GERALD R. FORD SCHOOL OF PUBLIC POLICY
EDUCATION POLICY INITIATIVE
UNIVERSITY OF MICHIGAN

Revisiting FAFSA Simplification: Expanding Access to the IRS Data Retrieval Tool

We describe how the complexity in the FAFSA hinders students' ability to meet financial aid deadlines and examine the feasibility of using a simplified formula to determine aid eligibility.

Authors

Susan Dynarski is a professor of public policy, education, and economics at the University of Michigan.

Mark Wiederspan is a doctoral candidate in higher education administration at the University of Michigan.

Key Findings

1. Applying for federal aid for college is complex and slow. Information about aid eligibility arrives well after students have made crucial decisions about preparation for college. Complexity in the aid process undermines the intent of aid, which is to get more students into college.
2. Efforts to simplify the aid process have fallen short of intent.
3. Students would benefit from a simplified process that automatically determines aid eligibility using tax information. This would allow students to receive information about aid eligibility early, when they are making key decisions about college.
4. We show that a simplified process could closely replicate the current distribution of aid, with a much lower paperwork burden on families and colleges.

A simplified aid application shows promise in determining students' financial aid eligibility.

In June 2014 Senators Lamar Alexander (R-TN) and Michael Bennet (D-CO) co-authored a bill that simplifies applying for financial aid. Based on research by EPI Co-Director Susan Dynarski and Judith Scott-Clayton of Columbia University,[1] the bill would reduce the 100-question aid application to a postcard with two questions. The bill has not been brought to the Senate floor for debate.

We have published several articles about the complicated aid process, which has been shown to be a barrier to college access. Our analysis shows that the aid application could be eliminated altogether with tax data used to calculate aid eligibility.[2] Our research suggests that the aid process could be massively simplified while still maintaining the current targeting of aid on the poorest students.

In this brief, we describe how the complexity in the process of applying for aid hinders students' ability to attend college. We also discuss how the most recent attempts to simplify the process have fallen short of intent. We update our previous analyses using recent data to show how well a streamlined process could replicate the current distribution of aid.

Complexity of the FAFSA

Applying for federal student aid is complicated and time-consuming. The Free Application for Student Aid (FAFSA) asks over 100 questions about family finances, more than the typical 1040. To complete the FAFSA, applicants need to collect paperwork on their federal tax return, savings, receipt of government assistance programs, and untaxed income and other liabilities (such as education tax credits and child support paid or received).

Even after college-bound students complete the FAFSA, they still don't know how much college will cost.[3] Months pass between applying for aid and learning about eligibility, with definitive information arriving well after students have applied to colleges.[4]

Inconsistent deadlines further complicate the aid process. Many state aid programs give out aid on a first-come, first-served basis, with grants going not to the neediest but to those who apply first. For example, researchers tracking low-income Chicago students from high school through college found that many missed these crucial deadlines.[5] After realizing they had missed these deadlines, many students assumed that they could no longer apply for aid. Lack of aid increases the likelihood that these at-risk students will drop out of college.[6]

Rigorous evidence shows complexity in the aid process deters potential college students. In a field experiment, researchers randomly assigned some families to get help with completing the aid form.[7] Tax professionals helped low- to moderate-income families complete the FAFSA and then provided them with personalized information about their eligibility for aid. Another group received personalized information about aid, but did not get help with the FAFSA. A third group served as the control, receiving a brochure with general information about college costs and aid. Researchers found that those who received assistance completing the FAFSA were significantly more likely to enroll and persist in college. Even three years after the intervention, the treated students showed higher enrollment rates. This is strong evidence that the existing aid system is a barrier.

We are not the first to flag the unnecessary complexity of the aid system. The Advisory Committee on Student Financial Assistance agrees: "millions of students and adult learners who aspire to college are overwhelmed by the complexity of student aid. Uncertainty and confusion robs them of its significant benefits" (page i).[8] The Commission on the Future of Higher Education, convened by the US Secretary of Education, highlighted "inadequate information and rising costs, combined with a confusing financial aid system" (page x).[9] Since 2008 multiple groups have released similarly themed reports that encourage federal lawmakers to simplify the aid process.[10]

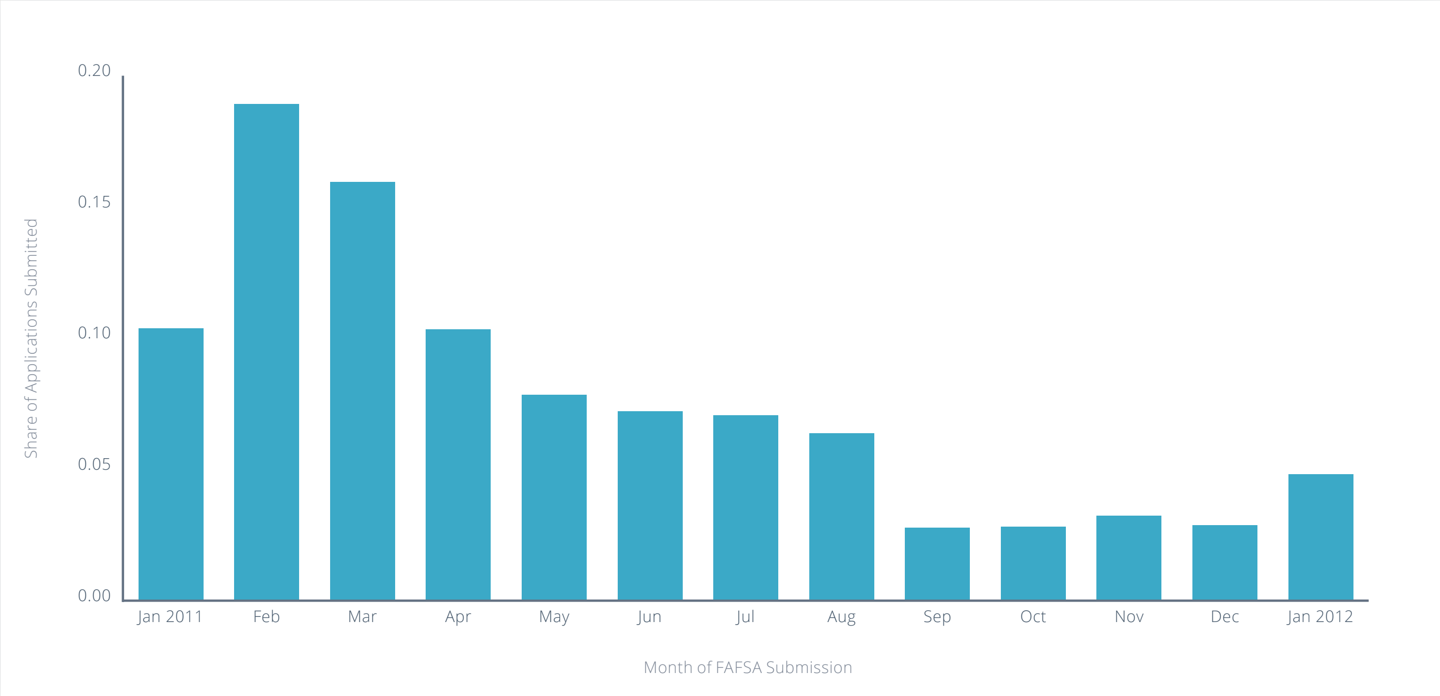
Reforming the Aid Process: What's Changed and What Hasn't?

Recognizing that the FAFSA is complex, long, and filled with redundant questions, Congress and US Department of Education (ED) made a concerted effort to simplify the FAFSA in 2009. They focused on eliminating questions, combining redundant questions, and introducing skip logic that allows some applicants to skip some questions. But while some questions were removed, others were added. As a result, the number of questions on the FAFSA dropped only slightly, from 127 to 116.

A major advance allows some applicants to automatically transfer tax data into the FAFSA using the new IRS Data Retrieval Tool. Those who use this tool don't have to collect tax documents and manually enter their contents, but instead have their data automatically ported from IRS to the ED. This not only saves time but also reduces data-entry errors that can cause applications to be flagged for audit and resubmission.

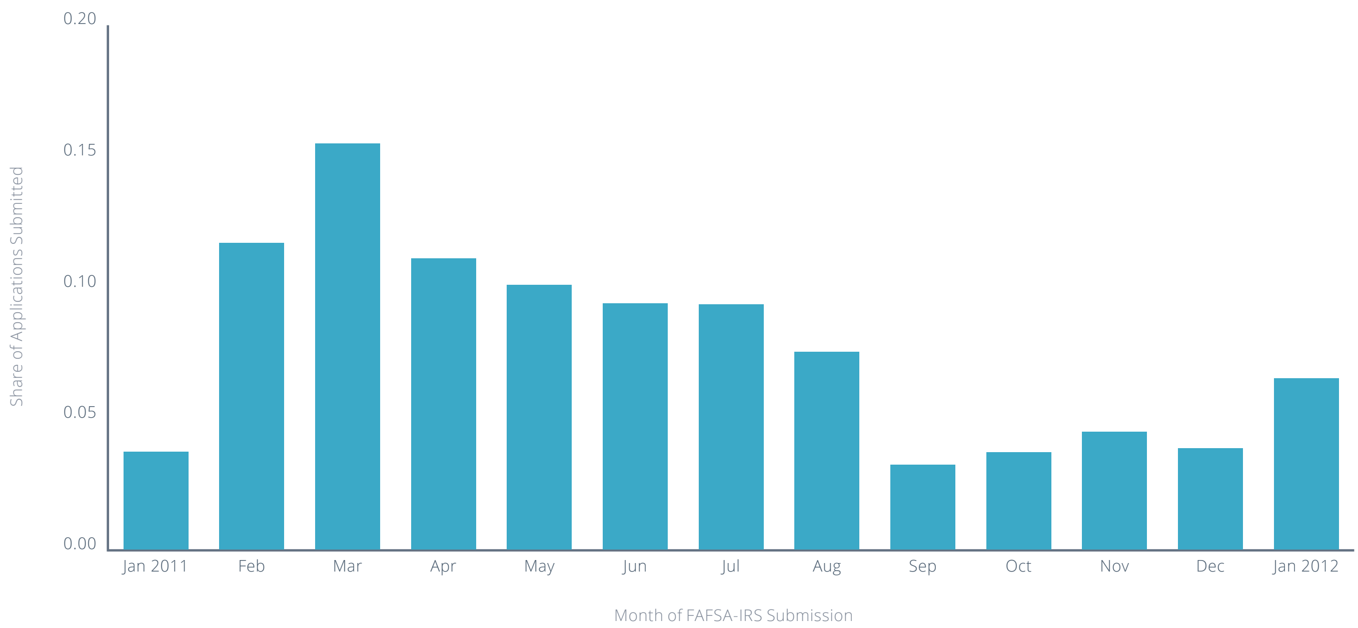
Unfortunately, only a minority of students can use the IRS Data Retrieval Tool. Why? There is a misalignment between IRS and FAFSA deadlines.

Figure 1: Month of FAFSA Submission for 2011-2012 Applicants



Note: Sample consists of 64,430 (125,103,190 survey weighted) undergraduates who filed a FAFSA for the 2011-2012 academic year.
Source: NPSAS:12

Figure 2: Month of FAFSA Submission with FAFSA-IRS Link for 2011-2012 Applicants



Note: Sample consists of the 14,290 (3,009,365 survey weighted) undergraduates who filed a FAFSA using the FAFSA-IRS link.
Source: NPSAS:12

So they meet school deadlines and maximize state aid, students are urged to file the FAFSA as soon as possible after January 1. However, the Data Retrieval Tool can't be accessed for several weeks (or months) after a household files its tax return.[11] This makes it impossible for most FAFSA applicants to use the IRS Data Retrieval Tool.

Consider the timing of tax filing. W-2s are due to households by February 1. If a family files a return immediately upon receiving W-2s, the IRS Data Retrieval Tool would be open to them by late February or March. Families filing on April 15 could not use the IRS link until May or June. This is well after many school and state deadlines.

As Figure 1 illustrates, most FAFSA applications are submitted in February, before the IRS Data Retrieval Tool is available. In the most recent National Postsecondary Student Aid Survey, less than 25 percent of FAFSA applicants use the IRS Data Retrieval Tool. Many who do use the tool delay submitting their FAFSA until March (see Figure 2).

How Can We Further Simplify the Aid Process?

A simple change would reduce paperwork burden, streamline the application process, and allow students to receive early notification of their aid eligibility. The change: use already-filed tax returns for filling out the aid application. In the parlance of the aid world, this is referred to as "prior-prior" tax data. This would allow all applicants to use the IRS Data Retrieval Tool, fill out the FAFSA much earlier and get more timely information about their aid eligibility. A student aiming to attend college in Fall 2015, for example, would rely upon her 2013 tax return in filling out her FAFSA, instead of the currently required 2014 return.

	Full FAFSA (Baseline) 2011 Tax Data (1)	Full FAFSA (Simulation) 2010 Tax Data (2)	No FAFSA (Simulation) 2011 Tax Data (3)	No FAFSA (Simulation) 2010 Tax Data (4)
Percent of applicants whose Pell				
...does not change	1.00	0.70	0.75	0.68
...is within $100 of baseline	1.00	0.73	0.79	0.71
...is within $500 of baseline	1.00	0.81	0.90	0.78
...increases by $500 or more		0.10	0.02	0.09
...decreases by $500 or more		0.09	0.08	0.13
Average Pell grant (includes zeroes) ($)	2,515	2,552	2,456	2,464
Total Pell grants ($ billion)	20.03	20.32	19.55	19.62
Share receiving Pell Grants	0.67	0.68	0.65	0.66
Correlation between new and old Pell	1.00	0.897	0.974	0.885
R^2	1.00	0.805	0.950	0.783

Table 1: Estimates of 2012-2013 Aid using IRS Data from 2011 versus 2010

Note: The sample consists of 40,400 aid applicants who filed a FAFSA in both 2011-12 and 2012-13. The simulation in Column 2 uses the same elements in Column 1 but uses 2010 instead of 2011 tax information (AGI, earned income, taxes paid, type of income tax form used.). The simulations in Columns 3 and 4 drop the FAFSA and use only IRS data for the listed tax years. All 2010 tax values are inflated to 2011 values using the Consumer Price Index for All Urban Consumers (CPI-U). The analysis uses NPSAS weights (WTA000).

One concern is that this would substantially alter aid eligibility. We have addressed this issue in previous work, and here we update our analysis using the most recent data from the 2011-2012 National Postsecondary Aid Survey (NPSAS).[12] We focus on Pell grants, since it is the largest need-based aid program in the nation. We examine the aid applications of 40,400 undergraduates who filed a FAFSA for both the 2011-2012 and 2012-2013 academic years.[13]

Our approach is simple. We calculate aid eligibility using the federal aid formula and current tax data, and then recalculate it using tax data that is a year older. The comparison shows how much aid would change if students were allowed to use the older data in their aid applications.[14]

Results

Column 1 in Table 1 displays the baseline aid for our sample. Here, aid eligibility is calculated using the full FAFSA, which includes tax items from applicants' 2011 tax return. In Column 2, we replace data from the 2011 tax year with tax data from 2010. As is clear from the table, the aid amounts change little with this substitution. For 70 percent of applicants, Pell Grant eligibility does not change at all, while for 81 percent it changes by less than $500. Overall, the average Pell Grant increases by $37 from a baseline of $2,515. Figure 3 plots these changes by family income. The blue bars show the average Pell Grant under the current system, while the orange bars show the average change if older tax data is used.

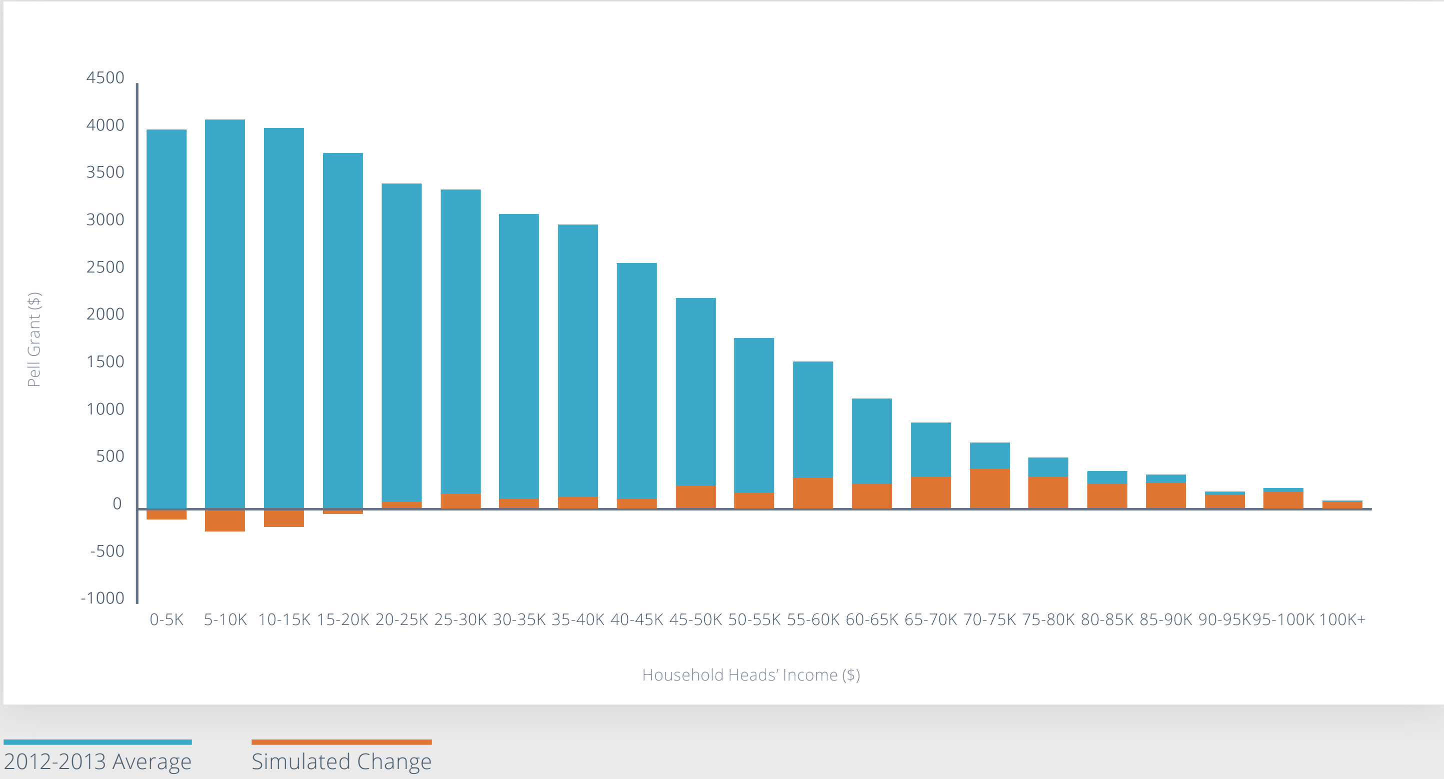
We could simplify the aid process yet further by removing from the aid formula any items that are not collected by the IRS. Changing the formula in this way would allow for the complete elimination of the FAFSA. Families would apply for aid with a simple check-off on their tax form.

With this approach, we calculate Pell amounts using adjusted gross income (of parents and students), taxes paid, state of residence, family size, parents' and independent students' marital status, type of income tax form filed, and number of family members in college. These items alone explain 95 percent of the variation in the Pell Grant. The dozens of other questions on the FAFSA, which take so much time for families to complete, explain only 5 percent of variation in aid (see Column 3 of Table 1).

With this radically simplified approach, we find that Pell eligibility does not change at all for 75 percent of applicants. Pell eligibility is within $100 of its current value for 79 percent of applicants, and within $500 for 90 percent. The average Pell grant decreases $54. As illustrated in Figure 4, the largest declines in Pell eligibility are concentrated among families with incomes greater than $50,000.

When we combine the two reforms, eliminating the aid application and using older tax data (Column 4), Pell eligibility is unchanged for 68 percent of applicants have zero change in Pell eligibility. The average Pell decreases slightly, from $2,515 to $2,464.

Figure 3:
Effect of Using Earlier Tax Information to Determine Pell Eligibility: 2012-2013 Aid Year



Note: See notes in Table 1 for sample description. These results correspond to those reported in Table 1, Column 2. Sample is divided into income groups in $5,000 increments. The top and bottom groups (0-5K and 100K+) contain 15 and 12 percent of the sample, respectively. The remaining groups each contain between two and eight percent of the sample.

Conclusion

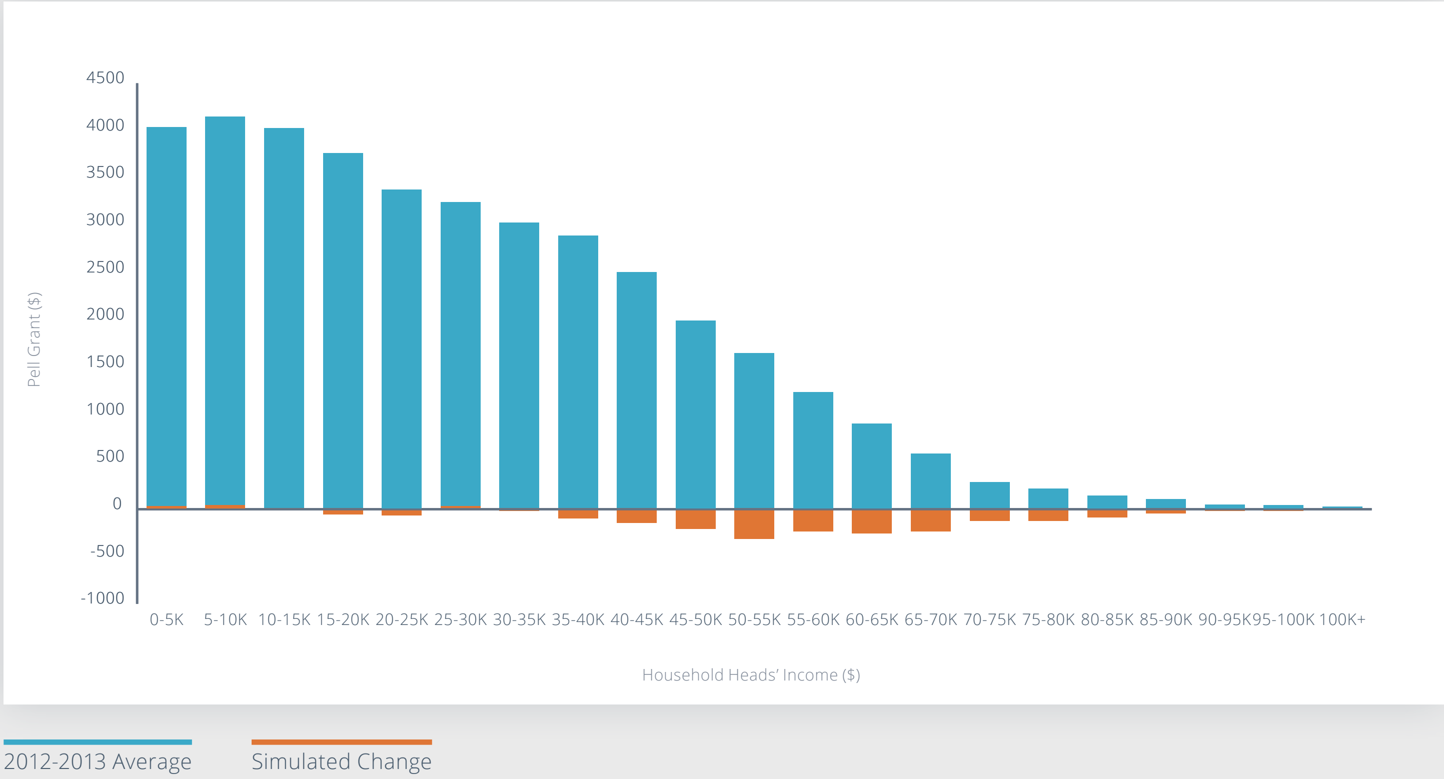
Despite efforts to simplify the aid process, it is still burdensome and slow. Our analysis shows that the process could be radically simplified with little effect on aid eligibility.

Using IRS data for all aid applications would also reduce the administrative burden on colleges, which are required by federal rules to “verify” (audit) aid applicants. Verification is costly to colleges, as well as another paperwork burden for applicants. If the proposed reforms were enacted, this verification process would be eliminated.

A key benefit of this simplified approach is that is would allow students to apply for aid earlier and get information about college costs when it can affect their decisions. With federal aid determined months earlier than it is now, colleges could also construct their aid packages much earlier. Early, accurate information about college costs would allow students to choose the college that is best for them.

Figure 4:

Effect of Using Only IRS Data to Determine Pell Eligibility: 2012-2013 Aid Year



Note: See notes in Table 1 for sample description. These results correspond to those reported in Table 1, Column 3. Sample is divided into income groups in $5,000 increments. The top and bottom groups (0-5K and 100K+) contain 15 and 12 percent of the sample, respectively. The remaining groups each contain between two and eight percent of the sample.

End Notes

1. Dynarski, S. M., & Scott-Clayton, J. E. (2006). The cost of complexity in federal student aid: Lessons from optimal tax theory and behavioral economics. *National Tax Journal, 59*(2), 319-356.

2. Dynarski, S. M., & Wiederspan, M. (2012). Student aid simplification: Looking back and looking ahead. *National Tax Journal, 65*, 211-234; Dynarski, S. M., Scott-Clayton, J., & Wiederspan, M. (2013). Simplifying tax incentives and aid for college: Progress and prospects. *Tax Policy and the Economy, 27*(1), 161-202.

3. Kane, T. J. (2006). Public intervention in post-secondary education. In E. A. Hanushek & F. Welch (Eds.), *Handbook of the Economics of Education* (Vol. 2, pp. 1370-1401). Boston, MA: Elsevier.

4. Kane, T. J. (1999). *The price of admission*. Washington, DC: Brookings Institution Press; Dynarski, S. M., & Scott-Clayton, J. E. (2006). The cost of complexity in federal student aid: Lessons from optimal tax theory and behavioral economics. *National Tax Journal, 59*(2), 319-356.

5. Roderick, M., Nagaoka, J., Coca, V., Moeller, E., Roddie, K., Gilliam, J., & Patton, D. (2008). *From high school to the future: Potholes on the road to college*. Chicago, IL: Consortium on Chicago School Research, University of Chicago.

6. Novak, H., & McKinney, L. (2011). The consequences of leaving money on the table: Examining persistence amoung students who do not file a FAFSA. *Journal of Student Financial Aid, 41*(3), 5-23.

7. Bettinger, E. P., Long, B. T., Oreopoulos, P., & Sanbonmatsu, L. (2012). The role of simplification and information in college decisions: Results from the H&R Block FAFSA experiment. *Quarterly Journal of Economics, 127*(3), 1205-1242.

8. Advisory Committee on Student Financial Assistance. (2005). *The student aid gauntlet: Making access to college simple and certain.* Washington, DC: Advisory Committee on Student Financial Assistance.

9. Commission on the Future of Higher Education. (2006). *A test of leadership: Charting the future of U.S. higher education*. Washington, DC: U.S. Department of Education.

10. For example, see Rethinking Student Aid Study Group. (2008). *Fulfilling the commitment: Recommendations for reforming federal student aid*. Washington, DC: College Board; The Institute for College Access & Success. (2007). *Going to the source: A practical way to simplify the FAFSA*. Berkley, CA: The Institute for College Access & Success. In 2012, the Gates Foundation provided funding to 14 organizations to provide policy recommendations on improving financial aid. In the final reports, half of the organizations advocated for a simpler aid application.

11. https://fafsa.ed.gov/help/irshlp10.htm.

12. U.S. Department of Education. (2013). *2011-2012 National postsecondary student aid survey: Restricted-use data file*. Washington, DC: U.S. Department of Education, Institute of Education Statistics.

13. We limit the analysis to students who attended one college in each year. We include both part-time and full-time students.

14. We calculate students' expected family contribution and Pell eligibility using the FAFSA items contained in the NPSAS and the 2011-2012 and 2012-2013 aid formulas, as documented in the *Federal Student Aid Handbook*. U.S. Department of Education. (2011). *2011-2012 Federal student aid handbook*. Washington, DC: U.S. Department of Education; U.S. Department of Education. (2012). *2012-2013 Federal student aid handbook*. Washington, DC: U.S. Department of Education.

Education Policy Initiative | Gerald R. Ford School of Public Policy
Joan and Sanford Weill Hall, Suite 5100
735 South State Street, Ann Arbor, MI 48109
734-615-6978 | edpolicy.umich.edu | @edpolicyford

About the Authors

Susan M. Dynarski is a professor of public policy, education and economics at the University of Michigan. Her research interests include the impact of grants and loans on college attendance, the distributional aspects of college savings incentives, the costs and benefits of simplifying the financial aid system, the effect of charter schools, improving community college student outcomes and the effect of early childhood interventions on adult well-being.

Mark Wiederspan is a doctoral candidate in the higher education administration program at the University of Michigan. His research focuses on the impact of student financial aid on college access and persistence.

EPI Mission Statement

The central mission of the initiative is to engage in applied education policy research. The Education Policy Initiative is a program within the Ford School that brings together nationally-recognized education policy scholars focused on the generation and dissemination of policy-relevant education research. The primary goals of the initiative are to:

- Conduct rigorous research to inform education policy debates in Michigan and nationwide
- Disseminate best practices in education reform to local, state, and national policymakers, as well as to educational practitioners, parents, and students
- Train graduate students and others to conduct cutting-edge research in education
- Facilitate interactions between students and faculty from different schools and/or departments who share an interest in education reform.