, should Education elect to use its new statutory authority to allow the use of prior-prior year data, the option of electronically transferring IRS data into the online FAFSA could be made available to all applicants year-round. One participant said that additional piloting will be needed if Education ultimately decides to base student aid eligibility on prior-prior year tax data.

Technology and Public Outreach Could Help Streamline Applications and Increase Awareness of Federal and State Aid

Many participants noted ways in which other technology could facilitate additional improvements to the application process. One such possibility would be in better linking the electronic applications for federal and state aid. In 2001, Education began piloting a link between the online FAFSA and New York's online state aid application. Currently, New York residents who submit the online FAFSA are immediately provided a link to the New York state aid Web site. Once New York applicants register and receive a personal identification number from the state student aid office, they may begin the online application process for state aid. The New York online application is automatically populated with FAFSA data that are sent electronically from Education. Applicants are asked to verify that the populated information is correct, and may be asked for additional information not collected by the FAFSA, such as their spouse's social security number. Many participants said linking the FAFSA to other state application sites could prevent the possible negative effects on state aid programs of changing the federal need analysis formula by allowing states to ask additional questions that are not available on the FAFSA. One participant further noted that providing states with this option could make it feasible for Education to eliminate all FAFSA questions not needed to determine federal student aid eligibility without affecting the needs of states. However, a few participants expressed concern that such a change could lead to states adding a large number of additional questions on their applications, jeopardizing Education's efforts to streamline the overall application process for students. Other participants said that the cost of setting up state online applications could create a barrier that would prevent some states from linking to the FAFSA. Beginning in January 2010, Education plans to offer this type of connection to all states, but the costs to states—and whether Education will provide financial assistance to states to facilitate this change—are not yet known.

In addition to technological improvements, participants suggested that efforts to simplify the application should be accompanied by a strategy to increase public outreach efforts. For example, one study group participant suggested that Education should reach out to students from middle school through high school to help raise awareness about the affordability of college and the process of applying for financial aid.⁹ Some participants

⁹GAO has previously recommended that Education develop a strategy to increase awareness of the Academic Competitiveness and National Science Mathematics Access to Retain Talent (SMART) grants among states and high schools. See GAO, *Federal Student Aid: Recent Changes to Eligibility Requirements and Additional Efforts to Promote Awareness Could Increase Academic Competitiveness and SMART Grant Participation*, [GAO-09-343](#) (Washington, D.C.: Mar. 25, 2009).

also suggested that Education provide monthly updates to states and colleges by zip code about how many students have completed the FAFSA. They said that this could help officials better target certain geographical areas with low FAFSA completion rates to raise awareness about student aid eligibility. Other participants suggested that Education send parents with children in middle school through high school annual estimates of their child's current eligibility for student aid. Education has announced its intent to launch public outreach efforts that are designed to inform high school students about the availability of federal aid for college beginning in fall 2009.

Concluding Observations

In creating an application process to distribute student aid, the federal government has had to consider multiple competing demands to promote college access and affordability: developing a formula precise enough to ensure that resources reach the target population, collecting enough information to assist states and institutions in administering their own aid programs, and making the application process easy to use and transparent for applicants. This last issue has proven particularly challenging, and the complexity of the application form and underlying formula has become a pain point for students and their families. The prospect that the application itself may discourage students from applying for aid—and perhaps to college—is especially troubling in light of current economic conditions, as postsecondary access and affordability become more challenging for some students. Our study group participants proposed various options for mitigating some of the complexity in the application process, and Education has proceeded with the early phases of its new plan for simplification, which includes a public outreach component. While most of these changes will result in streamlining the application process and will not affect eligibility for federal, state, and institutional aid, some—as is often true of policy and process changes—come with trade-offs. In particular, any changes to the formula used to compute eligibility may result in new winners and losers among aid applicants. Because the formula is complicated and no means of calculating eligibility—including the current method—is a perfect prediction of financial need, the effects of potential modifications on the pool of eligible applicants must be weighed against the goals of federal student aid. The issue to be considered is whether the benefit of simplifying the formula outweighs the potential loss in the precision of how aid is targeted, and depends not only on how great the overall change in the distribution of federal aid is, but on how much various types of applicants gain or lose.

Agency Comments

We provided a draft of this report to the Department of Education, Department of Treasury, and the Internal Revenue Service for review and comment. These agencies had no comments on the draft report.

We are sending copies of this report to relevant congressional committees, the Secretaries of Education and Treasury, the Commissioner of Internal Revenue, and other interested parties. In addition, this report will also be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staffs have any additional questions about this report, please contact me at (202) 512-7215 or scottg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in Appendix III.



George A. Scott
Director, Education, Workforce, and
Income Security Issues

Appendix I: Expert Panel Agenda

Simplifying the Federal Student Aid Application Process
A Government Accountability Office Expert Panel
May 7, 2009

AGENDA

- 8:30-9:00 Breakfast available in the room
- 9:15-10:15 Approaches to shortening the form and changing the application process
What are some approaches to shorten the Free Application for Federal Student Aid or otherwise make it less time-consuming to complete? How do states and institutions use the data collected on the current application form? What are the possible risks of simplifying the application form?
- 10:15-10:30 Break
- 10:30-11:30 Approaches to changing the statutory need analysis formula
How could the statutory need analysis formula be changed to reduce the amount of financial information collected, without causing significant redistribution of federal grants and subsidized loans? What are the possible risks of simplifying the need analysis formula? Following any modifications to the need analysis formula, what are the best means of addressing the needs of states and institutions that rely on the federal application to administer their own aid program?
- 11:30-12:45 Working lunch with presentations from other GAO engagements related to student financial aid issues
- 12:45-1:45 Operationalizing changes to the application form and underlying formula
What is the feasibility of the IRS providing individuals' financial data directly to the Department of Education for the purposes of determining aid eligibility? How can changes to the application form and underlying formula be operationalized?
- 1:45-2:45 General Discussion
- 2:45-3:00 Concluding remarks
- 3:00 Adjourn

Appendix II: Expert Panel Participants

Deena Ackerman	Financial Economist Office of Tax Analysis Department of the Treasury
Nabeel Alsalam	Senior Analyst Health and Human Resources Division Congressional Budget Office
Lauren Asher	Acting President The Institute for College Access and Success
Sandy Baum	Professor of Economics Skidmore College, and Senior Policy Analyst The College Board
Jim Dumais	Executive Advisor Office of Deputy Commissioner Internal Revenue Service
Susan Dynarski	Associate Professor Gerald R Ford School of Public Policy and School of Education University of Michigan
Sherry Fox	Director of Grants and Scholarships New Jersey Higher Education Student Assistance Authority
Michael Friedberg	Program Examiner Education Branch Office of Management and Budget
Lois Hollis	Senior Advisor to the Deputy Commissioner for Business and Finance Texas Higher Education Coordinating Board
Justin Humphrey	Budget Analyst Budget Analysis Division Congressional Budget Office
Pat Hurley	Associate Dean and Director of Financial Aid Glendale Community College

Derek Kindle	Director of Financial Aid Howard University
Bridget Terry Long	Professor of Education and Economics Graduate School of Education Harvard University
Dan Madzellan	Acting Assistant Secretary Office of Postsecondary Education Department of Education
Michael S. McPherson	President Spencer Foundation
Dan Rosenbaum	Senior Economist Office of Economic Policy Office of Management and Budget
Jeanne Falstrom Ross	Attorney-Advisor Office of the Tax Legislative Counsel Office of Tax Policy Department of the Treasury
Julie Rushin	Director Business Modernization Office Wage and Investment Division Internal Revenue Service
Robert Shireman	Deputy Undersecretary Department of Education
Tammy Wyand	Director of Financial Aid ECPI College of Technology

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

George A. Scott, (202) 512-7215 or scottg@gao.gov

Staff Acknowledgments

Debra Prescott, Assistant Director; Rebecca Woiwode, Analyst-in-Charge; and James E. Lloyd III made significant contributions to this report in all facets of the work. In addition, Jean McSween and Luann Moy assisted in design; Sheila R. McCoy and Doreen Feldman provided legal support; Mike Brostek, Dave Lewis, and Ron Fecso lent subject matter expertise; Susannah Compton provided writing assistance; and James Bennett provided help with graphics.

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