FAFSA Simplification and Financial Aid Complexity

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Introduction

Financial aid is a key resource for many students to ensure that they enroll in postsecondary education, choose a college that matches their abilities and preparation, select a major that will increase their lifetime earnings, and persist to graduation.[1] Given this importance, however, program complexity and administrative burdens can hamper student success in many ways. While many researchers have focused on the Free Application for Federal Student Aid (FAFSA), similar issues are also of concern for programs at the state and local levels.

This article reviews evidence of how complexity and the administrative burden on students affect access to financial aid, influence enrollment choices, and serve as potential barriers to persistence and graduation. While the FAFSA is the main gateway for many financial aid programs for students, other attempts at simplification at the state and local levels as well as institutional approaches to using new technologies, such as computer-generated reminders, artificial intelligence, and chatbots that guide students, are also important to discuss.

The main purpose of the FAFSA is to help determine financial need for Pell Grants, Stafford and Perkins loans, and the Federal Work-Study Program. The FAFSA asks students (and their families) to report on their own income, parental income, the number of siblings, financial assets, and a host of other demographic questions. Students are considered dependent on their parents if they are under 24 years old, single, without children, and not veterans. For dependent students, the federal government considers parental income and wealth. For independent students, however, the student's own financial situation is considered without regard to parents.

The FAFSA is mainly used to generate an index of students' ability to pay for college, called the Student Aid Index (SAI) (previously, this was called the "Expected Family Contribution" (EFC)). With the SAI, lower numbers indicate greater financial need. Using a rather complex formula, the federal government accounts for parental income, assets (not including primary housing), and other siblings in the household to determine the SAI. The opaqueness of the SAI calculation makes it difficult for applicants to know what aid they may be eligible for before they apply for college.[2] Given the previous research on the importance of financial aid for student outcomes, simplification and related measures could be a potential avenue to increase student achievement.[3]

FAFSA simplification has been a goal for the federal Department of Education for many years.[4] Researchers have shown that the FAFSA claims to take approximately one hour to complete but that it actually takes more than twice as long to complete as the IRS 1040 does.[5] Many attempts at simplification have included shortening the form and using IRS tax data to automatically prefill some fields, such parental income.

In addition to FAFSA complexity, form completion timing is not aligned well with application timing or enrollment decision timing. Hence, students are considering various types of institutions and tuition prices with incomplete knowledge of their financial aid eligibility and the actual price that the chosen institution will charge. Previously, there was an additional layer of complexity in that, in the United States, the deadline for a household to file its taxes was in April, while many college applications were due the previous fall. To address this issue, the Department of Education proposed allowing students to report on their parents' prior-prior-year income.

Additionally, there may be financial aid complexity at the state and local levels. One reason is that many state programs require FAFSA completion to access funds since many scholarship programs are "last dollar," meaning that the state or locality will use its own funds to compensate for any difference between the cost of attendance and the Pell Grant awarded. Many states and localities have turned to "promise" scholarships, which award financial aid regardless or merit or income based on students' residency in a state or locality.[6] Alternative programs guarantee students with a certain GPA free college regardless of ability to pay.[7] These programs can potentially remove administrative complexity by credibly signaling college affordability and access.[8]

Finally, another way that institutions can reduce FAFSA or financial aid complexity is to combine new technologies, such as computer-generated reminders, artificial intelligence, and chatbots, to remind and guide students through the application process. While student advising is effective in helping students through the application process, it is expensive, and student counselors may be limited.

This policy brief reviews the key findings from the previous literature and discusses the insights that they present for policymakers and future research regarding financial aid complexity and the effect of administrative burden on higher education enrollment, persistence, and completion.

Key findings

Key finding #1: *Financial aid complexity impedes qualified students from enrolling in college and may create mismatch.*

FAFSA complexity causes confusion with regard to two important deadlines in the college application process. First, students are required to complete the FAFSA at the same time as they are deciding to apply to various colleges. Second, students will not know how much aid they may be eligible for because FAFSA completion is required to determine aid eligibility. Therefore, students are unsure of whether they are eligible for Pell Grants or subsidized student loans before they complete their college applications, and many eligible students fail to apply and consequently forgo important aid for college.[9] One estimate shows that students may lose out on $24 billion (in 2016 dollars) annually for this reason alone.[10]

Key finding #2: *Policies that either nudge or mandate FAFSA completion increase student outcomes such as enrollment, persistence, and graduation.*

One key question is whether a reduction in financial aid complexity improves student outcomes. Perspective on this point is necessary because a reduction in aid complexity will increase expenditures on student aid and because both local and federal governments will need to justify this increased cost with evidence of an improvement in student outcomes. The previous literature shows that a decrease in the number of questions seeking additional assistance with FAFSA completion increases enrollment, persistence, and graduation.[11]

Key finding #3: *States and the federal government can reduce the administrative costs for students by using data and information that government agencies already have, although it is unclear at this point whether these efforts improve students' college outcomes.*

One promising innovation in financial aid simplification is the use of data that government agencies already have access to, hence reducing redundancy and duplication for students and their families. For example, the IRS Data Retrieval Tool has the potential to link students to their or their parent's income records, which would simplify the application process and more quickly provide clarity on the price of college after aid.[12] In addition, the federal government now allows students to use their parents' prior-prior-year income. This change allows students to complete the FAFSA almost immediately after their parents submit their IRS tax returns during their junior year of high school. Researchers show that this simplification increases submissions but may not affect enrollment.[13]

Key finding #4: *State or locally financed scholarships (i.e., promise scholarships) credibly reduce administrative complexity by communicating to students that college will be free (with additional state or local aid) if they complete the FAFSA.*

One policy development at the state level is promise scholarships.[14] These scholarships are location based and usually promise free tuition for students who graduate from high school in a certain locality (such as a state, county, or city). While some of these scholarship programs still require FAFSA completion, researchers have shown that promise programs serve as a type of "information signal" that credibly tells students that college is free if they participate. These programs improve student outcomes including enrollment or matriculation at more selective universities.[15]

Key finding #5: *Financial aid simplification may not be enough, and behavioral nudges, reminders, and incentives may be key to FAFSA completion.*

Finally, while simplifying and streamlining the financial aid application process may be helpful for the marginal nonapplicant, students may still need academic advising and other resources to help them overcome these barriers. While traditional one-on-one counseling is effective, other types of interactions such as the use of chatbots or text messages may be helpful as well.

Understudied aspects of financial aid simplification

The literature discussed below shows that aid complexity prevents students from applying for and/or receiving financial aid. Many papers have further shown the link between access to this aid and enrollment in college. However, longer-term outcomes would be helpful for demonstrating the return on investment for both simplification and federal aid writ large. Research shows that access to Pell Grants and student loans increases graduation and

income, and other work shows that FAFSA complexity mutes the possible beneficial effects of Pell Grant receipt.[16] Future research on simplification and its potential effects on graduation and wages would be an excellent next step.

Evidence

Key finding #1: *Financial aid complexity impedes qualified students from enrolling in college and may create mismatch.*

Financial aid complexity has deterred students from applying for aid in two ways. First, in the past, college applications deadlines, the FAFSA deadline, and when parents completed their IRS tax returns did not match up. Hence, students did not necessarily know how much aid they would receive until after they made their college choice. The Department of Education alleviated this concern with a switch to the prior-prior-year income option.

The second deterrent is overcoming the complexity of the form itself. One concern is that the parents with the most information and resources will also be the most able to access any offered assistance, hence creating a false positive treatment effect. Randomized controlled trials give a researcher the best opportunity to understand what types of information and support can help students.

One research team partnered with H&R Block to randomize students to tax professionals who could help them complete the FAFSA and give them good estimates of their possible aid packages and the net price of the colleges that the students expressed interest in attending.[17] Students in this group also received an offer to have H&R Block file their FAFSA on their behalf. Another treatment group received written assistance, given their parents' tax returns, on how much aid they could accept and the tuition rates of local colleges. Finally, the control group received a brochure on the value of attending college and the importance of financial aid. Each treatment arm gave students varying amounts of information, but the first gave personalized information and made it easier to actually complete and file the FAFSA.

The results were striking. These researchers found an 8% increase in FAFSA completion among the full treatment group. These students also were more likely to enroll in and persist in college three years after the experiment. These results were the strongest for students whose parents had no college experience. The treatment in this case was also relatively inexpensive, costing approximately three (2012) dollars and time.

Although less intensive than the H&R Block intervention, text messages are another potential way to offer information to students. In one study, researchers randomized high-school students in various school districts to receive text message "nudges" that reminded them of various steps that they needed to complete before enrolling in college.[18] The main goal was to focus on preventing "summer melt"—a phenomenon in which students who indicate an interest in attending college in the spring do not ultimately enroll in the fall.

The researchers found that nudges to complete the FAFSA increased on-time enrollment by 20% for students who had not completed the FAFSA. This research is evidence that low-cost behavioral nudges may also be effective in increasing college enrollment via FAFSA simplification.

One way of measuring the immediate cost of FAFSA complexity is to determine how much aid students leave on the table. One researcher showed that nonapplicants tend to be of higher income, white, and independent students.[19] A Department of Education survey showed that students thought that they could not afford to attend college and that they felt that their income may be high enough that they would not be eligible for aid in the first place.[20]

Another study used data from the National Postsecondary Student Aid Study (NPSAS), a dataset that contains information on the financial aid packages for hundreds of thousands of students, where they attended college, their major, and other demographic information.[21] Moreover, these data have the answers to what appeared on a student's FAFSA, and vitally, if a student did not complete the FAFSA, the data report what would have been on the FAFSA had the student completed it.

The author used a propensity score matching technique to compare similar students who completed the FAFSA with students who did not apply for financial aid. Students who were white, male, independent, and older and whose parents had approximately the median income were least likely to complete the FAFSA. These findings are evidence that those who have a very low income know that they are likely to receive aid; however, as income increases, whether they are eligible becomes more unclear.

Finally, the propensity score matching showed that students forgo approximately $1,281.00 in Pell Grants and $2,439.50 in subsidized student loans (in 2012). These large sums show that the application burdens are significant and pervasive across the income distribution.

Key finding #2: *Policies that either nudge or mandate FAFSA completion increase student outcomes such as enrollment, persistence, and graduation.*

One concern about simplification could be that students who already would have attended or finished college would have access to funds and that the return on the margin of simplification or encouragement to complete the FAFSA would be low. To test this idea, researchers should focus not only on forgone financial aid but also on key outcomes such as enrollment, persistence, and graduation.

One low-cost way to help students complete the FAFSA is to send text message reminders. In one study, researchers randomized first-year students into a group that received personalized text messages reminding them to refile their FAFSA to keep their eligibility for financial aid in the following year.[22] These text messages proved effective because the students who received reminders were 14% more likely to persist to the next school year.

Another way of ensuring that students complete the FAFSA is to require FAFSA completion to graduate from high school. Texas and Louisiana provide two examples of this policy change. In Louisiana, this policy increased FAFSA completion by 19 percentage points (p.p.) and increased college attendance by 1–2 p.p.[23] Furthermore, this study found that the result was driven by lower-to-lower-middle-income students. Louisiana also has generous merit aid programs that require FAFSA completion, and applications for this state-based funding increased as well.

Another study using a sample of Texas high-school students and a difference-in-differences design showed that this policy change boosted FAFSA completion rates by 6.3

p.p. and led to an increase in college-going among students who traditionally do not complete the FAFSA.[24]

One issue with informational nudges is that they may not be tailored enough to induce students to complete the form either because students still doubt that they are eligible or because the complexity of the form still outweighs any expected aid. Thus, state graduation requirements may be more effective because they dramatically increase the benefit of FAFSA completion for students (i.e., receiving their high school diploma).

Key finding #3: *States and the federal government can reduce the administrative costs for students by using data and information that government agencies already have, although it is unclear at this point whether these efforts improve students' college outcomes.*

One idea that complements a reduction in the number of questions on the FAFSA would be to automatically populate the form with information that the federal government already collects. For example, the federal government has begun to auto-populate the FAFSA with parents' IRS tax information (called the IRS Data Retrieval Tool) if parents have already filed their tax returns. Another change for students, motivated by previous research, is the opportunity to use their parents' prior-prior-year adjusted gross income.

Since these tools are relatively new, there is little evidence of their effectiveness. One study[25] exploited a natural experiment where there was an outage in the IRS Data Retrieval Tool midway through the 2017 application cycle. Given that the application deadlines for different universities fall at different points in the calendar, this variation presented an opportunity to study whether the reduction in paperwork actually boosted FAFSA completion. The author found a null effect, meaning that the availability of the Data Retrieval Tool did not increase applications in a statistically significant way. This evidence indicates that following up with deadline reminders, counseling, and personal assistance is much more effective but comes at a higher cost.

Similarly, more research on the option for students to use their parents' prior-prior-year income (enacted in 2016) would be helpful in understanding the effectiveness of this policy. Using descriptive statistics, a team of researchers compared cohorts of FAFSA filers in California before and after the policy change.[26] They found that students with the ability to report their parents' prior-prior-year income were more likely to apply and to apply earlier in the cycle. However, there is scant evidence that this policy resulted in an increase in college-going.

Key finding #4: *State or locally financed scholarships (i.e., promise scholarships) credibly reduce administrative complexity by communicating to students that college will be free (with additional state or local aid) if they complete the FAFSA.*

In addition to a reduction in the complexity of federal aid, states and individual universities have opportunities to reduce the administrative burden placed on students by framing the price of college differently.[27] While some programs still require students to complete the FAFSA (when a significant number of Pell Grant recipients would have their tuition covered if they attended a local public institution), these programs credibly signal to students that, upon FAFSA completion, their college is free. This signal eliminates any eligibility uncertainty, particularly with regard to income.

Some promise scholarships require students to complete the FAFSA, while others are independent of students' application status. Furthermore, some promise scholarships are first-dollar scholarships (meaning that any subsequently awarded aid such as Pell Grants or merit-based aid is layered on top of the promise scholarship), while alternative programs are last-dollar scholarships (promise aid comes after federal or merit grant aid). However, the policy question is whether aid framing that ensures that students understand that they will not pay tuition is any more effective than simplifying the form itself. Packaging and framing may provide key information or motivation to students to complete the FAFSA. Promise programs, which are aid programs linked to students graduating from high school in specific geographic locations, consistently show positive effects on enrollment.

One unique scholarship that the University of Michigan designed to frame application simplicity around financial aid was the Michigan High-Achieving Involved Leader (HAIL) Scholarship.[28] This scholarship promised low-income, high-achieving students free tuition at the University of Michigan. Researchers randomly assigned eligible students to either a treatment arm that made a four-year, free college commitment to them if administered, a treatment arm that made a similar financial aid offer but confirmed their eligibility only after admission and that required them to reapply and verify their need in subsequent years, and a control group to whom only information about financial aid was provided.

This program was unique in that while it did not change the aid amount (students would have received full tuition scholarships regardless of treatment status), the information provided mitigated the program's complexity. Students with the credible signal of free college responded accordingly. The students who were offered financial aid upfront (a true "promise") were 50% more likely to enroll even though their eligibility for aid was consistent across the treatment and control groups. These findings indicate that if the federal government or colleges could frame guaranteed funding and acceptance to needy students at the start of the process, then more low-income students would apply, complete the FAFSA, and enroll in college. Financial aid simplification in this manner effectively reduces the information disparity and students' uncertainty about their ability to pay for college.

Key finding #5: *Financial aid simplification may not be enough, and behavioral nudges, reminders, and incentives may be key to FAFSA completion.*

While financial aid policy continues to develop, new evidence is pointing to the idea that form simplification may not be enough, particularly for low-income and first-generation college students. Despite simplification, students still struggle to remember to complete the form or need extra help navigating the questions on the form. Personal assistance, chatbots, and artificial intelligence may all prove to be useful in helping simplify the financial aid application process and may encourage students to enroll and persist to college.[29]

One randomized controlled trial deployed chatbots to students at East Carolina University to help them complete the FAFSA, in addition to "business-as-usual" outreach provided by the institution. [30] These chatbots both provided reminders of upcoming FAFSA deadlines and helped guide students with answers to frequently asked questions. If students still needed help, the chatbots connected them to a human admissions counselor. Thus, the treatment combined low-cost scaling with actual human connection. Those in the

treatment group were 8% more likely to accept a federally sponsored loan and more likely to enroll at the university.

Another randomized controlled trial also varied which students received outreach from a chatbot. In this experiment, students at Georgia State University and Perimeter College were randomized to whether they received nudges and assistance from a chatbot to help with various steps in the college application process. They found that artificial intelligence was helpful, particularly with discrete tasks such as completing the FAFSA, managing holds, or paying off a balance so that students could register for the next semester. These results indicate that if students need more assistance even with form simplification, artificial intelligence could be a low-cost and scalable option.[31]

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