

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.

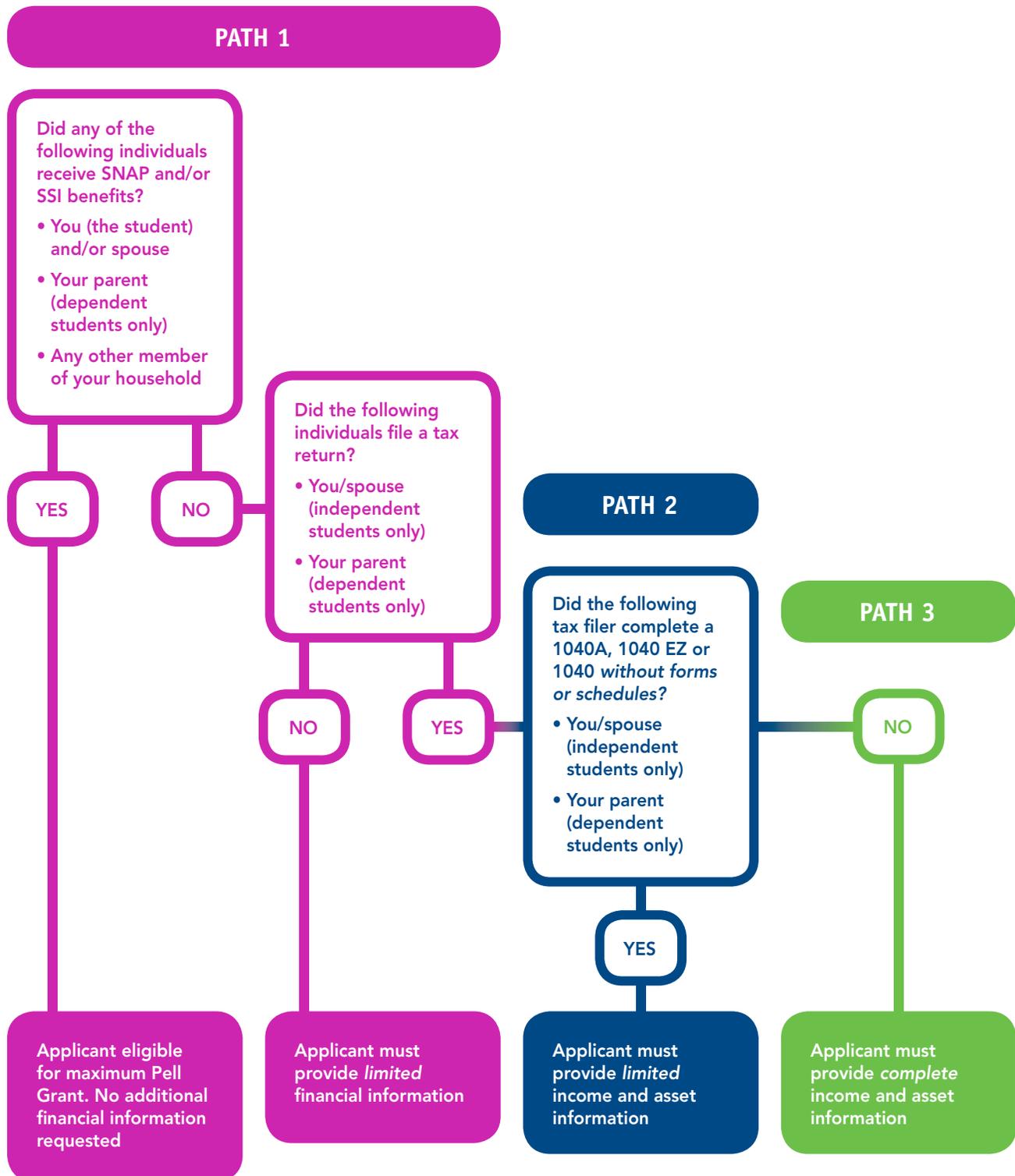
NASFAA Work on FAFSA Simplification

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.