

Testimony
of
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Health, Education, Labor and Pensions Committee

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

Thank you for inviting me to testify today. My name is Justin Draeger from the National Association of Student Financial Aid Administrators (NASFAA). NASFAA represents financial aid administrators at 2,800 colleges across the country. Collectively, our schools serve nine out of 10 students enrolled in career schools, 2- and 4-year public and private schools, and graduate schools.

Application Simplicity v. Accuracy: The Tradeoff

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

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

As Congress explores ways to simplify the FAFSA, it is important to remember these three tenets, because, taken together, the formula and form implement these philosophical underpinnings.

Inherent in this implementation is a tension between two key goals: (1) The desire to make the form as easy as possible to complete, and; (2) creating a form that allows federal and state governments, schools, and sometimes outside scholarship providers to accurately measure the financial strength of applicants to ensure limited need-based grants are well targeted. Put more simply, the challenge before us is to put together an application that is as simple as possible but yet allows us to distinguish the truly needy from those who are not.

Ultimately, it is this tension that causes most debates within the application simplification discussion, and historically, trying to balance these two objectives has meant tradeoffs between simplification and accuracy. For example, the most accurate measure of the financial strength of an applicant would be assessed by asking detailed questions about income, sources of income, assets, savings rate, tax brackets, annual expenditures, and more. However, such a structure would make the form complex, tedious, difficult to verify, and most importantly, extremely daunting for low-income students. First generation students with no experience with the college application process would be deterred by such a complex FAFSA, potentially losing the opportunity to attend college simply due to the form.

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

False positives are not new. Because we use proxies like income to determine a family’s financial strength, we will always have some need-based dollars going to students who have resources to pay for college otherwise. For example, at one large, public 4-year research institution, nearly 10 percent of their students who received federal Pell Grants did not qualify for institutional need-based aid because the school awards its own need-based aid using a more sophisticated financial need analysis model, suggesting that the school’s assessment of need was more accurate than the federal government’s. In the course of doing business, some false positives are fine, but clearly in environments with limited amounts of money, our goal should be to minimize the dollars going to students who could otherwise pay for college. Historically, the more we simplify the federal form, the more false positives we create.

Even if we found a very simple, generally strong proxy like AGI as a determinant for federal student aid programs, that doesn’t mean that same proxy would work for all other forms of need-based grants. Similar to the federal government, schools, states, and private scholarship providers all want their funds to go to truly needy students. In fact, while the federal government provides \$40 billion² in need-based aid per year, the largest source of need-based financial aid is institutional financial aid, not federal Pell Grants³. Preliminary data for award year 2016-17 show institutions awarding \$59 billion in institutional aid, while Pell Grants totaled \$27 billion.

The Higher Education Amendments of 1992⁴ created the FAFSA in order to offer a free, centralized financial aid application for students that, in addition to federal eligibility, could be used to help inform aid eligibility for states, institutions, and other private entities. Prior to the FAFSA, students filled out multiple applications, often with the same information, making the process complicated and unnecessarily burdensome. The development of the FAFSA greatly streamlined the application process for students. While roughly a dozen or so states still have a supplemental financial aid application, virtually all students from those states are able to pre-populate their state application from the FAFSA⁵. In addition, most institutions (nearly 4,000) use data solely from the FAFSA to award their own aid.⁶ If we go too far in simplifying the federal application we could inadvertently complicate this process even further by driving states,

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

² The College Board. *Trends in Student Aid, 2017*. Table 1.

³ Ibid

⁴ Public Law 102-630

⁵ National Association of State Student Grant and Aid Programs. *47th Annual Survey Report on State-Sponsored Student Financial Aid*.

⁶ This number was calculated by NASFAA using The College Board's list of institutions using the CSS Profile and/or IDOC for 2018-19 and U.S. Department of Education. Institute of Education Sciences, National Center for Education Statistics. 2015-16 Preliminary Release Data on institutional grant aid to first-time full-time students

institutions and private scholarship providers to return to requiring their own separate applications.

Today's FAFSA

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

There are many examples of small tweaks throughout the years, that taken together, have reduced the time it takes for a student to fill out the FAFSA. Today, the average completion time is approximately 31 minutes the 2015-16 application cycle¹⁰, a vast improvement from the time it took to fill out the form when it was first developed.

Recommendations for Improvement

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

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

⁷ Public Law 109-171

⁸ "Application Processing Update," presentation from ED, 2009 FSA Training Conference for Financial Aid Professionals, December 2009:

<https://ifap.ed.gov/presentations/attachments/GS2ApplicationProcessingSystemUpdateV1.ppt>

⁹ "Summary of Changes for the Application Processing System: 2011-2012," U.S. Department of Education Office of Federal Student Aid, November 2010:

<https://ifap.ed.gov/sumchngsappsys/attachments/111810ChangesAppProcessSys1112.pdf>

¹⁰ Federal Student Aid, Federal Student Aid FAFSA Volume Reports: FAFSA Data by Demographic Characteristics, 2015-16 Application Cycle

¹¹ "FAFSA Simplification," NASFAA FAFSA Working Group Report, July 2015:

<https://www.nasfaa.org/fafsa-report>

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

The DRT currently includes only the following line items:

- Type of tax return filed
- Filing status
- Adjusted gross income
- Taxes paid
- Income earned from work
- Exemptions
- Education credits (1040 and 1040A only)
- IRA deductions (1040 and 1040A only)
- Tax-exempt interest income (1040 and 1040A only)
- Untaxed IRA distributions (1040 and 1040A only)
- Untaxed pensions (1040 and 1040A only)

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

Path #1: After answering the initial questions on identifiers, demographics, and dependency status, all applicants would be asked if a parent (for dependent students) or anyone in their household (for independent students) was a recipient of the Supplemental Nutrition Assistance Program (SNAP) and/or Supplemental Security Income (SSI) benefits. If the applicant answered “yes”, they would go through some type of automated database match to verify receipt, and the FAFSA would be complete with the applicant being eligible for the maximum Pell Grant. All asset questions would be eliminated under Path #1 across the board, since these applicants are likely to have very few assets. In short, students and families that have already proven that they are low-income would not have to continue proving it to other government agencies.

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

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

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

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

Under Path #2 information retrieved via the DRT would include:

- Tax filing status
- Adjusted Gross Income
- Taxes paid
- Income earned from work
- IRA deductions and payments to self-employed SEP, SIMPLE, Keogh and other qualified plans
- Tax exempt interest income
- Untaxed portions of IRA distributions
- Untaxed portions of pensions
- Education tax credits
- Payments to tax-deferred pension and retirement savings plans

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

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

However, under Path #3, the following adjustments to income would be made:

- Negative numbers carried over from a schedule to the front of the 1040 will not be allowed. The AGI reported through the DRT will be adjusted to account for any negative income and that adjusted AGI will be used in need analysis. This would address the issue where applicants with significant assets, yet low AGIs appear more financially needy than they actually are.

- Any dollar amount listed in line 21 of the 1040 with “Form 2555,” for foreign income not subject to taxation, would be counted as untaxed income.

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

Finally, the result from these changes would be to produce an index that ranks applicants according to their financial strength, instead of creating the current “expected family contribution,” a misnomer and major point of confusion for students and families. This three-pathway approach, along with the indexed ranking, is a simple, streamlined, fair, and accurate way to reform the FAFSA.

Impact on Verification

The application process does not end after a student submits a FAFSA. Many applicants are then required to *verify* the information they’ve just submitted. One of the major benefits of the DRT expansion and three pathway system is the positive impact this approach would have on reducing verification burden for both students and schools. Verification of FAFSA information can be a confusing and tedious process for students, particularly for disadvantaged students who are unfamiliar with the process. In some cases, the verification requirements can be cumbersome enough to deter some students from completing the process. Under our proposal, the need for verification will be greatly reduced because more information will be coming directly from the IRS. This eliminates hurdles for low-income students, and frees up more time for financial aid administrators to counsel students, rather than push paperwork.

Conclusion

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

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

Appendix

**NASFAA Proposal: A Three-Level
Application Process**

NEXT STEPS ON FAFSA SIMPLIFICATION

As Congress and the higher education community work toward the reauthorization of the Higher Education Act (HEA), broad themes have emerged, including the concept of simplification, 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 more efficient and streamlined for students and families.

Early FAFSA and Prior-Prior Year (PPY)

In September 2015, President Obama and then-Secretary of Education Duncan announced their intention to use their existing authority in HEA [Sec. 480(a)(B)(1)] to adjust the year of income tax data used to determine federal aid eligibility, a move supported by NASFAA and other higher education advocates. Before, the Federal Methodology (FM) calculated a student's financial need using prior year income data. Beginning on October 1, 2016, FM will use income data from the prior-prior year ("PPY") and the FAFSA release date will move up from January 1 to October 1 ("Early FAFSA").

With Early FAFSA and a switch to PPY, students and families can:

- **File the FAFSA earlier than they do now.** Historically, the FAFSA has been made available January 1 of each year, yet it is uncommon for a family or individual to be prepared to file an income tax return in January. Because the FAFSA will now be made available on October 1 using income data from two years prior, students can use already-completed income tax returns.
- **More easily submit a FAFSA.** The IRS Data Retrieval Tool (DRT), which allows automatic population of a student's FAFSA with tax return data and decreases the need for additional documentation, can now be used by millions more students and families under PPY.
- **Receive notification of financial aid packages earlier.** If students apply for aid earlier, colleges can provide aid notifications to students earlier, ensuring that students and families have more time to prepare for college costs. Early notification also means more time for financial aid offices to counsel students and families.

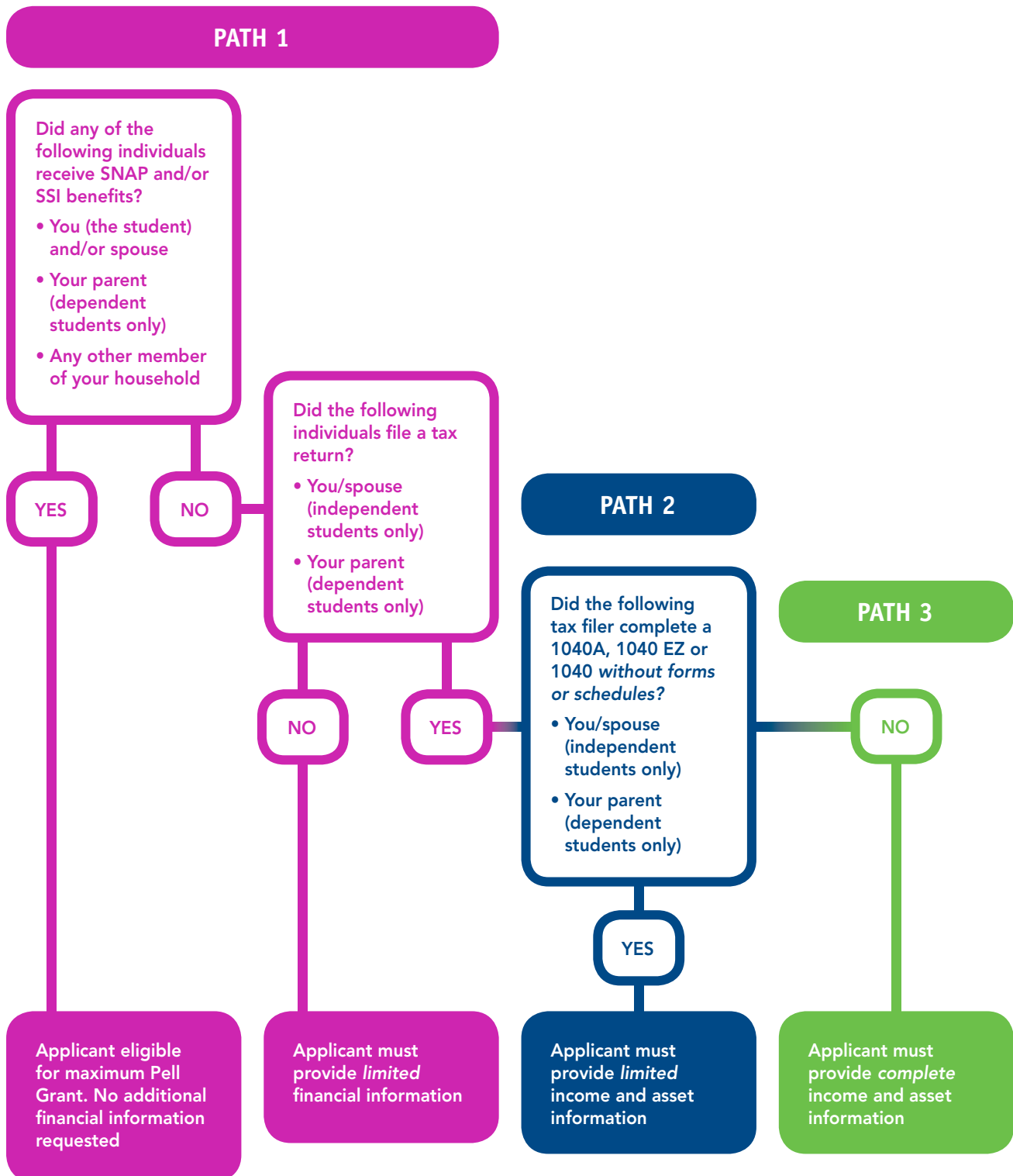
NASFAA Work on FAFSA Simplification

NASFAA has been pleased with FAFSA improvements over the past few years, including "smarter" skip-logic and the implementation of the IRS Data Retrieval Tool (DRT). In July 2013, NASFAA released initial recommendations for HEA reauthorization with several recommendations focusing on simplifying the FAFSA. Recent proposals within the context of reauthorization led NASFAA to revisit simplification with an eye toward making the application process more targeted and efficient through the expansion of existing technology.

In July 2015, NASFAA released a FAFSA Simplification report, a result of NASFAA's FAFSA Working Group, which was composed of practicing aid administrators. The working group developed a model—predicated on enacting PPY—that would simplify the aid application process while still ensuring program integrity and accurate targeting of federal funds. With PPY now in place, NASFAA's FAFSA simplification proposal represents a logical next step.

NASFAA Proposal: A Three-Level Application Process

NASFAA recommends instituting a three-level application process where, after answering demographic and dependency status questions, applicants would be steered down one of three paths based on their responses to screening questions.



PATH 1

After answering the initial questions on identifiers, demographics, and dependency status, all applicants would be asked if a parent (for dependent students) or anyone in their household (for independent students) was a recipient of Supplemental Nutrition Assistance Program (SNAP) and/or Supplemental Security Income (SSI) benefits. If the answer is “yes,” the applicant would list the chosen school codes, sign and date the FAFSA, and the FAFSA would be complete. No further financial information would be gathered and the applicant would automatically be eligible for the maximum Pell Grant.

If the answer is “no,” then the FAFSA asks if the applicant filed a tax return or was required to file. For non-filers, the FAFSA would ask about income earned from work and child support received only. All asset questions would be eliminated. Tax filers would proceed further to path #2.

PATH 2

Applicants who do not meet the conditions for path #1 would be directed to the IRS DRT. If the tax return is a 1040A, 1040EZ, or a 1040 without any line items that resulted from the completion of a form or schedule, then Path #2 applies.

Information retrieved via the DRT would include:

- Tax filing status
- Adjusted Gross Income
- Taxes paid
- Income earned from work
- Tax exempt interest income
- Untaxed portions of IRA distributions
- Untaxed portions of pensions
- Education tax credits
- Payments to tax-deferred pension and retirement savings plans
- IRA deductions and payments to self-employed SEP, SIMPLE, Keogh and other qualified plans

The question on child support received would be retained.

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

PATH 3

Having not qualified for paths #1 nor #2, applicants who filed a 1040 with forms and/or schedules will be steered toward Path #3. All of the taxable and untaxed income questions are the same for Path #3 as for Path #2, along with the same expanded use of the DRT.

However, under Path #3, the following adjustments to income would be made:

- Negative numbers carried over from a schedule to the front of the 1040 will not be allowed. The AGI reported through the DRT will be adjusted to account for any negative income and that adjusted AGI will be used in need analysis.
- Any dollar amount listed in line 21 of the 1040 with “Form 2555,” for foreign income not subject to taxation, would be counted as untaxed income.

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

Additional NASFAA FAFSA Simplification Recommendations:

- Expand the IRS Data Retrieval Tool (DRT) to include all line items of the 1040 and W2 information.

Generally speaking, the goals of “simplicity” and “accuracy/program integrity” are at odds with each other, i.e., a highly accurate need analysis system is not simple. However, use of more information obtained directly from the IRS would allow for a simpler application and reduced burden for applicants, but retain a high standard of accuracy. Using PPY income data instead of prior-year data also presents the opportunity to explore expanding the DRT to include information from W2 forms, which would permit retrieval of income earned from work for non-tax filers. Under our current prior-year system, W2 information from the prior year is not available from the IRS in a time frame that is useful for financial aid application purposes.

- Consider the use of the tax return as the primary federal student aid application.

Currently most of the financial data used to complete the FAFSA comes from the tax return. The IRS data retrieval tool (DRT) provides direct population of those items, and ED is moving significantly towards mandatory use through the verification process. However, filing a FAFSA is still a separate process from filing the tax return and requires the student and family to initiate the student aid process on an entirely different website. The aid application process could be merged with the tax return process by providing a financial aid application section on or with the 1040 as an option for applying for federal student aid. This could eliminate the FAFSA application for students and parents who file tax returns.

- The result of the Federal Methodology should be an index that ranks applicants according to their financial strength, rather than an “expected financial contribution.”

Because the Federal Methodology (FM) has been modified over the years to accommodate political and cost concerns, the term “Expected Family Contribution” is a misnomer that misleads and confuses students and families. Rather than representing a financial contribution by the applicant, the result functions more as an index that ranks applicants according to their financial strength. The name of the index should be changed to reflect that reality.

- Eliminate the provision requiring institutions to monitor and enforce selective service registration (assign the responsibility for determination to Selective Service).

NASFAA recommends elimination of the requirement to be registered with Selective Service from the general student eligibility criteria. This recommendation has been made repeatedly for a long time. At the very least, responsibility for determining whether a failure to register was knowing and willful should be shifted back to Selective Service and some path be constructed that allows students who knowingly failed to register, but who are past the age of registration, to gain eligibility (possibly through community service or federal awards restricted to the cost of tuition and fees only).

- Eliminate the tie between student eligibility and drug convictions.

A federal or state drug conviction—if reported by the student—can disqualify a student for federal student aid if it occurred during a period of enrollment for which the student was receiving federal student aid. Many if not most schools currently have admissions and student conduct rules that address drug use. NASFAA believes that financial aid should not be used to enforce social policies.