The Tide Ahead:
Upcoming Changes to Financial Aid

Midwestern Regional Forum
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Current Federal and State Issues

- Pell Grant expenditures have doubled since 2008-09
  - Increases not sustainable
- Federal budget deficit threatens federal aid programs
  - Pell Grants
  - Student loan subsidies
  - Campus-based aid
- Economic downturn has resulted in cuts in state funding to higher education and to need-based grants
- President Obama has set a goal for increasing college completion by 2020

Consolidated Appropriations Act 2012 (HR 2055)

Signed by President 12/23/11

- Maintains max Pell Grant ($5,550) for 2012-13
- Changes expected to save $10 billion over 10 years
- Provisions affecting Pell Grant
  - Students eligible for less than 10% of max grant no longer eligible for minimum award
  - Maximum number of full-time semesters of eligibility reduced from 18 to 12
    - affects all students beginning with 2012-13 academic year

Consolidated Appropriations Act 2012 (HR 2055)

Provisions affecting all Title IV programs

- Ability-to-benefit options for general eligibility eliminated for students who first enroll in program of study on or after 7/1/12.
  - Student must have high school diploma or recognized equivalent or have been home schooled
  - Neither testing nor earning 6 credits applicable to a degree or certificate satisfies academic qualifications
- Maximum income to qualify for automatic zero EFC reduced from $31,000 to $23,000
  - Applies to parents of dependent students and independent students with dependents other than a spouse

Consolidated Appropriations Act 2012 (HR 2055)

- Provision affecting Direct Loans
  - Interest subsidy during 6-month grace period eliminated for new Stafford Loans made between 7/1/2012 and 7/1/2014
- Provisions in House bill that were not enacted
  - Require that students attend at least half-time
  - Reduce student Income Protection Allowance (IPA)
  - Reinstate forms of untaxed income to EFC calculation (welfare benefits, untaxed social security benefits, foreign income exclusion, etc.)

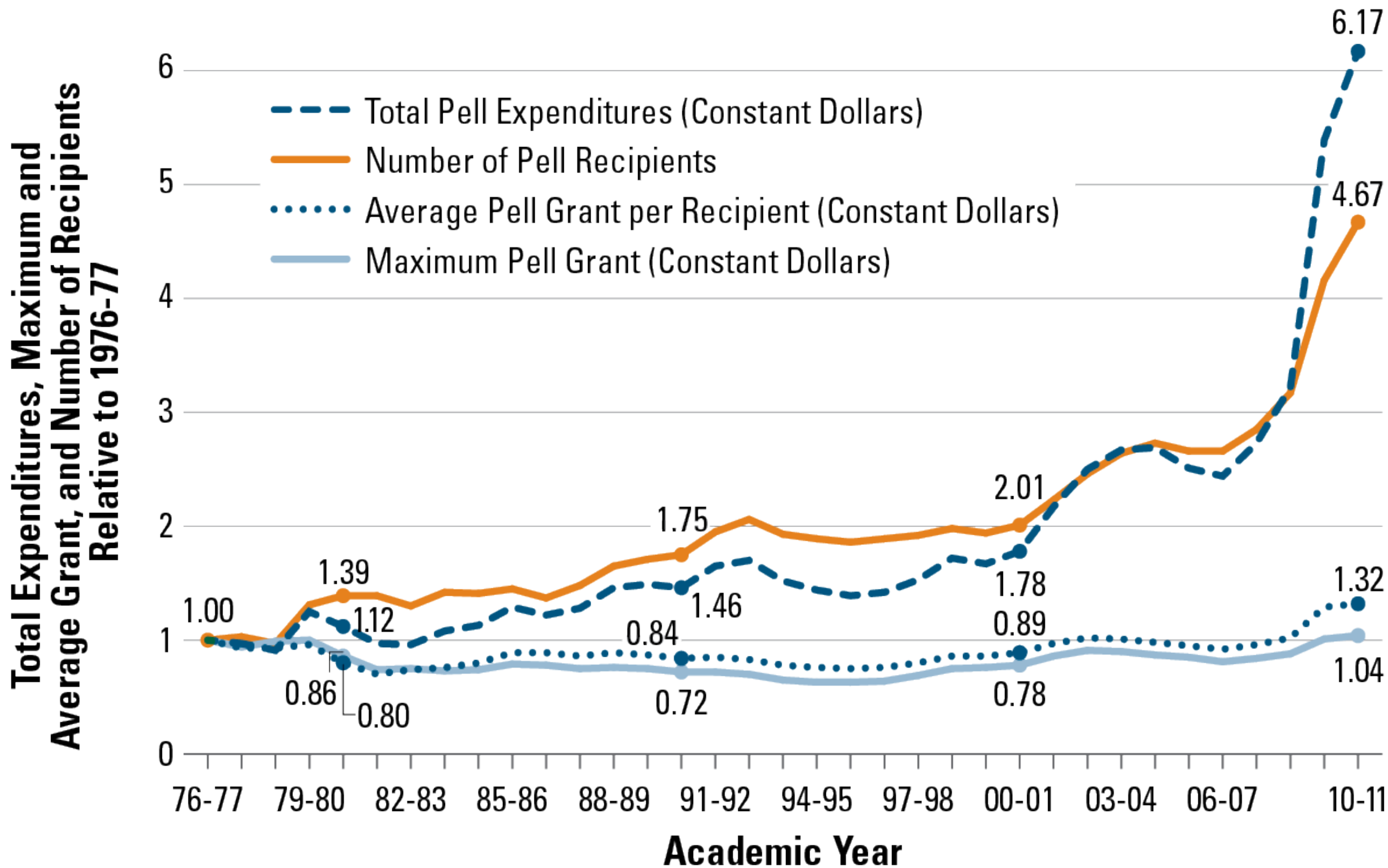
The Good News and the Bad News

- Consolidated Appropriations Act preserved max Pell of $5,550
  - Changes to Pell and Title IV programs were fairly minimal
- Congressional "super committee" failed to agree on deficit reduction
  - Statutory spending limits to be imposed if no agreement reached
  - Choices about where to place education cuts will be difficult
- General agreement that $4 trillion reduction of deficit over 10 years is required to stabilize deficit as proportion of GDP
  - Some optimism that Congress will come together to find a combination of increased revenue and decreased expenses
  - Bipartisan support for Pell Grant

Pell Grant: The Financial Dilemma

- Maximum Pell award has lost purchasing power
  - At public 4-yr in 2010-11, Pell max covered **34%** of average tuition, fees, room, board, compared to **45%** in 1990-91
  - At private nonprofit 4-yr in 2010-11, covered **15%** of charges
  - If Pell had increased by CPI+1% each year since 1975, max award in 2010-11 would have been **$7,931**
- Pell expenditures grew 58% from 2008-09 to 2009-10
  - 26% increase in number of recipients
  - 25% increase in average grant per recipient (after adjusting for inflation)

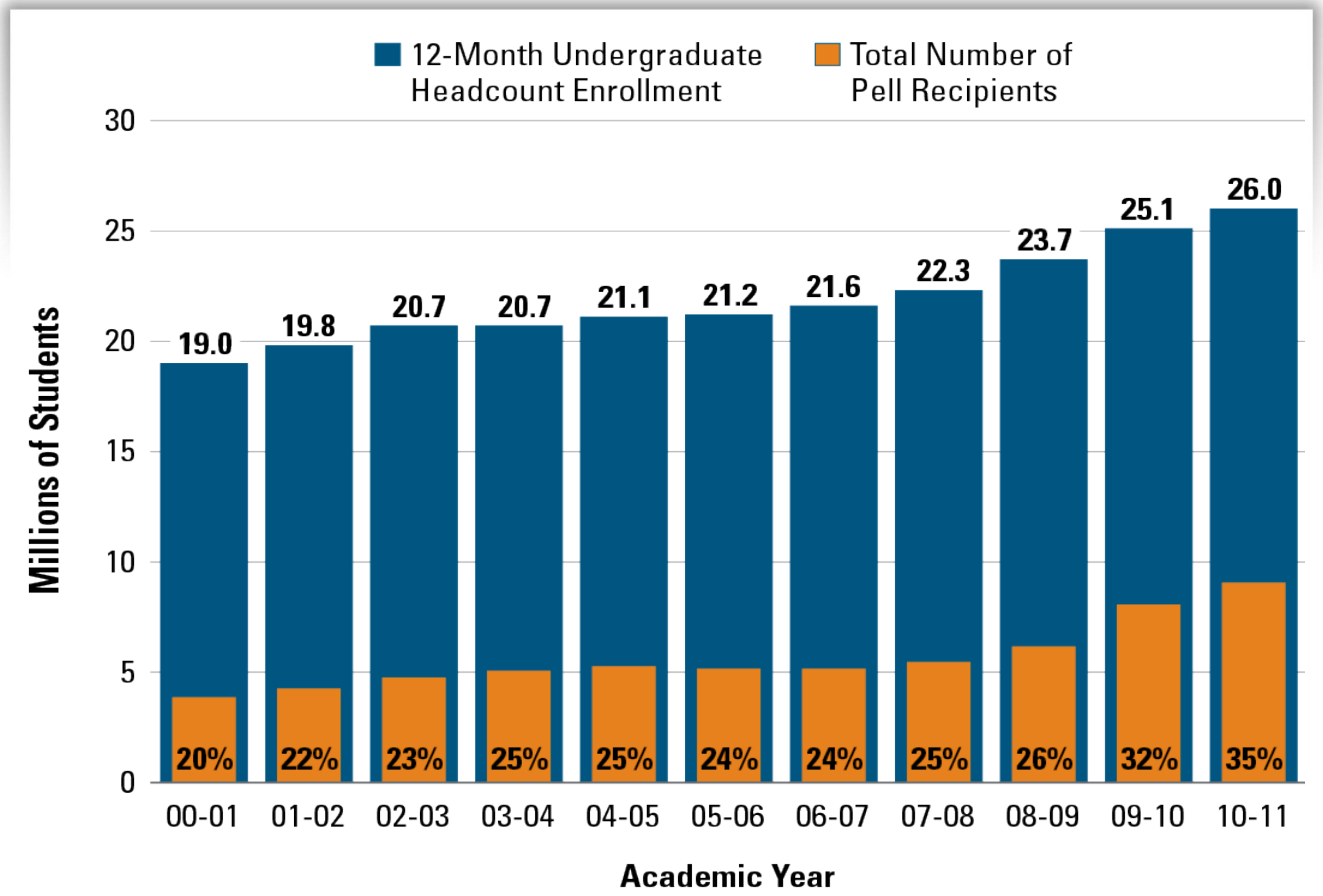
Pell Expenditures, Maximum & Average Grant (2010 Dollars) & Number of Recipients Relative to 1976-77



SOURCE: The College Board, *Trends in Student Aid 2011*

CollegeBoard Advocacy & Policy Center

Total Undergraduate Enrollment and Percentage of Students Receiving Pell Grants: 2000-01 to 2010-11



SOURCE: The College Board, *Trends in Student Aid 2011*.

CollegeBoard Advocacy & Policy Center

Pell Grant Mission Has Changed

- Basic Educational Opportunity Grant (now Pell Grant) introduced in 1972 to ensure college access for high school students from low-income families
  - 2012 is 40th anniversary of program
- In 1974-75, 78% of recipients were dependent students
- Today the program serves much more diverse group of students and set of purposes

Proportion of Independent Student Recipients Has Increased

Academic Year	Percent of Recipients Who Were Independent
1974-75	22%
1979-80	34%
1984-85	49%
1989-90	59%
1994-95	59%
1999-00	56%
2004-05	58%
2009-10	61%

Distribution of Pell Recipients by Sector Has Changed

	1999-00	2009-10
Public Two-Year	**33%**	**32%**
Public Four-Year	**35%**	**30%**
Private Nonprofit	**19%**	**13%**
For-Profit	**13%**	**25%**

The Tide Ahead: Reimagining Pell Grant

- Ensure that Pell is effective in supporting national goal of improving completion rates
  - Beginning Postsecondary Students: 2003-04 to 2008-09
    - **21%** of 2003-04 students with no Pell Grant left without a attaining a credential
    - **More than half** of independent Pell recipients left without a credential (regardless of sector)
    - **26%** of dependent Pell recipients left without a credential
      - Ranged from **18% at private nonprofit** 4-yr to **64% at for-profit** 4-yr institutions
- New College Board project to focus on strategies for reforming Pell Grant program

Reimagining Pell Grant

- Fall 2011 - College Board convened study group of economists, public policy experts, higher education professionals
  - Chaired by Sandy Baum
  - Supported by Gates and Lumina Foundations
- Study group considering whether Pell Grant program can be made more efficient and effective
  - May propose several alternative approaches to restructuring Pell Grant
  - Will present advantages and disadvantages of each approach based on available evidence

Reimagining Pell Grant

- Ideas under consideration
  - Instead of FM, construct simple eligibility table that decouples the maximum Pell and the maximum income
  - Explore integration of Pell grants and tax benefits
  - Consider if one set of eligibility criteria and regulations is the best way to sustain Pell and serve all students
  - Provide "persistence" incentives /funding to institutions
  - Provide publicly funded savings program for low-income youth
- Goal is to complete work by Fall 2012
  - Involve higher education community in discussions of group's final report in 2012-13

The Simpler FAFSA: Who Wins? Who Loses?

Early Awareness and Simplicity

- An effective federal and state student aid system is key to meeting college completion goals
  - Current system is complex (process & programs)
- Low- and moderate-income students are more likely to prepare academically if they understand financial aid
- Simple, predictable, well-targeted student aid system will lead to more efficient use of taxpayer dollars
- College Board's *Rethinking Student Aid (RSA)* recommendations are based on this premise

Simplification: Progress to Date

- HR 3221 passed but never considered by Senate
  - Only data available from IRS used to determine federal aid eligibility; families with assets above legislated cap ineligible for federal aid
  - Similar proposal in President Obama's FY 2012 budget
- Administration committed to further FAFSA simplification

National Evidence on Simplifying the FAFSA

- 2009 report from the Executive Office of the President:
  - Relying on IRS data would have minimal impact on Pell eligibility for independent students but generate increases for about 1/3 of dependent students.
- Simplifying would remove some questions included for states.

State Need-Based Aid Study: Goals

- Help states understand impact of a simplified federal aid process on state grant programs
  - Support institutions' ability to plan for a simpler FAFSA
- Build state support for a simplified process to ensure that students will benefit
  - Evidence about benefits of simplifying the application and increasing predictability of grant aid is compelling
- Help states advocate for streamlined system that will enable them to distribute need-based aid equitably and efficiently
  - May require changes to underlying Federal Methodology

Our Approach

- Selected a representative group of pilot states based on criteria for eligibility & aid determination
  - **Kentucky**
  - **Minnesota**
  - **Ohio**
  - **Texas**
  - **Vermont**
- Using state's 2007-08 or 2008-09 FAFSA and award data, simulated impact of potential federal data and formula changes on state grant awards

Our Methodology: Multiple Simulations

1. Remove Worksheet A items (new baseline for comparison) - previously eliminated in 2009-10 FM
2. Eliminate all assets
3. Eliminate untaxed income and income adjustments (Worksheets B and C items)
4. Use only IRS data (similar to HR 3221 language)
   - IRS data included AGI, taxes paid, number of exemptions
     - No employment allowance
     - FICA based on AGI/total earnings

What if FAFSA Worksheet A Had Been Eliminated in 2007-08?

- EFCs would have declined and grant eligibility would have increased
  - Average Pell per filer would have increased by $52 (MN) to $96 (TX [publics]); percent eligible would have increased by 1%
  - Average state grant per filer would have increased by $2 (MN) to $53 (OH [publics]); percent eligible would have increased by 0% (MN) to 2% (OH)
- Little discussion nationally because impact confounded by economic downturn
- We simulated elimination of Worksheet A and used results as baseline for comparison in study

Impact on EFC of Removing Assets: Dependent Applicants

- Average EFCs decline for all applicants
- Largest declines among dependent applicants from highest income households (more likely to have significant assets)

State	Average EFC Decline	Lowest Income <$15K	Middle Income $45-60K	Highest Income $>75K
Kentucky	-$914	-$119	-$636	-$2,080
Minnesota	-$1,350	-$242	-$814	-$2,540
Ohio (public 4-yr)	-$509	-$200	-$769	N/A
Texas (publics)	-$660	-$73	-$414	-$1,946
Vermont	-$1,878	-$468	-$1,164	-$3,181

Impact on EFC of Removing Assets: Independent Applicants

- Average EFCs decline more for independent applicants *without* dependents than for independent applicants *with* dependents

State	Without Dependents	With Dependents
Kentucky	-\$146	-\$20
Minnesota	-\$309	-\$39
Ohio (public 4-year)	-\$125	-\$16
Texas (publics)	-\$71	-\$5
Vermont	-\$358	-\$71

Removing Assets: Considerations

- Removing assets has greater impact on dependent than on independent students
  - Most independent students have few assets
- Higher income families are more likely to have significant assets, so reductions in EFC increase as incomes increase
- Pell Grants and most state grants are targeted at students from low- and moderate income backgrounds
  - Removing assets does not have great impact
- Many institutions award need-based aid to higher income students; removing assets could be challenging

Using Only IRS Data: Impact on Dependent Filers

- Average EFCs would decline for most applicants
- Largest impact among those from higher income families; more likely to have complex financial situations

State	Average EFC Decline	Lowest Income <$15K	Middle Income $45-60K	Highest Income $>75K
Kentucky	**-$993**	**-$150**	**-$532**	**-$2,515**
Minnesota	**-$1,650**	**-$304**	**-$840**	**-$3,323**
Ohio (public 4-yr)	**-$289**	**-$236**	**-$555**	**N/A**
Texas (publics)	**-$891**	**-$99**	**-$515**	**-$2,756**
Vermont	**-$2,379**	**-$604**	**-$1,269**	**-$4,295**

Using Only IRS Data: Impact on Independent Filers

- Independent students *without* dependents would benefit more than independent students *with* dependents
- Greater incidence of increased EFCs as a result of elimination of employment allowance

State	Without Dependents	With Dependents
Kentucky	**-$46**	**+$81**
Minnesota	**-$323**	**+$70**
Ohio (public 4-yr)	**-$48**	**+$126**
Texas (publics)	**-$190**	**+$36**
Vermont	**-$418**	**-$4**

Using Only IRS Data: Considerations

- Dependent students benefit more than independent
  - Most independent students have few assets and removing employment allowance has greater effect
- Higher income families more likely to have complex financial circumstances; reductions in EFC grow as incomes increase
- Pell Grants and most state grants are targeted at students from low- and moderate-income backgrounds
  - Using only IRS data does not have great impact
  - Many students would see decreases in grant eligibility
- Many institutions award need-based aid to higher income students; using only these very limited data elements from the IRS could be challenging

Minimizing the Impact of Fewer Data Elements

- Make modest changes to underlying federal need analysis
  - Achieve EFC results closer to current level while simplifying application process for students
- Modeled impact of changing Adjusted Available Income (AAI) assessment rates
  - Parameters in current formula are arbitrary and not based on economic research
    - Increased marginal tax rates
    - Modified Adjusted Available Income (AAI) bands
  - Achieved EFC levels similar to those in effect in 2007-08

Modifying FM AAI Assessment Rates

- One option for adjusting EFC computation is to increase marginal tax rates by 3 percentage points (25% to 50%)
  - If assets eliminated, average EFC for Kentucky FAFSA filers would be $6,374 — very close to current level of $6,382
  - If relying only on IRS data, average EFC for Ohio FAFSA filers attending 4-yr publics would be $3,350 — close to current level of $3,219
- Other options possible
  - Understand goals (EFC levels, Pell Grant expenditures)
  - Test options and outcomes

Minimizing the Impact of Fewer Data Elements

- If only IRS data were used to determine federal aid eligibility, why couldn't more detailed IRS data be provided to institutions and perhaps to states?
  - Identify tax filers with negative AGI
  - Impute assets based on interest and dividend income
- Create more effective federal need analysis system than exists today
  - Model still under review, but opens up possibilities
  - Would require support from Administration and most likely legislation

Next Steps

- Final report detailing results of need-based aid study to be published in February
- Continue conversations about the benefits of a simpler federal application process

We're Interested in Hearing From You

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