

## House FY13 Budget Increases Uncertainty and Complexity in the Financial Aid Process for Students with Family Incomes over \$20,000

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In 2011-12, students with family incomes below \$31,000<sup>1</sup> who also met additional requirements<sup>2</sup> could receive an automatic-zero expected family contribution (EFC), making them eligible for the maximum Pell Grant if they attended full-time. This income threshold will drop dramatically to \$23,000 in 2012-13, and the House Fiscal Year 2013 budget would roll it back even further, making students with family incomes above \$20,000 ineligible for an automatic-zero EFC in 2013-14.<sup>3</sup> This would completely reverse changes from the College Cost Reduction and Access Act of 2007 (CCRAA), which passed with bipartisan support in Congress as well as support from numerous higher education and student groups.<sup>4</sup> Over one million Pell Grant recipients—many of whom are students with children—would be affected by these combined rollbacks.<sup>5</sup>

**A \$20,000 income threshold in the 2013-14 school year would be lower than the income threshold in 2007-08 after adjusting for inflation, while college costs have soared since that time.**

- The \$20,000 income threshold in the House budget is *below the poverty level* for families of four or more and is less than 150% of poverty for families of two or more, a commonly used indicator for whether families can afford basic services, such as heating and children's health insurance.<sup>6</sup>
- After adjusting for inflation, a \$20,000 income threshold would be the least generous automatic-zero EFC provision since 2007-08.<sup>7</sup> During the same period, college costs have risen more than twice as fast as inflation.<sup>8</sup>

**Students with family incomes of \$23,000 or less *are truly needy*, already struggle to cover college costs, and continue to go to college at lower rates than their peers.<sup>9</sup>**

- Many students with family incomes between \$20,000 and \$30,000 ***qualify for federal means-tested benefits, which are targeted toward the neediest Americans.*** Almost one-quarter (23%) of Pell Grant recipients with automatic-zero EFCs and family incomes between \$20,000 and \$30,000, or their family members, receive food stamps (SNAP) and more than one third (35%) come from families in which someone receives federal free or reduced price lunch.
- ***Families making \$23,000 or less already struggle to cover college expenses.*** An income of \$23,000 is below the poverty level for a family of four.<sup>10</sup> After accounting for grant aid, the average student from a family with income between \$20,000 and \$23,000 *already has to cover college costs equivalent to more than half of his or her family income.*<sup>11</sup> Even those attending lower cost community colleges already have to contribute one-third of their family income to cover college costs after grant aid.

**Rolling back the automatic-zero EFC would add uncertainty and complexity to the financial aid process for needy students, which can be a barrier to college access.** Research has shown that adding uncertainty and complexity to the financial aid process can prevent low-income students from receiving the grant aid they are eligible for and need to go to college.<sup>12</sup> These truly needy students should be able to count on the maximum Pell Grant.

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<sup>1</sup> The income threshold for the automatic-zero EFC was \$31,000 for the 2011-12 year because the initial \$30,000 threshold set by CCRAA was indexed to increase with inflation. It is \$23,000 for the 2012-13 year as a result of the Fiscal Year 2012 omnibus budget agreement. However, some data analyses can only be conducted for students in the \$20,000 to \$30,000 income range, rather than the \$20,000 to \$23,000 range.

<sup>2</sup> To qualify for an automatic-zero EFC, students must have a family income below \$31,000 (for the 2011-12 year) or \$23,000 (for the 2012-13 year) *and* meet one of the following tests of need: (1) be eligible for or have a family member who is eligible for food stamps, free or reduced price lunch, Supplemental Security Income, Temporary Assistance for Needy Families, or supplemental nutrition for Women, Infants, and Children; (2) be a dislocated worker; (3) be eligible to file a 1040A or 1040EZ federal income tax return; or (4) not be required to file an income tax return.

<sup>3</sup> U.S. House of Representatives, Report of the Committee on the Budget, "Concurrent Resolution on the Budget – Fiscal Year 2013," <http://www.gpo.gov/fdsys/pkg/CRPT-112hrpt421/pdf/CRPT-112hrpt421.pdf>.

<sup>4</sup> U.S. Senator Jack Reed. March 20, 2007. "Floor Statement Introducing ACCESS Act and FAFSA Act." Elements from Senator Reed's Financial Aid Form Simplification and Access Act (FAFSA), including the expansion in eligibility for automatic-zero EFCs, were eventually folded into the College Cost Reduction and Access Act, passed by Congress in September 2007.

<sup>5</sup> Calculations by The Education Trust and TICAS on data from the U.S. Department of Education, Office of Postsecondary Education, "Pell End-of-Year-Report," 2010-11, Table 65.

<sup>6</sup> Calculations by TICAS on data from the U.S. Department of Health and Human Services, "The 2012 HHS Poverty Guidelines."

<sup>7</sup> Calculations by The Education Trust and TICAS on data from the U.S. Department of Education regarding the EFC formula, 1993-94 to 2012-13, and the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers.

<sup>8</sup> Calculations by TICAS on data from The College Board, *Trends in College Pricing 2011*, Table 5 and the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers. Calculations based on the average annual increase in tuition and fees and room and board charges at public and nonprofit four year colleges between 2007 and 2011 (the most recent year of data available).

<sup>9</sup> "The Condition of Education 2010," Student Effort and Educational Progress, Immediate Transition to College, Table A-21-1, <http://nces.ed.gov/pubs2010/2010028.pdf> and Bachelor's Degree Attainment by Age 24 by Family Income Quartiles, 1970-2009, Postsecondary Education Opportunity, [www.postsecondary.org](http://www.postsecondary.org).

<sup>10</sup> "Annual Update of the HHS Poverty Guidelines," 2012. U.S. Department of Health and Human Services, Federal Register, Vol. 77, No. 17. Poverty levels are for the continental United States and DC.

<sup>11</sup> Calculations by The Education Trust and TICAS on data from the National Postsecondary Student Aid Study: 2008.

<sup>12</sup> See Dynarski, Susan and Judith Scott-Clayton. 2007. *College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid*. The Hamilton Project Discussion Paper 2007-01. The College Board. 2008. *Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid*. Dynarski, Susan M. and Judith E. Scott-Clayton. 2006. *The Cost of Complexity in Federal Student Aid: Lessons from Optimal Tax Theory and Behavioral Economics*. Faculty Research Working Paper Series, Harvard University, John F. Kennedy School of Government. The Institute for College Access & Success. 2010. *After the FAFSA: How Red Tape can Prevent Eligible Students from Receiving Financial Aid*.