House FY18 Budget Increases Uncertainty and Complexity in the Financial Aid Process for Students Living in or Near Poverty

August 3, 2017

In 2017-18, students with family incomes of $25,000 or less who also meet additional requirements[1] can receive an automatic-zero expected family contribution (EFC), making them eligible for the maximum Pell Grant if they attend school full-time. This income threshold was already reduced significantly by Congress—it was $31,000 in 2011-12.[2] The House Fiscal Year 2018 budget would roll it back even further to make students with family incomes above $20,000 ineligible for an automatic-zero EFC in 2018-19.[3] 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 many higher education and student groups.[4]

Nearly one-in-five of the neediest Pell Grant recipients – many of them students with their own children – would face a more complicated and uncertain financial aid process, which can be a barrier to college access.

- Almost 400,000 Pell Grant recipients (19% of all those receiving a maximum award) would be affected by this rollback of the income threshold required to qualify for an automatic-zero EFC.[5]
- 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.[6]

Students with family incomes of $25,000 or less *are truly needy*, and already struggle to cover college costs. These truly needy students should be able to count on the maximum Pell Grant.

- After accounting for grant aid, the average student from a family with income between $20,000 and $25,000 *already has to cover college costs equivalent to nearly half of his or her family income*.[7] Even those attending lower cost community colleges already have to contribute one-quarter of their family income to cover college costs after grant aid.

A $20,000 income threshold in the 2018-19 school year would be lower than the income threshold in 2007-08 after adjusting for inflation, and is below the poverty level for many.

- 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.[8]
- After adjusting for inflation, a $20,000 income threshold would be the least generous automatic-zero EFC provision in nearly a decade[9] while college costs have continued to rise faster than inflation.[10]

[1] To qualify for an automatic-zero EFC, students must have a family income of or $25,000 or less (for the 2017-18 school year) *and* meet one of the following tests of need: (1) be eligible for or have a family member who is eligible for Medicaid, food stamps (SNAP), 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.

[2] The income threshold for the automatic-zero EFC was $31,000 for the 2011-12 year because the initial $30,000 threshold set by the 2007 CCRAA was indexed to increase with inflation. It was reduced to $23,000 for the 2012-13 year by the Fiscal Year 2012 omnibus budget agreement, and has increased based on inflation since then. [3] U.S. House of Representatives, Report of the Committee on the Budget, "Concurrent Resolution on the Budget – Fiscal Year 2018," https://www.gpo.gov/fdsys/pkg/CRPT-115hrpt240/pdf/CRPT-115hrpt240.pdf.

[4] 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. [5] Calculations by TICAS on data from the U.S. Department of Education, Office of Postsecondary Education, "Pell End-of-Year-Report," 2015-16, Tables 2 and 4. Note that the income figures in Table 2 include forms of untaxed income that are not considered in the needs analysis formula.

[6] 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.* The Institute for College Access & Success. 2016. *On the Sidelines of Simplification: Stories of Navigating the FAFSA Verification Process.*

[7] Calculations by TICAS on data from the National Postsecondary Student Aid Study: 2012.

[8] Calculations by TICAS on data from the U.S. Department of Health and Human Services, "The 2017 HHS Poverty Guidelines." https://aspe.hhs.gov/poverty-guidelines. Poverty levels are for the continental United States and DC.

[9] Calculations by TICAS on data from the U.S. Department of Education regarding the EFC formula, 1993-94 to 2017-18, and the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers.

[10] Calculations by TICAS on data from The College Board, *Trends in College Pricing 2016,* Table 2 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 2016 (the most recent year of data available).