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College Grants on a Postcard:
A Proposal for Simple and
Predictable Federal Student Aid

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College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid

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This discussion paper is a proposal from the authors. As emphasized in The Hamilton Project's original strategy paper, the Project is designed in part to provide a forum for leading thinkers across the nation to put forward innovative and potentially important economic policy ideas that share the Project's broad goals of promoting economic growth, broad-based participation in growth, and economic security. The authors are invited to express their own ideas in discussion papers, whether or not the Project's staff or advisory council agree with the specific proposals. This discussion paper is offered in that spirit.

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Abstract

The federal system of student financial aid is broken. Information about aid eligibility is hidden behind a thicket of complicated paperwork, and is also highly uncertain. Concrete information arrives just a few months before or even months after students enroll in college—far too late to affect enrollment decisions. Economic theory and evidence suggest that the costs of complexity and uncertainty are high: many high school students won't even start on the path to college if they aren't certain they can afford it. Capable students teetering on the margin of college entry are thus discouraged from going to college by its price, even though aid is available to them. This is a waste of human potential.

This waste is unnecessary. Dozens of questions on the federal aid application contribute virtually nothing to the determination of grant aid, so the aid formula could be radically simplified while still preserving its distributive properties. But simplification must achieve more than a shortened application form: families need certain information about aid eligibility, and they need it early. Small tweaks and Band-Aid solutions are likely only to add to the complex, confusing, and uncertain situation faced by students and their families.

We propose a drastic simplification of the current system of educational grants and tax incentives. Our proposal combines Pell Grants and the Hope and Lifetime Learning tax credits for undergraduates into a single, streamlined grant administered through the Department of Education, using information already collected by the Internal Revenue Service (IRS). Eligibility can be explained on a postcard, allowing students and families to anticipate their grants many years before the college decision. This set of reforms will improve the effectiveness of the billions already committed to higher education, allowing aid to serve its intended goal: opening college doors to those with the ability but not the means to pursue higher education.

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Overview of the Problem

State and federal governments spend billions on financial aid for college students each year. Pell Grants, Stafford Loans, the Hope and Lifetime Learning Tax Credits, and a host of other programs make college less expensive (see Table 1). The intent of this aid is to increase college attendance. The idea is straightforward: people buy more of a product (college) when its price (tuition) is lower. Price drops, demand increases: that's a lesson learned in any introductory economics course.

Econ 101 says that federal student aid should increase college attendance. We need aid programs to work: college entry and completion rates are low among poor people in our country, with college attendance lowest among the fastest-growing segments of our population.¹ Only 7 percent of high school sophomores from the lowest quartile of socioeconomic status eventually earn a bachelor's

degree, compared with 60 percent of those from the highest quartile. Moreover, only 12 percent of Hispanics and 16 percent of African Americans eventually earn a B.A., compared with 33 percent of non-Hispanic Whites (U.S. Department of Education [ED] 2006). Racial and socioeconomic gaps in attainment are rooted in multiple causes, including weak academic preparation in high school. Even among well-prepared students, however, these gaps persist, suggesting that the cost of college is at least partly to blame.

We expect that student aid could help us close these troubling and persistent gaps in educational attainment. Puzzlingly, we have little firm evidence that federal Pell Grants or the federal education tax credits actually get more young people into college.² Why is this? One clue: the aid programs that researchers have found to be most effective are

1. See College Board (2005b) for statistics of college enrollment by family income and race. U.S. Census Bureau (2004) shows growth estimates for 2000–10 of 7.2 percent for Whites (any ethnicity), 12.9 for African Americans (any ethnicity), and 34.1 for Hispanics (any race).
2. Two well-designed studies have found no effect of the Pell Grant on schooling decisions (Hansen 1983, Kane 1995), while one has found no effect of the tax credits (Long 2004).

TABLE 1
Summary of Pell Grant Program and Federal Tax Benefits for Higher Education

Program	Income eligibility	Maximum Benefit	Number of Applicants	Number of Recipients	Average Benefit Among Recipients	Total Cost
Pell Grant	No cutoff, but almost all recipients have income below \$40,000	Up to \$4,050	9,567,023	5,387,000	\$2,354	\$12.7 billion
Hope and Lifetime Learning Tax Credits	Must have tax liability (credits are not refundable); income limit is \$107,000 for a joint return	Up to \$1,500 (Hope) or \$2,000 (LLC)	7,180,884	5,114,143	\$838	\$4.4 billion*

Notes: Pell Grant statistics are for 2003-2004 from The College Board, *Trends in Student Aid 2006*. Tax credit statistics are from the Internal Revenue Service, *Statistics of Income: Individual Complete Report 2004* (<http://www.irs.gov/pub/irs-soi/04in33ar.xls>). Number of applicants represents the number of returns claiming the tax credits and includes non-taxable returns, but number of recipients and average benefits are based on taxable returns only. The Joint Committee on Taxation estimates that the cost of the tax credits for 2005 will be \$5.2 billion.

*Of this total, we estimate approximately \$3 billion flows to undergraduate students (using 2003-2004 National Postsecondary Student Aid Survey [NPSAS] data on income and student type). Hope credits are restricted to undergraduates, while Lifetime Learning credits are not.

TABLE 2

Complexity of the FAFSA Versus IRS 1040

Measure	1040 2005	1040A 2005	1040EZ 2005	FAFSA 2006–2007
Number of pages (excluding instructions)	2	2	1	5
Total number of questions	118	83	37	127
Non-financial items				
Identifying information	6	6	6	22
Demographic/family information	8	8	2	18
Enrollment status/school info.	0	0	0	7
Signature and preparer info.	12	12	12	8
Other	1	1	1	10
Financial items				
Earned income	1	1	1	5
Other income	19	12	2	33
Assets	0	0	0	6
Deductions/credits/allowances	39	22	2	12
Tax amounts from tables, calc. lines	21	12	6	6
Withholdings, refund prefs.	11	9	5	0
Number of items required for computation of tax/refund or aid amount*	71	43	8	72
Length of signing statement	49 words	64 words	59 words	232 words
Official estimate of time to prepare**	16 hours	13 hours	8 hours	1 hour

*For the FAFSA, this excludes items required only to determine dependency status or general eligibility for federal aid.

**Estimates from official Paperwork Reduction Act notices in the instructions accompanying each form. IRS-reported estimates of time and cost of preparation are based on non-business filers who self-prepare without tax preparation software (these estimates can be found in each form's instructions, on page 78, 58, and 23, respectively). The FAFSA estimate can be found on page 7 of the FAFSA.

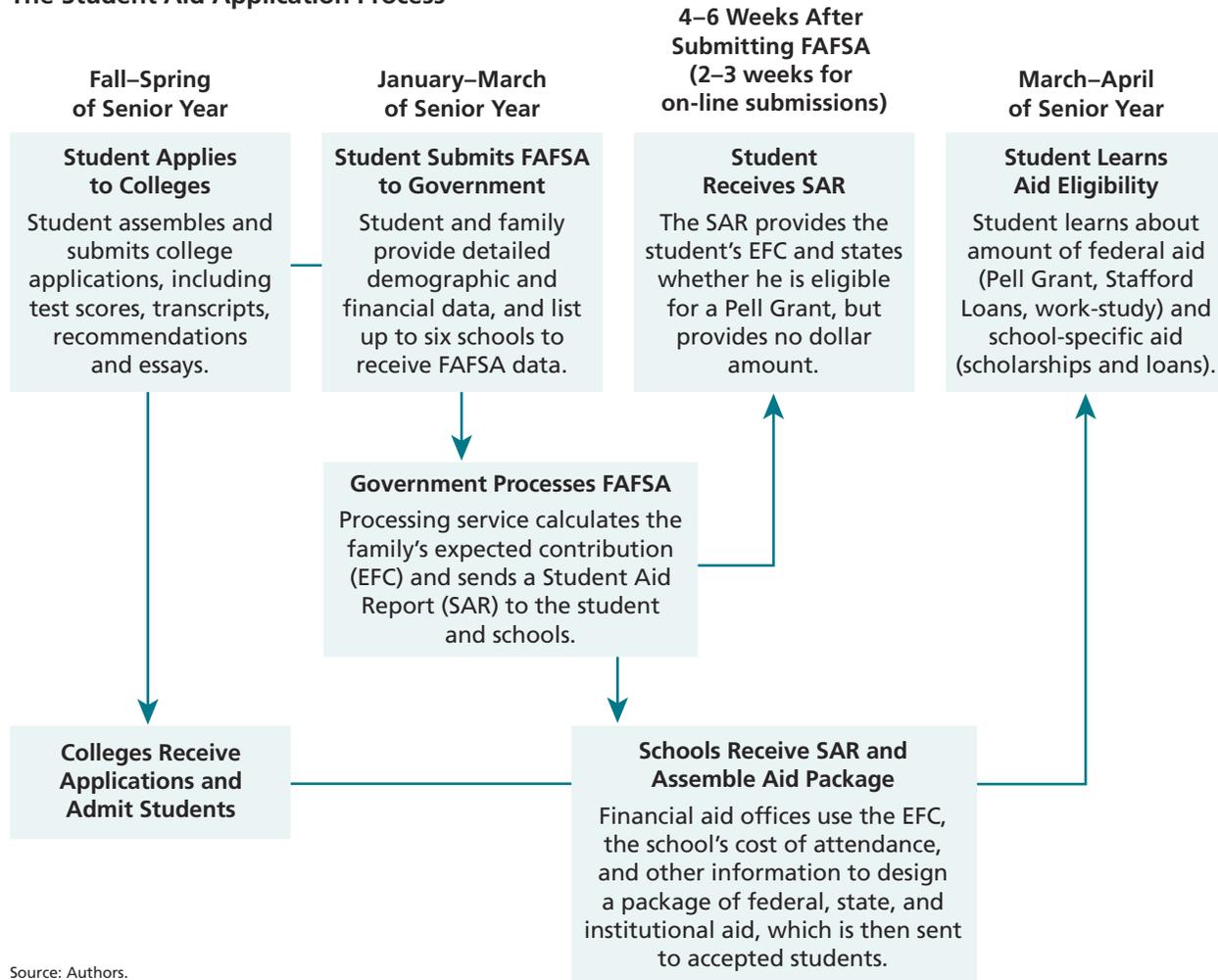
Source: Authors' counts unless otherwise noted. Counts for the FAFSA are for dependent students with two parents, and include questions on required student and parent worksheets. Total number of questions includes subquestions and non-numbered questions, and ensures that items such as name and address are counted in the same way on both IRS and FAFSA forms.

simple and certain.³ These key attributes—simplicity and certainty—are sorely lacking in our student aid system. Our current aid system is a tangled web of tax, grant, loan, and savings programs, with rules and regulations so complicated and fraught with uncertainty that many prospective students don't know how affordable college can be. The Free Application for Federal Student Aid (FAFSA; ED 2003b, 2005d; reproduced in Appendix A), at five pages and 127 questions, is longer and more complicated than the typical federal tax return (see Ta-

ble 2). These clues lead us to another commonsense concept from Econ 101: we have to know about a price discount in order to respond to it. Our student aid system delivers information about aid for college too late for it to affect schooling decisions. Consider the parents of a high school student, concerned that college is beyond their financial reach. They won't get definitive information about aid eligibility until after their child has applied to and been admitted to colleges in the spring of senior year in high school (see Figure 1). The education

3. We have strong evidence on the effectiveness of state merit aid (Abraham and Clark 2006, Cornwell et al. 2006, Dynarski 2004a, Dynarski 2005, Kane 2003), the GI Bills (Bound and Turner 2002, Stanley 2003, Turner and Bound 2003); and the Social Security student benefit program (Dynarski 2003). Dynarski (2002) reviews much of this evidence.

FIGURE 1

The Student Aid Application Process

Source: Authors.

tax credits are even worse on this dimension, because they are calculated as much as sixteen months after a student has enrolled and paid tuition.

Delivering a subsidy after a person has made a purchase is no way to increase demand. Imagine a car dealer who told customers about a rebate incentive only after they had agreed to purchase a car. What would happen? Customers who were willing to buy at the prerebate price would be pleasantly surprised and drive out of the dealership with their wallets a little fuller than they had anticipated. Customers scared off by the sticker price would never even learn about the rebate and would walk out not knowing that the car they wanted was affordable.

Federal aid inarguably eases the sting of college costs for those who go to college. But many who fear college is unaffordable will never even apply to college, much less apply for aid and matriculate. Many who fear college is unaffordable will give up on their studies while they are in high school, making the inaccessibility of college a self-fulfilling prophecy. Low-income and non-White youths are less likely than their better-off peers to take college preparation classes and achieve in high school. This achievement gap in high school may be driven by a gap in expectations and aspirations. Knowing that college is affordable could push kids to work harder in high school, instead of giving up on themselves.

To add insult to injury, families have to fight through a maze of paperwork to get an aid application into the very long federal pipeline. Prospective aid recipients must file the FAFSA: this is the only way for families to determine their eligibility for federal grants and loans.⁴ Nearly 10 million students fill out FAFSAs each year. In Table 2, we compare the FAFSA to the IRS 1040, 1040A, and 1040EZ income tax forms. The FAFSA is lengthier than Form 1040EZ (one page, with thirty-seven questions) and Form 1040A (two pages, with eighty-three questions). It is comparable to Form 1040 (two pages, with 118 questions).

The U.S. tax system is no paradigm of simplicity: the President's Advisory Panel on Federal Tax Reform (2005) extensively documents its mind-numbing complexity. However, for the low-income families targeted by the Pell Grant, the complexity of the aid application dwarfs the complexity of the tax form. Most families eligible for the Pell file the shorter 1040A or 1040EZ; 86 percent of filing households with income below \$50,000 (and two-thirds of all households) use these simplified IRS forms. Ninety percent of Pell funds flow to families with incomes below \$40,000. The contrast between Form 1040EZ and the FAFSA is especially informative: with one-third of the FAFSA's questions and one-fifth of its pages, the 1040EZ captures the information needed to determine tax liability for the very population that is targeted by Pell Grants.

The time cost alone of filling out these forms is enormous, although the Department of Education appears blind to this fact. The Department of Education improbably estimates that it takes one hour to complete the five-page, 127-question FAFSA. The IRS more realistically estimates that it takes sixteen hours to complete a 1040, thirteen hours to complete a 1040A, and eight hours to complete a 1040EZ.⁵ The one-hour figure would be plausible

if filling out the FAFSA were simply a matter of copying data from a completed tax form. This is not the case, for two reasons: First, the FAFSA asks about items that are not on the 1040 (such as assets and food stamps). Second, many schools require that the FAFSA be submitted in January or February, before the arrival of documents required to complete the 1040 (such as W-2 and 1099 forms). In cases when the 1040 is submitted after the FAFSA, the Department of Education requires that the FAFSA be updated, initiating another round of paperwork.

We conservatively estimate that an average applicant needs ten hours to complete the FAFSA. With 10 million FAFSAs filed a year, that's 100 million hours a year spent filling out financial aid forms, or the equivalent of fifty-five thousand full-time jobs. Reams of paperwork impose significant administrative and verification costs on colleges, who handle much of the aid process. Families also pay for complexity in aid in their capacity as taxpayers, since a complicated system requires more administrative resources than a simpler system would.

Paperwork is not the only, or even the gravest, problem with the aid system. The federal tax system is a maze of paperwork, but we give the IRS this much: once a taxpayer fills out her 1040, she knows how much tax she owes. To this end, twenty-one of the questions on the 1040 are not questions at all, but rather calculations or look-ups from tax tables. These steps allow the taxpayer to compute her tax liability—the bottom-line on her return.

Completing the lengthy FAFSA provides no information about aid eligibility. Upon completing the FAFSA, the aid applicant is no more informed about her financial aid eligibility than she was when she began. Where does the information on the FAFSA go? It is sent to a contractor for the De-

4. Some Web sites offer expected family contribution (EFC) calculators, which require the same data as does the FAFSA. An enterprising student or parent could therefore calculate the EFC without completing a FAFSA. We would hazard that a student able to do this sort of sleuthing is likely to go to college with or without a federal Pell Grant.

5. Even these are probably conservative estimates: Blumenthal and Slemrod (1992) conclude that the time required for tax compliance averages twenty-seven hours per filing household, and is longer for low- and high-income households.

partment of Education; this contractor computes something called the expected family contribution (EFC), which is the government's determination of how much the family should contribute to college costs. Families are informed of their EFC in the student aid report (SAR), which is mailed to applicants a few weeks after the FAFSA is filed. Beyond the EFC, this document reports nothing about the student aid the applicant can get. This is potentially useful information, which a very well-informed and enterprising family could use to estimate eligibility for Pell and other aid. Lest the applicant attempt to glean anything useful from the EFC, the SAR never explains what the EFC is. Here is exactly what a SAR says (see Appendix B for a sample SAR):

Based on the information you have submitted, we have used the standard formula to calculate your EFC, which is \$XXXX. Your school will use this number to determine what types of aid and how much you are eligible for based on your educational costs. The amount of aid you receive from your school(s) will depend on the cost of attendance at your school(s), your enrollment status (full-time, three-quarter time, half-time, or less than half-time), Congressional appropriations, and other factors.

The SAR and the EFC are also forwarded to the colleges to which the student has applied. Each college then assigns a package of grants, loans, and work-study funds to each admitted student. In March and April, the colleges mail to students award letters that describe their aid packages.

At long last—only a few months before college starts—students and families are told exactly how much they will get in grants, loans, and work-study funds. They are still uninformed about their eligibility for an education tax credit, however. Families apply for the Hope and Lifetime Learning Tax Credits (worth as much as \$2,000) months after they have paid tuition, when they file their taxes the following year. Consider a typical student who pays her tuition in August of 2006 for the fall se-

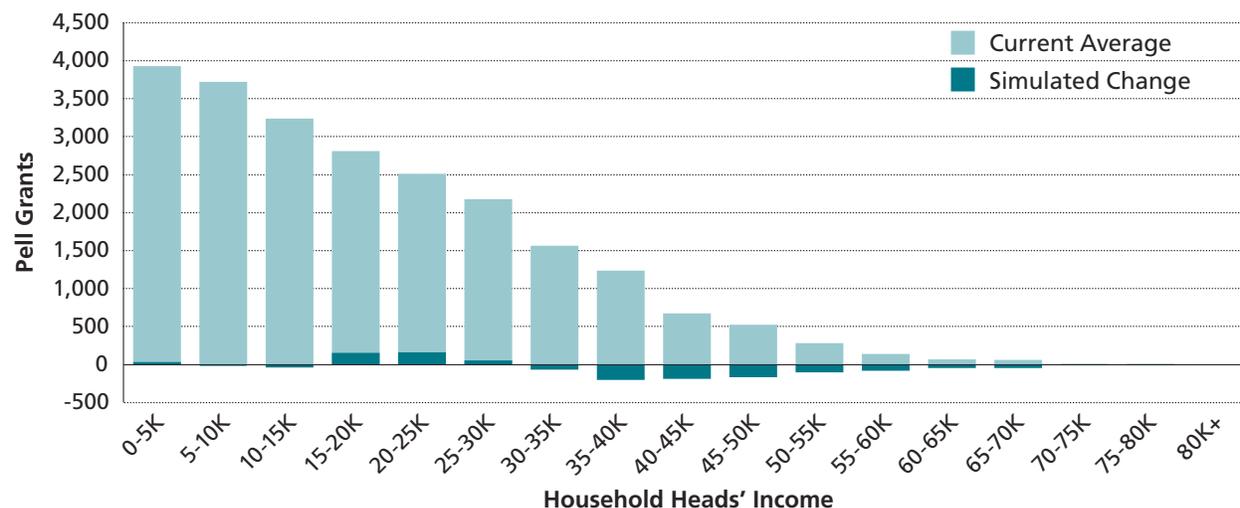
mester of academic year 2006–07. Her family will file for its Hope or Lifetime Learning Credit eight months later, in April 2007. The family learns the value of the credit only after it knows its tax liability for 2006, after all income for that year has been earned. The value of the credits is therefore highly uncertain, and is not even revealed until well after the student has enrolled in college.

Our complex system of delivering aid and tax credits for college backloads information about college discounts. This surely reduces the efficacy of the subsidies, since many high school students won't start on the path to college if they aren't certain it's affordable. Confusion about college aid is of the greatest consequence for low-income students, who (unlike their upper-income counterparts) are pessimistic about their ability to pay for college (Avery and Kane 2004). For those teetering on the margin of college entry, there is too little concrete information about aid, and what little information there is arrives far too late. These marginal students are discouraged from going to college by its price, even though aid is available to help them. This is a waste of human potential.

The costs of complexity and uncertainty in college aid are potentially quite high. What benefits do we get, if any, from all this complexity and uncertainty? Financial aid officers and education specialists have patiently explained to us that the complexity of aid is a necessary evil, without which we could not target aid to students with the greatest need. The FAFSA is long, they argue, so that we can precisely measure who most needs aid. The calculation of aid eligibility is delayed until the spring before the student enters college so that complete and up-to-date information about schooling costs and family finances can be compiled.

We decided to take this argument at face value and measure empirically how much complexity in aid applications contributes to the targeting of funds. We examined detailed data from thousands of aid applications and aid packages, using the 2003–04 National Postsecondary Student Aid Survey

FIGURE 2

Effects of Estimating Pell Using Only Income and Assets of Parents and Students, Family Structure

Source: Authors' estimates of current Pell receipt and simulated changes using a sample of 51,822 full-time, full-year undergraduates from the 2003-2004 NPSAS.

([NPSAS]; ED 2005a; see Appendix C for details). With these data, we examined how the distribution of federal aid would shift if we were to drastically scale back the FAFSA.

How much does complexity help with targeting? The answer shocked even us. Out of more than 100 questions on the FAFSA, only a few have any substantial impact on grant eligibility. Dozens of questions contribute virtually nothing to the determination of grant aid.

Take a look at Figure 2: the light bars show the current distribution of the Pell Grant. When we cut the number of items that go into the aid formula from seventy-two to fourteen, Pell eligibility changes by the amount shown by the dark bars. As you can see, there is virtually no change in the distribution of the Pell: it changes by less than \$100 for 77 percent of students and less than \$500 for 88 percent of students (Table 3). The small shifts in aid eligibility that occur are highly progressive, with more money flowing to low-income families.

Even if we go farther and throw out 90 percent of the questions used in the aid calculation, there is

virtually no change in the distribution of the Pell (Figure 3a). The shifts are minor even if we plot changes in aid against the current aid system's index of ability to pay, which is the EFC (Figure 3b).

The questions needed to determine aid in this last approach could fit on a postcard. In fact, all of these questions are already asked of us when we file our annual tax forms. Effectively, the federal government has all the information it needs to determine Pell Grants, even if no application is filed at all. Complexity is not a prerequisite for progressivity (Dynarski and Scott-Clayton 2006b).

The current aid system creates formidable barriers to college. A key lesson of our research is that we can dismantle these barriers if we are willing to tolerate minor imperfections in measuring ability to pay. This is a worthwhile trade-off. Both economic theory and empirical evidence suggest that reducing complexity and uncertainty in the aid system will increase its efficacy. This will allow aid to serve its intended goal: opening the doors of college to those with the ability but not the means to pursue higher education.

TABLE 3

Consequences of Aid Simplification for Full-Time, Full-Year Undergraduates

	Simulations keeping FAFSA formula, dropping items sequentially		
	Baseline	Drops taxes paid, type of tax form, and worksheets	Additionally drops assets
Percent of all full-time, full-year applicants whose Pell...			
...remains the same (within \$100)	1.00	0.76	0.75
...increases by \$500 or more	0.00	0.05	0.07
...decreases by \$500 or more	0.00	0.07	0.06
Correlation between new and old Pell Grant	1.00	0.96	0.95
R-squared	1.00	0.92	0.90
Change in average Pell (per full-time, full-year applicant)	0.00	-13.61	53.79
Percentage change in total program costs*	0.00	-0.84%	3.34%
Variables included in simulation:			
Assets	Y	Y	
Dependent students' AGI	Y	Y	Y
Parental AGI, or independent student/spouse's AGI	Y	Y	Y
Parental or independent students' marital status	Y	Y	Y
Family size	Y	Y	Y
Number of family members in college	Y	Y	Y
Number of FAFSA items required for simulation**	72	14	8

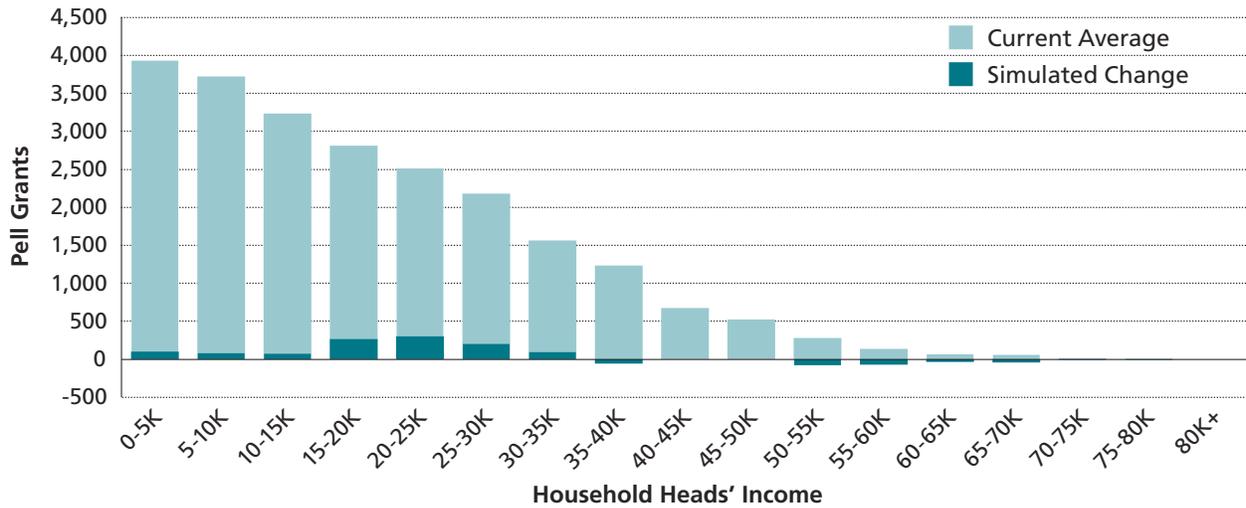
*Estimated total Pell expenditures for this sample of full-time, full year aid applicants are \$7.6 billion. Total Pell expenditures across all applicants were \$12.7 billion in 2003-04.

**Count refers to the number of questions on the 2003-2004 FAFSA required to elicit the items used in the simulated needs analysis for a dependent student. For example, eliciting AGI requires 3 questions on the FAFSA, because non-tax filers must report their earnings and their spouses' earnings. The count does not include questions used only to determine dependency status or questions unrelated to the calculation of need. The differences between the 2003-2004 and 2006-2007 FAFSA described in Table 2 are minor.

Source: Authors' calculations using FAFSA data from the 2003-2004 NPSAS. Sample is limited to 24,253 students (dependent or independent) who attended a single institution full time for the full school year and who were not missing key data elements such as income or actual EFC.

FIGURE 3A

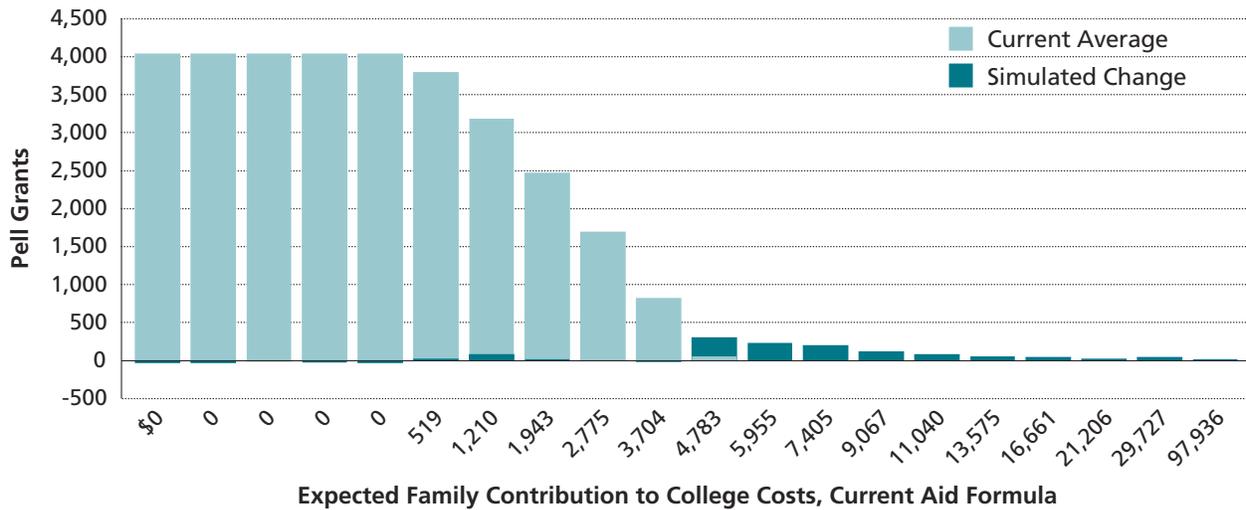
Effects of Estimating Pell Using Only Income of Parents and/or Students, Family Structure



Source: Authors' estimates of current Pell receipt and simulated changes using a sample of 51,822 full-time, full-year undergraduates from the 2003-2004 NPSAS.

FIGURE 3B

Effects of Estimating Pell Using Only Income of Parents and/or Students, Family Structure



Source: Authors' estimates of current Pell receipt and simulated changes using a sample of 51,822 full-time, full-year undergraduates from the 2003-2004 NPSAS.

Note: Each EFC category represents 5 percent of applicants (e.g., approximately 25 percent of applicants have EFCs of \$0, and 5 percent have EFCs between \$29,728 and \$97,936).

Our Proposed Solution: College Grants on a Postcard

The federal system of student financial aid is broken. Small tweaks and Band-Aid solutions are likely only to add to the complex, confusing, and uncertain situation faced by students and their families. If we want to build a workforce for the twenty-first century, we need a system for funding college that is up to the task. We propose a drastic simplification of the current system of grants and tax incentives. Our proposal streamlines the system for students and parents, allowing them to know the aid they can get for college years before they need it. This set of reforms will improve the effectiveness of the dollars we have already committed to higher education.

How would it work?

Eligibility. A proposed grant table is shown below (Exhibit 1). This grant would replace the Pell, Hope, and Lifetime Learning benefits for under-

graduates.⁶ Such a table can fit on a postcard and be prominently displayed on posters in high school hallways. The amounts listed in the table roughly correspond to the average combined benefits from Pell Grants and the Hope and Lifetime Learning Tax Credits for each income category (see Figure 4), with increases for lower-income groups in order to minimize adverse changes for the most vulnerable students. Families with more than one child (and independent students with any children) are eligible for slightly larger grants. Grants would be prorated for part-time or part-year attendees. (Average grant amounts, accounting for this proration, are illustrated in Figure 5.) Note that subsidized student loan eligibility can be assigned using the same table, with eligibility either dependent on income, or set as a flat amount for all students.

Application process. Families will apply for the grant by checking off a box on their income tax

EXHIBIT 1
Federal Student Aid on a Postcard

How much federal aid can I get to help pay for college?	
If your parents' adjusted gross income is...	then your annual grant is...
\$0–\$14,999	\$4,050
\$15,000–\$19,999	\$3,700
\$20,000–\$24,999	\$3,300
\$25,000–\$29,999	\$3,000
\$30,000–\$34,999	\$2,400
\$35,000–\$39,999	\$1,600
\$40,000–\$44,999	\$800
\$45,000–\$49,999	\$600
\$50,000–\$74,999	\$450
\$75,000–\$99,999	\$300

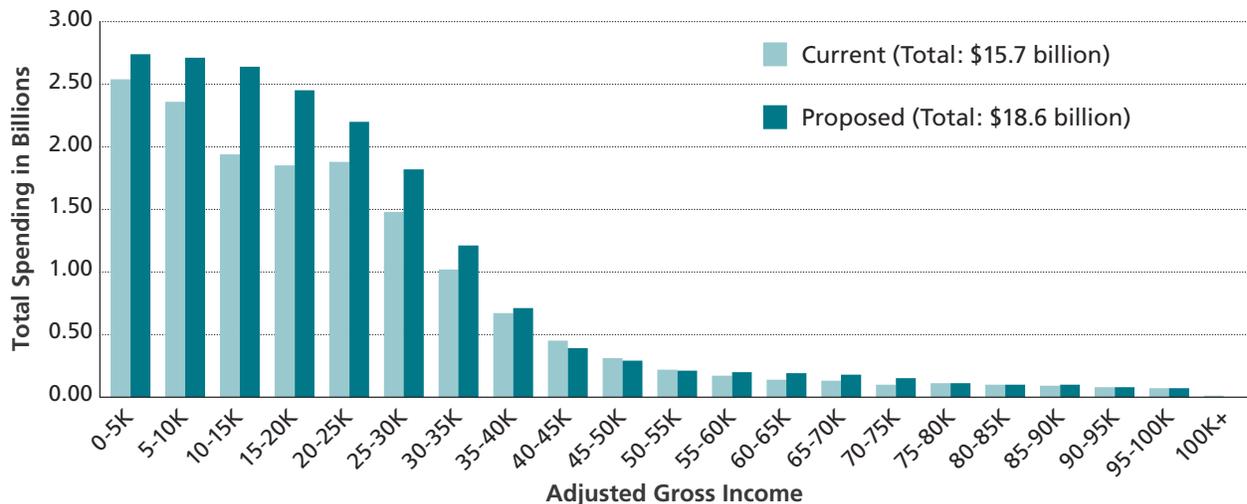
...PLUS \$250 for each dependent child other than the student, up to an additional \$1,000.

- If you are legally independent from your parents, your aid will be based on your (and your spouse's) income.
- Grants will be adjusted for attendance status. For example, if you attend half-time, your grant would be half the amount listed.

6. We do not discuss funding for graduate students in this paper.

FIGURE 4

Distribution of Spending On Undergraduates Under Current System (Pell+Hope+LLC) and Proposed System



Source: Authors' estimates using the 2003-2004 NPSAS. Estimates for the cost of the current benefits and our proposal are based on the 2003-2004 population of undergraduate federal aid applicants, and 2004 tax benefits.

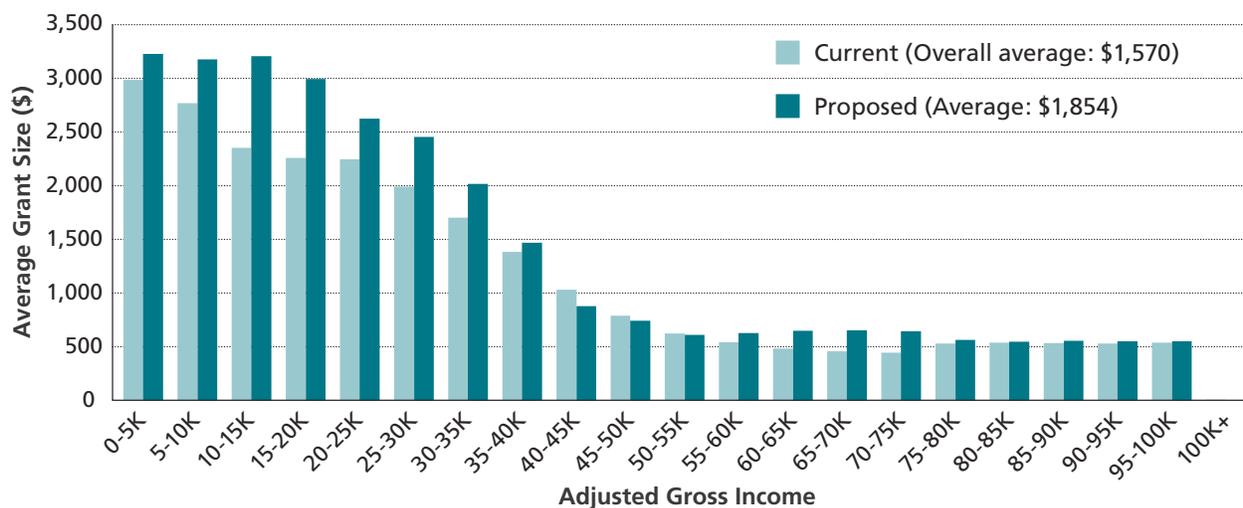
form. Families will receive a voucher, by mail or through the Internet, that can be applied toward the cost of the student's attendance at any eligible higher education institution. Students will notify schools of their grant eligibility as part of the normal application process. Schools will verify this information with the Department of Education, just as they now verify data from the FAFSA and SAR. Financial aid administrators will provide verifications of students' enrollment status to the Department of Education.

Program administration. While IRS has all the data needed to determine grant eligibility, the Department of Education has the infrastructure in place to deliver funds to schools. We therefore suggest that the role of the IRS be limited to forwarding applicants' adjusted gross income, dependency status, and number of dependents to the Department of Education, which will calculate aid eligibility and send vouchers to students. As in the current system, the students' aid eligibility for the 2006–07 school year would be based on 2005 income, as reported to the IRS in early 2006. Unlike the current system, students would not have to wait for their voucher to arrive to know exactly how much they will receive,

because they can look it up in the simple table at any time (Exhibit 1).

Delivery of funds. The Department of Education will deliver funds directly to the school. As in the current federal student aid system, schools would then refund to the student any portion of the grant that remains after covering tuition and fees; the student could use this excess for books, and for food, housing, transportation, and other living expenses. As in the current system, funds could be recouped from the student in cases of fraud or error. Our proposed system is less vulnerable to fraud and error than is the current system, since our system relies on IRS reports of income, rather than on self-reports. With an eye to fraud, the Department of Education currently audits 30 percent of aid applications; these audits require that applicants provide supporting tax documents from the IRS. In our proposal, these time-consuming audits are unnecessary, since the eligibility data will come from the IRS. In other words, the audit rate in our proposed program is effectively 100 percent, but places no burden on families or schools.

FIGURE 5

Average Benefits for Undergraduates Under Current System (Pell+Hope+LLC) and Proposed System

Source: Authors' estimates using the 2003-2004 NPSAS. Estimates are based on the 2003-2004 population of undergraduate federal aid applicants. Average grants are lower than maxima because of proration for less-than-full-time attendees.

Advantages over the Current System

Simple. The grant schedule is so straightforward that parents can easily determine their eligibility well before their child applies to college. Aid is simply a function of income and number of children. The grant schedule can easily be communicated to students through postcards, posters, and targeted mailings. Our approach combines the Pell and tax credits into a single, unified program. Unifying the tax and grant programs removes the confusion over which credit is best to take for a given student, and eliminates the complicated rules that determine how tax credits and Pell Grants interact.

Predictable. Our approach eliminates a critical weakness in the current aid system—delayed and unpredictable information about aid eligibility. The current system delays decisions about Pell eligibility until after students apply to college because Pell Grants are nominally limited by college costs, and tuition varies across colleges. In practice, attending just about any college costs more than the maximum Pell Grant (\$4,050); as a result, almost no one's Pell Grant is actually affected by her choice of school. (See Appendix C for an

overview of how Pell Grants are calculated.) As is true with dozens of the data items demanded by the FAFSA, tuition prices have a vanishingly small impact on Pell Grant eligibility. We gain very little information by delaying Pell determination until after college admission. That is, the benefits of delay are quite small. Its costs are enormous, since delay adds uncertainty and confusion to college enrollment decisions for the millions of families worried about college costs.

There are multiple proposals to simplify the aid system. Many of these simplification proposals will not make aid predictable, which is central to making aid effective. In particular, any proposal that merely shortens the FAFSA while still postponing the determination of aid eligibility until after college admission will be ineffective. Families need certain information about aid eligibility, and they need it early, when their children are preparing academically for the rigors of college coursework.

Less paperwork. Families applying for aid will report their income to the IRS as usual, when they file their taxes. They will not make a separate application to the Department of Education. Back-

of-the-envelope calculations (described earlier) suggest that applicants' time savings will be upward of 100 million hours, or the equivalent of fifty-five thousand full-time jobs.⁷ In addition, since income information will come directly from the IRS rather than from students' self-reports on a FAFSA, individual institutions will no longer need to verify students' financial information. Currently, schools are legally required to audit 30 percent of FAFSAs submitted, at an estimated cost of \$432 million per year (Advisory Committee on Student Financial Assistance 2005).

Families get funds when they need them.

Currently, the tax credits arrive as much as sixteen months after families have paid for college tuition. The credits do nothing for the strapped family who can't come up with the funds for college. By delivering funds at the time of enrollment, our approach gets money into families' hands when they need it most.

Single program. The current system of college finance shunts low-income families into one program (the Pell Grant) and middle- and upper-income families into another (the education tax credits).⁸ Perhaps unsurprisingly, funding for the Pell has stagnated while tax benefits for middle-class families have skyrocketed. Our approach would combine the Pell and tax credits into a single, unified program that benefits families across the income distribution. By applying a consistent standard of need to all families, this approach would yield a broad-based yet progressive system of student aid.

Stop penalizing work. The aid system's treatment of student earnings is deeply flawed; it is both inequitable and inefficient. The aid formula taxes student earnings (above a very low threshold) at a rate of 50 percent.⁹ This onerous tax on labor earnings applies to both dependent and independent students. This very high tax on students' work effort penalizes those who work their way through college. It especially hurts dependents from low-income families, who work more than their better-off dependent peers. It also punishes students who work a full-time job while attending school but then see their aid reduced or eliminated due to their hard work.¹⁰

Help out nontraditional students. The typical college student is no longer in her teens or early twenties, attending college full-time. Instead, she is in her late twenties or thirties, working while she studies part-time for her degree.¹¹ Two-thirds of part-time, independent students who apply for aid are women; 40 percent are African American or Hispanic (see Table 4 for a summary of demographic characteristics by student type). These students typically work twenty-eight hours a week while they are going to school. Our federal aid system, designed for full-time students who are supported by their parents, shortchanges this large and rapidly growing population. Their earnings are taxed very heavily by the aid formula, penalizing most the students who work hardest. Our proposal gives these students a helping hand. Part-time students and older students get higher grants than they do now, largely because we stop penalizing their work

7. Approximately 6 percent of FAFSA applicants do not currently file income taxes but would need to under our proposal (authors' estimate using NPSAS data). These students would trade the time spent filling out the FAFSA for the time spent filling out an IRS 1040, most likely the shorter 1040A or EZ form. If we conservatively treat this as a time-neutral trade-off, then our overall estimates of time saved would decrease by 6 percent, to 94 million hours.

8. Skocpol's review of major American antipoverty programs over the past two centuries concludes that strictly targeted policies "have not been politically sustainable" (1991, p. 414).

9. In 2003–04, the earnings threshold was \$2,400 for dependent students, \$5,400 for unmarried independent students, and \$8,640 for married independent students.

10. Among dependent students from lower-income families, 73 percent have positive earnings; among such students from upper-income families, that figure is 62 percent. Median student earnings are \$2,730 for the lower-income group, as compared to \$2,231 for the upper-income group.

11. Authors' calculations using NPSAS 2003–04 data on undergraduates (ED 2005a; see Appendix C for details). Only about one-third of undergraduates are age twenty-four or younger and attending full-time.

TABLE 4

Characteristics of Traditional and Non-Traditional Students

Characteristic	Full-time Dependent	Part-time Dependent	Full-time Independent	Part-time Independent
Age	19.9	20.2	30.0	31.1
Family income	\$63,673	\$51,801	\$21,553	\$25,240
Hours worked per week	15.9	20.9	24.2	27.5
White, non-hispanic	67%	57%	58%	53%
Black, non-hispanic	12%	15%	20%	24%
Hispanic	12%	17%	13%	15%
Asian	6%	5%	3%	3%
Neither of student's parents earned a H.S. diploma	4%	9%	14%	17%
Neither of student's parents earned a B.A.	53%	64%	72%	75%
Male	44%	44%	37%	32%
Parents are married	71%	63%	n/a	n/a
Student is married	n/a	n/a	32%	34%
Student has dependent children	n/a	n/a	50%	55%
Estimated average Pell	\$1,139	\$821	\$2,636	\$1,235
Estimated average tax credit	\$332	\$201	\$173	\$118
Proposed benefit	\$1,594	\$1,159	\$3,398	\$1,740
Percent increase in benefit	8%	13%	21%	29%

Source: Authors' estimates using a sample of 51,822 undergraduates from the 2003-2004 NPSAS.

effort.¹² Independent, part-time students currently get an average Pell Grant of \$1,235 and an average tax credit of \$118. Our proposed program would give these students a grant averaging \$1,740 (an increase of about 30 percent) at the time of college enrollment, when the funds are needed most.

Increase college enrollment. Because of its simplicity and predictability, our proposal could increase college enrollments where the Pell Grants and tax credits have not. Economic research sug-

gests that simple programs can increase enrollments by 3 to 4 percentage points per \$1,000 in aid (Dynarski 2002). If our proposed program had the same effects as other simple programs, we could see an increase of 5.6 to 7.4 percentage points in college enrollments among the grant eligible population (given an average expected grant size of \$1,854). We would expect to see the effects concentrated among students from families earning less than \$50,000, since their grants are largest and their attendance rates have substantial room to grow.

12. According to the NPSAS (ED 2005a), about 50 percent of students who apply for aid are part-time (including part-year) students. For about 12 percent of these part-time students, NPSAS indicates a Pell amount of \$0, even though the EFC and schooling costs predict that the student should be getting a positive Pell (averaging \$1,300). These may be students who ultimately did not enroll or who enrolled at a different institution. How we treat these amounts of \$0 affects our estimate of how much our proposal increases grants for part-time independent students. If we assume that these students did get a Pell that reflects their EFC, and the NPSAS data are wrong, then our proposal increases Pell Grants for independent, part-time students by 29 percent. If we assume that these students should have but did not receive a Pell (and would have received it under our proposal) then the proposal's increase is closer to 46 percent.

Anticipated Cost

While we could design a simplification plan that is perfectly revenue neutral, we have chosen to design the plan to spend slightly more so that no group is penalized by simplification. A revenue-neutral simplification creates losers as well as winners. We are sensitive to the fact that it will be difficult to sell a program that causes some groups to get less funding and others to get more. Hence, we suggest a modest increase in spending. Our goal is to minimize losses while maximizing simplicity. We increase spending only to keep any groups from losing aid in the simplification.

We currently spend \$15.7 billion on Pell Grants and education tax incentives for undergraduates. Our unified grant program for undergraduates would cost \$18.6 billion, an increase of \$2.84 billion, or 18 percent.¹³ This is in line with recent growth in aid for college: between academic years 2001–02 and 2002–03, spending on the education tax incentives increased by \$1 billion and spending on the Pell Grant increased by \$1.6 billion, for a total increase of \$2.6 billion, or 17 percent.

As is always the case with budget projections, a few cautions are in order. First, our calculations assume that college attendance patterns do not change after our program is introduced, but we hope that the new aid program could increase college attendance rates among the eligible population by about 6 percent. In this case, program costs would be about 9 percent higher than projected above, rising to \$20.3 billion.¹⁴ While costs

would be higher under this scenario, so too would be the education, productivity, and taxable earnings of our workforce. A college graduate working full-time pays \$5,300 more *each year* in federal income taxes than does a full-time worker with only a high school diploma (College Board 2005, p. 2). Even those who attend college without completing a degree pay significantly more in federal taxes than do those who never attend.

Our second caution is along the same lines: our cost projections assume that the take-up rate for student aid stays as it is today. The take-up rate in the Pell Grant program is currently quite low. Research shows that roughly 25 percent of Pell dollars are left on the table by students who either don't apply or who don't follow through on their applications.¹⁵ Take-up of the education tax credits appears to be even lower (Long 2004, Bershadker and Cronin 2002). If everyone eligible claimed her full Pell grant and tax credits, the total cost of these current benefits for undergraduates could increase from its current level of \$15.7 billion to as much as \$24.4 billion.

Low take-up of the Pell and tax credits is likely due to complexity and uncertainty in the application process.¹⁶ Our proposed program is much simpler, and substantially reduces this complexity and uncertainty. Our hope is that many more students will step forth and take advantage of the resources for which they are eligible. How would this affect the projected costs of the program? A take-up rate of 85 percent would represent a significant improvement over the current take-up rate, and would increase

13. All cost estimates are based on NPSAS 2003–04 data (ED 2005a; see Appendix C for details). Using income data provided in this survey, we calculate aid eligibility under our proposal and use survey weights to calculate national estimates. To estimate costs under the current system for the same students, we use detailed information from FAFSA applications included in the survey data to replicate Pell eligibility, and then add to this amount the average education tax credit claimed by individuals in the student's income category.

14. This calculation assumes a 3.5 percentage point enrollment impact per \$1,000 in aid. A 6 percentage point increase in the share of young people attending college corresponds to a 9 percent increase in the number of students in college (since 67 percent of young people attend college). Costs would therefore increase 9 percent, as well.

15. The Congressional Research Service (Stedman 2003) provides statistics of Pell receipt by income that would translate into a take-up rate of approximately 70 to 80 percent among low-income students. The American Council on Education (2004) estimates that 16 percent of full-time students who did not apply for aid may have been eligible for a Pell, which would translate into a Pell take-up rate of approximately 80 percent among full-time students. Our own estimates using NPSAS (ED2005a) suggest even lower take-up: we find that 58 percent of Pell-eligible students claim their grant, while 65 percent of total Pell dollars are claimed.

16. See Currie (2004) on low take-up in social programs.

the cost of our proposal to \$23 billion. If college enrollment also increases, as discussed above, this would yield a total cost of \$25 billion.

Some have cautioned that a high take-up rate would make our approach “too expensive.” Currently, complexity and uncertainty keep program costs down by discouraging the neediest students from applying. This is a cowardly way to ration scarce aid funds. If we need to ration aid, we should do so honestly, by designing a program that in practice as well as in principle reflects our distributional priorities.

Winners and Losers

Aid simplification produces both winners and losers. Losses are inevitable when simplification is constrained by revenue neutrality.¹⁷ The only way to simplify and keep everybody whole is to increase spending. Even producing winners can cause political problems. Winners are those whose aid eligibility increases when we shift to a simpler measurement of income. By implication, many families who do not currently “deserve” aid will get it under a simplified system. Some will perceive the receipt of aid by such students as fraud, or evasion, or a policy failure. Creating winners and losers is an inevitable cost of simplification, but one we believe is ultimately outweighed by the benefits conferred on the vast majority of students and especially on the student teetering on the margin of entering college.

The average student gains nearly \$300 from our proposal (see first panel of Table 5; all increases and decreases are relative to the current Pell plus estimated tax credit). The gains are concentrated among those

whose family income is less than \$30,000 a year. Gains do not vary across type of school attended (i.e., public, private, two-year, or four-year).

Working students see large gains. Among dependent students, funds shift toward those who work. For dependents who work any hours, the average increase is \$198; for those who do not work at all (one-fourth of dependent students) the average grant drops by \$78. Students who earn \$6,200 or more gain an average of \$491.¹⁸

Independent students also see large gains, primarily because of the reduced tax on their work effort. The average grant for independent undergraduates increases by \$456, relative to their current Pell Grant and education tax credits.

Because we have eliminated assets from the aid formula, some funds will newly flow to those whose assets currently render them ineligible for a Pell Grant. A cost of simplification is that some funds will flow to those we do not currently consider needy. A small number of families have low income but substantial assets; under the proposed system, they will get grants. Among dependent aid applicants, 1 percent of parents have financial assets of more than \$390,000, and their grants will rise by \$330, to \$510.¹⁹ Since they are such a small slice of the population, the cost of this increase is just \$17 million.

This small increase in costs should be weighed carefully against the substantial decrease in complexity that dropping assets from the federal aid formula confers. When assets are part of the aid formula, we can't use the tax system to determine

17. The Final Report of the President's Advisory Panel on Federal Tax Reform (2005) makes this point very nicely in the context of tax simplification.

18. Note that \$6,200 does not necessarily imply a level of work that would cause grades to suffer. At \$8 an hour, \$6,200 corresponds to 775 hours worked annually. At that hourly wage, a full-time job over the summer would take care of 520 of those hours, leaving about seven hours a week for the student to work during the school year.

19. The asset figures quoted in this paragraph are for those assets that are counted by the federal aid formula. The federal formula does not count housing equity or retirement assets when considering a family's ability to pay. Few families have substantial financial assets outside of their retirement accounts (especially families with income in the Pell range), which is why excluding all assets from the aid formula has very little impact on the distribution of the Pell.

aid eligibility, since the tax system does not collect asset information. If we keep assets in the formula, we have to require a separate application for student aid.²⁰

We have tried to minimize losses under our proposal. The correlation of current aid with our radically simplified grant table is 84 percent. Overall, 49 percent of current aid applicants would see their grants change by less than \$250 (we consider such applicants neither winners nor losers). About 34 percent would gain more than \$250, and about 14 percent would lose more than \$250. Only 8 percent would lose more than \$500.

It would be relatively inexpensive to make sure that no current students see reductions in their grants: it could be done by grandfathering in current Pell recipients. This approach would guarantee that new grants going to current Pell recipients would be no smaller than current grants to those recipients. All students, old and new, would apply under the new, simplified system. A student who received a Pell the previous year, and whose family income had not increased substantially, would be “held harmless” and given the maximum of her previous Pell and her grant under the new formula. While this would impose small transition costs in the first few years, it would allow certainty in aid for current students and increase the political viability of the proposal.²¹

20. The federal government does not consider assets in distributing the education tax credits, so we currently have a double standard regarding the relevance of assets for determining the ability to pay for college. Nonetheless, we understand that eliminating assets from the federal aid formula is a hot-button issue that may make political waves for the proposal.

21. We estimate that this “hold harmless” provision would cost \$300 million to \$600 million in the first year; the costs would decline as current students finish college.

TABLE 5

Changes in Average Grants and Total Funding by Selected Characteristics

Distribution of changes in funding	Percent of student pop.	Median change	Mean change per student	Total change (\$Billions)
Total change for undergraduates	100.0%	\$121	\$284	2.840
Income less than \$15K	25.3%	\$250	\$497	1.260
Income \$15-30K	24.0%	\$53	\$525	1.260
Income \$30-45K	15.2%	\$137	\$105	0.160
Income \$45-60K	10.6%	\$144	\$3	0.003
Income \$60-75K	8.0%	\$189	\$184	0.148
Income over \$75K	16.9%	\$0	\$5	0.009
Four-year public students	34.9%	\$48	\$283	0.989
Four-year private student	23.4%	\$17	\$264	0.619
Two-year public students	33.1%	\$184	\$299	0.989
Two-year private students	4.3%	\$236	\$409	0.013
Dependent students	52.5%	\$0	\$128	0.673
Independent students	47.5%	\$203	\$456	2.170
Total change for dependent undergraduates	100.0%	\$0	\$128	0.673
Students with no earnings	25.5%	\$0	-\$78	-0.104
Students with earnings	74.5%	\$18	\$198	0.776
Earnings above \$6200 (75pctile)	24.9%	\$200	\$491	0.642
Parental assets below \$1500	50.3%	\$84	\$122	0.322
Parental assets above \$1500	49.7%	\$0	\$134	0.351
Assets above \$15,600	25.0%	\$0	\$184	0.242
Assets above \$76,000	10.0%	\$0	\$257	0.135
Assets above \$390,000	1.0%	\$0	\$330	0.017
Income less than \$15K	10.7%	\$250	\$444	0.250
Income \$15-30K	17.8%	-\$52	\$252	0.236
Income \$30-45K	16.4%	\$123	\$75	0.065
Income \$45-60K	13.7%	\$164	-\$4	-0.003
Income \$60-75K	12.1%	\$189	\$188	0.119
Income over \$75K	29.3%	\$0	\$4	0.006
Total change for independent undergraduates	100.0%	\$203	\$456	2.170
Student assets below \$1500	85.7%	\$209	\$455	1.830
Student assets above \$1500	14.3%	\$178	\$458	0.334
Income less than \$15K	41.5%	\$250	\$512	1.010
Income \$15-30K	30.8%	\$153	\$699	1.020
Income \$30-45K	13.8%	\$146	\$145	0.095
Income \$45-60K	7.0%	\$116	\$17	0.006
Income \$60-75K	3.5%	\$122	\$172	0.028
Income over \$75K	3.3%	\$0	\$17	0.003

Source: Authors' estimates using a sample of 51,822 undergraduates from the 2003-2004 NPSAS.

Questions and Concerns

Doesn't complexity help us target limited funds to those that need it most?

The design of the current student aid system shows that the nation wants to give more money to needy students: otherwise, we would have no application and just give everyone the same grant amount. In this sense, complexity in aid is well intentioned: it aims to measure precisely each family's ability to pay for college. The more detailed the questions, the more precisely the program can distinguish between two individuals who may have very different situations, but who would appear similar if fewer questions were asked. For example, financial aid administrators tend to worry about families with low incomes but high assets, or high income but several children in college.

So why don't we have a three hundred-page application that meticulously verifies information about wealthy grandparents and every other circumstance we can think of? Because, at some point, the costs of additional complexity outweigh the benefits of additional precision in measuring an individual's circumstances (Kaplow 1990, 1996). It is equitable and efficient to tolerate some complexity in order to target funds to those who are neediest. But diminishing marginal returns can set in, and at some point the additional questions do more to increase costs than they do to improve targeting. These costs include (1) compliance costs for applicants, such as time spent learning about the rules and formulas, collecting the required documents, and completing forms; and (2) administrative costs that fall primarily on schools but also on the government, and ultimately fall on students and taxpayers in the form of higher prices, higher taxes, or reduced services. Finally, these costs include (3) efficiency loss as some individuals alter their behavior in attempts to

take advantage of myriad provisions and loopholes. While the costs are high, our research (Dynarski and Scott-Clayton 2006a, 2006b) shows that the benefits are remarkably small. Out of more than one hundred questions on the FAFSA, only a few have any substantial impact on grant eligibility.

How does complexity in the aid system harm needy families?

Complexity in student aid disproportionately burdens the very groups we are trying to target. We have heard repeatedly from college-educated professionals (including college professors!) that they have suffered through many nights on the home computer and Internet, filling out the FAFSA for their college-bound child. Imagine, then, the time, stress, and effort the aid process imposes on parents who have never gone to college, those who don't speak English, and those who have no computer at home, much less an Internet connection. On all of these key dimensions, low-income families—the target of need-based aid—are the worst off:

- Half of low-income high school seniors have no parent who attended college (ED 2002).²²
- Thirteen percent of low-income youth live in families in which English is not the primary language; this is double the rate of high-income youth (ibid).
- Low-income families typically don't have Internet access at home. In 2003, more than two-thirds of children from families with incomes below \$25,000 had no Internet access at home, compared with 12 percent of families with incomes above \$50,000 (Day, Janus, and Davis 2005).²³ Families may be reluctant to take their

22. Authors' calculations, comparing families with income below \$25,000 to those with income above \$50,000.

23. Authors' calculations using published tables from the computer and internet supplement to the Current Population Survey (Day, Janus, and Davis 2005).

financial documents to a school or a library in order to enter data into a public computer. Even locating financial records is an obstacle for poor students, due to higher mobility rates and separation of children from parents.

When the burdens of additional complexity fall most heavily on the very groups we are trying to help, the benefits of complex targeting may be even lower in practice than they appear by design. The earned income tax credit (EITC) is one example of a program that is highly targeted by statute, but that is less targeted in practice due to its complexity. Three-quarters of EITC recipients (who are, by definition, very poor) pay professional tax preparers to file their tax returns. The fees they pay erase a substantial percentage of the benefit of the EITC (President's Advisory Panel on Federal Tax Reform 2005).

The bottom line is that the costs of complexity are highly regressive, falling heavily on low-income, non-White, and non-English-speaking youth whose lagging educational levels are repeatedly cited as a justification for need-based financial aid. Complexity arises from well-intentioned efforts to target funds, but in practice this complexity significantly reduces both the efficiency and equity of federal student aid.

Won't lots of wealthy families start applying for aid if we stop taxing assets in the aid formula?

The "taxation" of assets by the aid formula has been roundly criticized by economists. Edlin (1993) and others have argued that the taxation of assets by the aid formula creates horizontal inequities: families with identical lifetime earnings can be treated very differently by the aid system, with aid reduced for

the family that has sacrificed consumption in order to save for college.²⁴

In practical terms, assets have little impact on the calculation of federal grants. We checked this by dropping assets from the aid formula, leaving all other aspects of the aid calculation intact. The Pell Grant did not change at all for 75 percent of the sample. Total Pell expenditures in this simulation increased by just 3.3 percent.

Assets have little effect on aid eligibility because few households have assets that are included in the formula. Families hold the vast majority of their wealth in homes and retirement funds, both of which are protected by the aid formula. Other financial assets count only if they are above a threshold (up to \$54,500) that increases with the age of the parents. Among dependent students who file a FAFSA, 85 percent have no assets above the disregard. Among those from families with income below \$50,000, 93 percent have no assets above the disregard. As a result, for the overwhelmingly majority of families, the effective tax rate on assets is already zero—yet the data on assets are still gathered.²⁵

It could be true, however, that families with substantial assets simply do not file a FAFSA, since they know they will not be eligible for aid. In this case, students in the NPSAS (ED 2005a) who file a FAFSA would not be representative of the entire population of college students, and our proposed simplification would be more expensive than the FAFSA simulations would suggest. We can easily check on this by comparing assets of current FAFSA applicants to assets of all households with similar incomes. We do so using data from the Survey of Consumer Finances ([SCF] 2004),²⁶ focusing on households with children and incomes below

24. A rejoinder is that assets serve as a summary statistic for lifetime earnings, which are imperfectly captured by current earnings. Rather than use assets as a proxy for lifetime earnings, we could instead use IRS data to directly measure multiple years of earnings. We consider this a sensible option worth consideration.

25. For 99 percent of aid applicants, the marginal tax rate on assets is zero. We obtain this figure by adding \$100 to every applicant's financial assets and recalculating aid. For 99 percent of the sample, Pell eligibility is unchanged.

26. The statistics citing the SCF 2004 are the authors' calculations using the SCF public data and tabling wizard. The data and tabling wizard are available for download. The SCF is a triennial survey of the balance sheet, pension, income, and other demographic characteristics of

\$50,000 (which is the effective income cap for Pell eligibility).²⁷

Among all such households, the fiftieth percentile of nonretirement financial assets is below \$1,000 and the ninety-fifth percentile is below \$40,000.²⁸ The analogous figures for the fiftieth and ninety-fifth percentiles of dependent Pell recipients in NPSAS are \$200 and \$31,000, respectively.²⁹ These figures indicate that the assets of households currently applying for aid are quite similar to the population that could apply for aid. These statistics offer no support for the concern that a substantial, hidden population of low-income, high-asset families will gain Pell eligibility if assets are completely removed from taxation. This is not to say that no such families will gain eligibility: 0.25 percent of families with income in the Pell range have more than \$250,000 in nonretirement financial assets. This is a minute portion of the population, and so the program costs of “wrongly” giving Pell grants to such asset-rich, income-poor families are low. By contrast, the resulting reduction in compliance costs is large once it is aggregated across the other 99.75 percent of households.

If people are dissuaded from college just because they don’t want to fill out a FAFSA, doesn’t that suggest that they are not really “college material”?

The problem with federal student aid goes far beyond the aggravation of filling out a confusing form. The FAFSA and the aid process highlight costs, obscure benefits, generate uncertainty, and ignore well-understood behavioral phenomena that can limit participation. For all of these reasons, complexity is not just an annoyance, but is a seri-

ous barrier to efficiency and equity of student aid. Theory and empirical evidence both suggest that the federal aid system is poorly designed if the goal is to get more people into college. We provide some of this evidence here.³⁰

Economists and psychologists have found that individuals’ decisions are strongly influenced by their default course of action (Samuelson and Zeckhauser 1988). An influential study examined retirement saving at a large financial firm (Madrian and Shea 2001). At this firm, 401(k) participation required that new employees check a box on a form; the consequence of not checking that box was not participating in the 401(k). That is, the default option was nonparticipation. Despite the low transaction costs of enrollment and strong financial incentives (tax advantages plus an employer match of savings), participation rates were low. The company made a minor change: nonparticipation now required that the new employee check a box on a form, making participation the default option. This small change in program design had a profound effect on behavior, increasing participation by 50 percentage points.

Seemingly minor obstacles put low-income youth off the path to college, much as adults are put off the path to saving by bureaucratic details. A study of high school seniors in Boston found that few low-income youth make a deliberate choice to not to go to college. Rather, they miss a key deadline, or incorrectly fill out a form, or fail to take a required class, and thereby fall off the path to college (Avery and Kane 2004).

For upper-income teenagers, the affirmative actions

U.S. families. The study is sponsored by the Federal Reserve Board in cooperation with the Department of the Treasury. Since 1992, data have been collected by the National Organization for Research at the University of Chicago (NORC). A nationally representative sample of approximately four thousand five hundred families is interviewed in the main study.

27. We call it an “effective” cap since there is no law or regulation that specifies an income above which families cannot get a Pell Grant. In practice, virtually no families with more than \$50,000 in income receive a Pell.

28. Authors’ calculations from SCF (2004). Figure is for households with children and incomes below \$50,000. The ninety-ninth percentile of financial, nonretirement assets for this population is roughly \$160,000.

29. The ninety-ninth percentiles of nonretirement financial assets for dependent and independent Pell recipients are \$95,000 and \$13,000, respectively.

30. A fuller exposition of the theoretical and empirical insights into aid provided by behavioral economics can be found in Dynarski and Scott-Clayton (2006a).

of their parents and schools establish college entry as the “default” path. Their high schools guide them through the multiple steps and deadlines of the college and financial aid process. Schools provide on-site SAT preparation, schedule exams for students, organize the writing of recommendations, and repeatedly remind students about relevant deadlines. Informal guidance and support is also provided by their college-educated relatives and neighbors, who act as de facto guidance counselors.

By contrast, due to their comparatively weak institutional and social supports, the default option for low-income students is to not go to college. Navigating the maze of college and aid application requires both formal and informal support. Lower-income schools receive fewer visits from college representatives and have fewer guidance counselors per student. Parents and siblings are not as likely to have gone to college, and so cannot compensate for this lack of institutional support.

What is the evidence that this proposal would increase college enrollments?

There is plenty of evidence that simple student aid programs can increase college enrollments by about 3 to 4 percentage points per \$1,000 in grants (Dynarski 2002). For example, the Social Security student benefit program substantially increased college enrollment rates among eligible youth (Dynarski 2003). Under this program, children of Social Security beneficiaries continued to get their benefits past their usual expiration at age eighteen, as long as they were enrolled in college. The compliance costs were minimal. The Social Security Administration sent a letter to child beneficiaries shortly before their eighteenth birthday, asking if they intended to go to college. If they replied in the affirmative, checks continued to arrive. Renewal required confirmation of enrollment from the college

registrar. The program provided early information, in that beneficiary families were familiar with the provision. Families knew the exact amount of the benefit, since they were already receiving it.

Another simple program, Georgia’s HOPE Scholarship, requires only that high school students maintain a 3.0 GPA in high school in order to have their tuition and fees paid at any public college in Georgia. High schools proactively send transcript data to the state in order to identify scholarship winners. For most students, the HOPE application consists of a half-page of basic biographical information. High school students are knowledgeable about the program. More than 70 percent of Georgia high school freshmen surveyed were able to name the program without prompting. Fifty-nine percent, when asked to list some requirements of HOPE, replied that a high school GPA of 3.0 is necessary (Henry et al. 1998). The program substantially increased college entry in Georgia (Dynarski 2000), as well as the share of young people completing a college degree (Dynarski 2005). Research on similar state programs has produced similar findings (Kane 2003; Dynarski 2004a, 2005).

By contrast, there is little to no persuasive evidence that the current Pell Grant program affects the college enrollment decisions of young people.³¹ Similarly, evidence (Long 2004) indicates that the education tax credits have no impact on college attendance rates. A plausible explanation is that the aid process effectively screens out students who are teetering on the margin of college entry. A prospective student who is able to deduce her aid eligibility, apply to college without knowing what resources will be available to pay for it, and successfully complete the FAFSA reveals herself, almost by definition, as firmly committed to attending college, regardless of the availability of federal aid.

31. An early study by Hansen (1983) examined enrollment rates before and after implementation of the Pell Grant program. Hansen found that while enrollment rates of all income groups increased during the 1970s, enrollment among low-income students (the targets of the Pell Grant) did not increase. Kane (1995) used more years of data and limited the sample to women, whose enrollment patterns were less disrupted by the Vietnam War; he was also unable to find an effect. Seftor and Turner (2002) found a small effect of Pell Grants on college enrollment for older, independent students. Bettinger (2004) found suggestive evidence that Pell Grant size affects college completion, but noted that his results were very sensitive to specification.

If our proposed program had the same effects as other simple programs, we might anticipate a 5.6 to 7.4 percentage point increase in college enrollments given an average expected grant size of \$1,854 (for undergraduates). We might expect a 7 to 9 percentage point increase in enrollment rates among students from families earning less than \$50,000, given average grants of \$2,505 for this group. If realized, these effects would increase the costs of the program by about 9 percent, unlike many other federal expenditures, however, this is an investment that is likely to pay for itself over the long run, through increased productivity of the workforce.

If taxes aren't filed until mid-April and students enroll in September, will there be enough time to get aid vouchers out to students?

A potential logistical hurdle is that the IRS is not able to confirm income data immediately after receiving an income tax return. Thus, even though the deadline for tax filing is April 15, it may be several months before the IRS can forward income information to the Department of Education. Note that students and families can closely estimate their eligibility simply by looking at the eligibility table, well before they even start thinking about filing their taxes. The question is whether and how this information can be confirmed in time for college enrollment, when funds are needed.

There are at least two ways around this problem. First, eligibility could be based on income from a previous tax year. Currently, aid eligibility for 2006–07 is based on income from the 2005 tax year. If it were instead based on the 2004 tax year, eligibility could be confirmed a full year prior to enrollment—in the fall of a student's senior year of high school, for example. Because the IRS can provide transcripts of up to three years of prior taxes (and does so for thousands of “no paperwork” mortgage applications each year), eligibility could even be based on an average of several prior years of income.

A second possible solution is for the IRS to forward preliminary income information to the Department of Education as soon as it is submitted, before the IRS completes its verification processes. Vouchers could then be mailed out on the basis of this preliminary information, with the understanding that awards will be adjusted if the information is found to be incorrect. This is similar to how the current system operates: students self-report information from their income taxes, or estimate the information if they have not yet filed. If the information then changes or is found to be incorrect, the student must submit a correction.

If the IRS would agree to forward preliminary information, this would be a significant improvement over the current system: all preliminary information would be automatically verified within a few months, and aid corrections would be automatic (students would not have to reapply). Since funds would not be disbursed until students enroll in the fall, and would then be disbursed in installments, this would limit the incidence of significant adjustments.

How would this system work for students who are not required to file taxes?

Approximately six hundred and forty thousand (6 percent) federal student aid applicants do not currently file a tax return (ED 2005a). Just as is true with the EITC, families would have to file taxes if they wish to receive program benefits.³² Many of these families would be able to file the 1040EZ tax form, which—at one page and only thirty-seven questions—is significantly less burdensome than the FAFSA (five pages and 127 questions).

If a nonfiling student decides after the April 15 tax deadline to enroll in college, she could complete and submit an income tax form late, providing a copy to the school. While the student and school wait for eligibility to be verified, a compromise might be to require the school to apply the expected grant amount to tuition and fee charges, but not

32. For those rightly concerned about undocumented, immigrant students, such students are currently ineligible for federal student aid and the education tax incentives. They fare no better and no worse in our proposed system than they do in the current system.

allow the school to refund any excess funds to the student until eligibility can be verified.

Doesn't the FAFSA already provide simplified options for the poorest applicants?

Over the years, Congress has passed several provisions aimed at simplifying the aid formula. In 1992, Congress mandated an automatic-zero EFC for families with taxable income below \$15,000 who are also eligible to file an IRS Form 1040A or 1040EZ. These applicants can potentially skip more than fifty of the financial questions on the FAFSA. In 1986, Congress mandated a “simplified needs test” for families earning less than \$50,000 who are eligible to file the 1040A or 1040EZ; for these families, asset information can be disregarded.

While laudable in intent, these efforts have been ineffectual. As implemented, these simplifications have had virtually no impact on the aid system as it is experienced by students and their families. In our sample, just half of applicants from families with income between \$5,000 and \$15,000 had their applications processed using the automatic-zero EFC or the simplified needs test. Even among the applicants whose FAFSAs were flagged as having received this simplified treatment, the evidence indicates that the student’s own application experience was not simplified. Among those who had their FAFSA processed using the simplified needs test and who were eligible to skip the asset questions, at least 48 percent provided asset information. Among those who had their application processed under the automatic-zero EFC formula, 90 percent had responded to questions that they were not required to answer. For example, 63 percent reported nonzero amounts on nonrequired income questions and 30 percent reported nonzero assets.

In effect, these simplifications have only made things easier for the computer that processes aid

applications. Simplifications are not communicated to students and their families; they are never mentioned on the paper FAFSA, which is used by about half of dependent, undergraduate applicants whose families’ incomes are below \$50,000 (ED 2005a).³³ Even the online FAFSA only offers the option to skip the relevant questions mid-application, and then warns that some schools may require that the questions be answered (ED 2005c). This phrasing will frighten many students into filling in the complete application.

A critical shortcoming of these past efforts at simplification is that they have focused too heavily on simplifying the aid form itself, without adequate attention given to reducing complexity and uncertainty in the overall process. We must do more than simplify the application form; we must make it easier for students and their families to predict, years in advance of the college decision, how much aid they are likely to get.

How will states react to federal simplification?

One concern is that the states will not go along with the proposed program, and will demand that students fill out complicated aid forms for state aid. This could make things worse for students if every state creates its own aid form to replace the FAFSA. Before the FAFSA was introduced in the early 1990s, different states had different aid application forms, generating confusion and duplicative paperwork for families. The goal of the FAFSA was to replace these multiple forms with a single form. The unfortunate product of this well-intended effort was a form that includes every data item needed by any state. The Department of Education has polled the states about which data items they actually use in giving out their aid, but it appears that the Department of Education has taken an “opt out” approach on this question: unless a state affirmatively

33. Authors’ calculations. Note that the Department of Education frequently cites the following statistic: less than 10 percent of applicants use the paper form (see, e.g., LeBlanc and Brown 2006, slide 43). This statistic is heavily weighted by renewal applicants, who are much more likely to use the online process. Nearly 30 percent of first-time applicants still use the paper form (ED 2005b filing statistics; includes the 6 percent of applicants who fill out a paper form and then have their school file their application electronically); applicants from low-income families are even more likely to rely on the paper form.

states that it is willing to give up a data item, it stays on the FAFSA. The product of this approach is an ever-lengthening FAFSA.

The Department of Education's timidity and states' foot-dragging have crippled the effectiveness of two attempts to simplify: the simplified needs test and the automatic-zero EFC. Both of these provisions should allow very low-income aid applicants to skip many questions on the FAFSA. But in the online application process, the option to skip questions only appears if the student is from a state that has agreed to accept the shortened FAFSA.³⁴ Thirty-two states have refused to accept it. Even for students from the remaining states, skipping questions is presented as an option, with the warning that it could compromise aid eligibility. Unsurprisingly, many students end up answering questions they don't have to.

So how do we keep the states from derailing this simplification effort? There are two questions to ask in this context: First, how much need-based state aid is there, and is that amount commensurate with the complexity its distribution imposes on millions of college students and their families? Second, is there a way to convince states to distribute their aid using less information?

How much state aid is there? The states give out a total of \$4.2 billion in need-based grants (National Association of State Student Grant and Aid Programs [NASSGAP] 2005). One-third of that amount is given out by states that have already agreed to the simplified data for low-income students described above. In our sample of undergraduate aid applicants, need-based state grants average \$400, compared with an average of \$1,235 for Pell Grants, which means that the states are

giving out about one-third as much aid as the federal system does.³⁵ A few generous states skew these figures; in just seven states average grants for undergraduate federal aid applicants exceed \$500. Eight states account for two-thirds of all state grants; one-fourth of the states account for 80 percent of the grants (ED 2005a). The typical state gives out less than \$200 per undergraduate (NASSGAP 2005). That's a lot of complexity for not much money.

Can the states be convinced to make do with less data from aid applicants? No one likes change, so it is unsurprising that the states have not jumped to attention when asked to simplify their procedures. Incentives are always helpful when trying to elicit cooperation. There are negative incentives: the Department of Education could reduce federal grants for students in states that refuse the simplified formula. That's a big stick, one that would hurt a lot of students until their home states got into line. Carrots—not sticks—are the right approach here. We suggest that the federal government match state grants that determine need using only the data required for our proposal (adjusted gross income and household composition).³⁶ The Leveraging Educational Assistance Partnership (LEAP) Program could be the vehicle for such a matching program.³⁷

How will colleges react to federal simplification?

One concern is that colleges will not agree to go along, and will demand that students fill out complicated aid forms in order to get aid that is paid for out of the colleges' coffers ("institutional aid"). This could make things worse for students if every school creates its own aid form to replace the FAFSA.

34. The Department of Education does not provide a shortened FAFSA in paper form. All applicants who use the paper FAFSA are required to fill out the entire FAFSA, even if they meet the criteria for a simplified application.

35. The variable measuring state aid in NPSAS does not distinguish between aid that is based only on need and aid that is based on both need and merit.

36. Such a simplification incentive could be put in place even if our full proposal is not implemented. As described above, many states refuse to accept simplified FAFSAs for low-income students. A carrot of matching grant funds might give those states the impetus to allow existing simplifications to work.

37. Thanks to Brian Fitzgerald for suggesting this approach.

Schools that give out substantial amounts of their own aid and enroll wealthy students already supplement the FAFSA with additional aid forms, such as the College Board's College Scholarship Service (CSS) PROFILE. About 270 schools (including only six public institutions) currently use the CSS PROFILE, out of more than 4,200 two- and four-year colleges nationwide. We anticipate that these schools will continue to use these forms in distributing their own aid: we see no problem with that.

Why don't we care if elite schools use complicated forms to give out their own aid funds? First, because it's their money. Second, because any student who is confident enough to apply to an elite college is clearly not dissuaded from college by complexity and uncertainty in aid. Students discouraged by complexity and uncertainty in the aid system are more likely to attend community colleges and state universities.

For the typical student who attends a community college or state university, government aid is the only aid. These schools don't have their own funds of any consequence to distribute. Yes, a few have small pots of money, but let's remember the costs and benefits of complexity. Should a community college impose a lengthy aid application on all its students in order to give out a tiny grant to a few students? They should not, we would argue. They may do so, nonetheless. So, we should give them incentives to do the right thing. We could, for example, add a bonus to the federal grants of students at schools who agree to use the simplified formula. The rule could be that any student who is eligible for the grant listed in Exhibit 1 cannot be required to fill out a complicated form to access institutional funds, or else the school forfeits the bonus for its students.

Aid simplification could substantially benefit public colleges that are stressed by shrinking state support. Think about all of the money that goes into processing aid forms, verifying applications, and sending out award letters. Imagine if all the money

and labor spent on these tasks could instead go into counseling and teaching students!

What about loans?

The grants proposed are sufficient to cover tuition at community colleges and many public universities. They will not cover living expenses, or tuition at the more expensive public universities. As is the case now, loans would be necessary to cover the shortfall. We chose to focus our proposal on grants, to emphasize the point that existing grants and tax credits could be distributed simply while still maintaining the same distribution of aid. We can easily apply the same concepts and analysis to subsidized Stafford loans, and assign them based on income alone.

In an ideal world, we would pair the simplified grant discussed in this paper with an income-contingent loan program similar to those operating in Australia, New Zealand, and the United Kingdom (Chapman 2005, Barr 2004). In these programs, former college students repay their loans as a percentage of their payroll earnings. This forward-looking needs-analysis approach has good distributional characteristics: the beneficiaries of college pay for its costs, but they are insured against bad labor market draws that would saddle them with unsustainable loan payments.

The Pell Grant isn't poorly designed, just underfunded. Shouldn't we just devote more money to need-based student aid?

Our goal is not to debate spending priorities, but to show how current funds could be spent much more effectively. The costs of complexity and uncertainty are real, and they fall most heavily on the very students we hope to target with need-based aid. Complexity and uncertainty limit the equity and the effectiveness of the current system.

Moreover, the lack of adequate funding in the Pell program, the largest federal need-based grant program, may be no coincidence. While the Pell Grants' purchasing power has fallen, funding for federal higher education tax benefits and state merit

aid programs has increased. The public seems to support increased spending on higher education, but those who need the most help are missing out on the benefits. Pell Grants currently isolate low-income families in their own program. By merging the Pell program with the education tax benefits, the power of the middle class can be harnessed to ensure a broad base of support and sustainable funding for a program that benefits families across the income distribution, but that provides extra support for the neediest.

Conclusions

There is no doubt that the federal aid system gets grants and loans to many families who would be worse off without it. There is little evidence that this aid gets more young people into college, however. In this paper, we have proposed a radical simplification to the aid system that will preserve its distributive properties while enhancing its positive impact on schooling decisions.

The basics of need-determination have changed little since they were laid out more than 50 years ago. At a College Board conference in 1953, John Monro, then-dean of admissions at Harvard College, described to his colleagues at other elite colleges the formula he had been using to distribute aid to Harvard admits. The assembled college administrators were eager to establish a common

formula for assigning aid so that they could quash the competitive bidding for the best students that had recently developed. Within a year, a common aid application was in use (the Parents' Confidential Statement) and the new CSS had been established by 94 charter members (Duffy and Goldberg 1998, Wilkinson 2005).

Then, as now, Harvard and other elite schools sought exhaustive measures of wealth and income to tailor their scholarships. Until 1973, the aid application asked about make and model of the family car (Wilkinson 2005). Today's FAFSA and aid formula reflect this peculiar history, providing extremely fine measures of ability to pay at levels of income that far exceed the effective cutoffs for federal aid. While these distinctions are critical at institutions that provide need-based grants to families with incomes well above \$100,000 (Dynarski 2004b), we have shown that such fine measures are irrelevant for the distribution of Pell Grants.

The U.S. system for subsidizing college students hides information about the affordability of college behind a thicket of paperwork. It delays sharing information about the affordability of college until it is too late. It is time for the federal aid system to uncouple itself from the needs of elite schools such as Harvard and Princeton, and concentrate on the needs of young people unnecessarily dissuaded from college by the impression that it is not affordable.

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Appendix A: The FAFSA



FAFSA

July 1, 2006 — June 30, 2007

FREE APPLICATION FOR FEDERAL STUDENT AID

OMB # 1845-0001

STATE AID DEADLINES

Use this form to apply free for federal and state student grants, work-study and loans.

Or apply free online at www.fafsa.ed.gov.

Applying by the Deadlines

For federal aid, submit your application as early as possible, but no earlier than January 1, 2006. We must receive your application no later than July 2, 2007. Your college must have your correct, complete information by your last day of enrollment in the 2006-2007 school year.

For state or college aid, the deadline may be as early as January 2006. See the table to the right for state deadlines. You may also need to complete additional forms. Check with your high school guidance counselor or a financial aid administrator at your college about state and college sources of student aid and deadlines.

If you are filing close to one of these deadlines, we recommend you file online at www.fafsa.ed.gov. This is the fastest and easiest way to apply for aid.

Using Your Tax Return

If you are supposed to file a 2005 federal income tax return, we recommend that you complete it before filling out this form. If you have not yet filed your return, you can still submit your FAFSA, but you must provide income and tax information. Once you file your tax return, correct any income or tax information that is different from what you initially submitted on your FAFSA.

Filling Out the FAFSA

Your answers on this form will be read electronically. Therefore:

- use black ink and fill in ovals completely:
- print clearly in CAPITAL letters and skip a box between words:
- report dollar amounts (such as \$12,356.41) like this:

Correct ● **Incorrect** ✗

I	S	E	L	M	S	T
\$	1	2	,	3	5	6

no cents

Blue is for student information and purple is for parent information.

If you or your family has unusual circumstances (such as loss of employment), complete this form to the extent you can, then submit it as instructed and consult with the financial aid office at the college you plan to attend.

For more information or help in filling out the FAFSA, call 1-800-4-FED-AID (1-800-433-3243). TTY users may call 1-800-730-8913. Or visit our Web site at www.studentaid.ed.gov.

Mailing Your FAFSA

After you complete this application, make a copy of pages 3 through 6 for your records. Then mail the original of only pages 3 through 6 in the attached envelope or send it to: Federal Student Aid Programs, P.O. Box 4691, Mt. Vernon, IL 62864-0059. Do not send the worksheets on page 8; keep them for your records.

If you do not receive the results of your application—a *Student Aid Report (SAR)*—within three weeks, please check online at www.fafsa.ed.gov or call 1-800-433-3243. If you provided your e-mail address in question 13, you will receive information about your application within a few days after we process it.

Let's Get Started!

Now go to page 3, detach the application form and begin filling it out. Refer to the notes as instructed.

STATE AID DEADLINES

File Online and File On Time
www.fafsa.ed.gov

AK April 15, 2006 (date received)
AR For Academic Challenge - June 1, 2006 (date received)
For Workforce Grant - Contact your financial aid administrator.
AZ June 30, 2007 (date postmarked)
*^CA For initial awards - March 2, 2006
For additional community college awards - September 2, 2006 (date processed)
*DC June 30, 2006 (date received by state)
DE April 15, 2006 (date received)
FL May 15, 2006 (date processed)
^IA July 1, 2006 (date received)
#IL First-time applicants - September 30, 2006
Continuing applicants - August 15, 2006 (date received)
IN March 10, 2006 (date received)
#*KS April 1, 2006 (date received)
#KY March 15, 2006 (date received)
#^LA May 1, 2006
Final deadline - July 1, 2006 (date received)
#^MA May 1, 2006 (date received)
MD March 1, 2006 (date received)
ME May 1, 2006 (date received)
MI March 1, 2006 (date received)
MN 30 days after term starts (date received)
MO April 1, 2006 (date received)
#MT March 1, 2006 (date received)
NC March 15, 2006 (date received)
ND March 15, 2006 (date received)
NH May 1, 2006 (date received)
^NJ June 1, 2006, if you received a Tuition Aid Grant in 2005-2006
All other applicants
- October 1, 2006, fall & spring terms
- March 1, 2007, spring term only (date received)
#^NY May 1, 2007 (date received)
OH October 1, 2006 (date received)
#OK April 15, 2006
Final deadline - June 30, 2006 (date received)
#OR March 1, 2006 (date received)
Final deadline - Contact your financial aid administrator.
*PA All 2005-2006 State Grant recipients & all non-2005-2006 State Grant recipients in degree programs - May 1, 2006
All other applicants - August 1, 2006 (date received)
#RI March 1, 2006 (date received)
SC June 30, 2006 (date received)
TN For State Grant - May 1, 2006
For State Lottery - September 1, 2006 (date received)
#^WV March 1, 2006 (date received)
Check with your financial aid administrator for these states and territories:
AL, *AS, CO, *CT, *FM, GA, *GU, *HI, ID, *MH, *MP, MS, *NE, *NM, *NV, PR, *PW, *SD, *TX, UT, *VA, *VI, *VT, WA, WI and *WY.
For priority consideration, submit application by date specified.
^ Applicants encouraged to obtain proof of mailing.
* Additional form may be required. 1845-0001

Notes for questions 14 – 15 (page 3)

If you are an eligible noncitizen, write in your eight- or nine-digit Alien Registration Number. Generally, you are an eligible noncitizen if you are (1) a U.S. permanent resident with a Permanent Resident Card (I-551); (2) a conditional permanent resident (I-551C); or (3) the holder of an Arrival-Departure Record (I-94) from the Department of Homeland Security showing any one of the following designations: "Refugee," "Asylum Granted," "Parolee" (I-94 confirms paroled for a minimum of one year and status has not expired) or "Cuban-Haitian Entrant." If you are in the U.S. on an F1 or F2 student visa, a J1 or J2 exchange visitor visa, or a G series visa (pertaining to international organizations), you must fill in oval e. If you are neither a citizen nor an eligible noncitizen, you are not eligible for federal student aid. However, you may be eligible for state or college aid.

Notes for question 23 (page 3) — Enter the correct number in the box in question 23.

Enter 1 for 1 st bachelor's degree.	Enter 6 for certificate or diploma for completing an occupational, technical, or educational program of at least two years.
Enter 2 for 2 nd bachelor's degree.	Enter 7 for teaching credential program (nondegree program).
Enter 3 for associate degree (occupational or technical program).	Enter 8 for graduate or professional degree.
Enter 4 for associate degree (general education or transfer program).	Enter 9 for other/undecided.
Enter 5 for certificate or diploma for completing an occupational, technical, or educational program of less than two years.	

Notes for question 24 (page 3) — Enter the correct number in the box in question 24.

Enter 0 for never attended college & 1st year undergraduate.	Enter 4 for 4th year undergraduate/senior.
Enter 1 for attended college before & 1st year undergraduate.	Enter 5 for 5th year/other undergraduate.
Enter 2 for 2nd year undergraduate/sophomore.	Enter 6 for 1st year graduate/professional.
Enter 3 for 3rd year undergraduate/junior.	Enter 7 for continuing graduate/professional or beyond.

Notes for questions 29 – 30 (page 3)

Some states and colleges offer aid based on the level of schooling your parents completed.

Notes for questions 33 c. and d. (page 4) and 71 c. and d. (page 5)

If you filed or will file a foreign tax return, or a tax return with Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Marshall Islands, the Federated States of Micronesia, or Palau, use the information from that return to fill out this form. If you filed a foreign return, convert all figures to U.S. dollars, using the exchange rate that is in effect today. To view the daily exchange rate, go to www.federalreserve.gov/releases/h10/update.

Notes for questions 34 (page 4) and 72 (page 5)

In general, a person is eligible to file a 1040A or 1040EZ if he or she makes less than \$100,000, does not itemize deductions, does not receive income from his or her own business or farm, and does not receive alimony. A person is not eligible if he or she itemizes deductions, receives self-employment income or alimony, or is required to file Schedule D for capital gains. If you filed a 1040 only to claim Hope or Lifetime Learning credits, and you would have otherwise been eligible for a 1040A or 1040EZ, you should answer "Yes" to this question.

Notes for questions 37 (page 4) and 75 (page 5) — Notes for those who filed a 1040EZ

On the 1040EZ, if a person answered "Yes" on line 5, use EZ worksheet line F to determine the number of exemptions (\$3,200 equals one exemption). If a person answered "No" on line 5, enter 01 if he or she is single, or 02 if he or she is married.

Notes for questions 43 – 45 (page 4) and 81 – 83 (page 5)

By applying online at www.fafsa.ed.gov, you may be eligible to skip some questions. If you do not apply online, you will not be penalized for completing questions 43-45 and 81-83 on the paper FAFSA.

Net worth means current value minus debt. If net worth is one million dollars or more, enter \$999,999. If net worth is negative, enter 0.

Investments include real estate (do not include the home you live in), trust funds, money market funds, mutual funds, certificates of deposit, stocks, stock options, bonds, other securities, Coverdell savings accounts, college savings plans, installment and land sale contracts (including mortgages held), commodities, etc. For more information about reporting education savings plans, call 1-800-433-3243. *Investment value* includes the market value of these investments as of today. *Investment debt* means only those debts that are related to the investments.

Investments do not include the home you live in, the value of life insurance, retirement plans (pension funds, annuities, noneducation IRAs, Keogh plans, etc.), and prepaid tuition plans, or cash, savings, and checking accounts already reported in 43 and 81.

Business and/or investment farm value includes the market value of land, buildings, machinery, equipment, inventory, etc. Business and/or investment farm debt means only those debts for which the business or investment farm was used as collateral.

Notes for question 54 (page 4)

Answer "No" (you are not a veteran) if you (1) have never engaged in active duty in the U.S. Armed Forces, (2) are currently an ROTC student or a cadet or midshipman at a service academy, or (3) are a National Guard or Reserves enlistee activated only for training. Also answer "No" if you are currently serving in the U.S. Armed Forces and will continue to serve through June 30, 2007.

Answer "Yes" (you are a veteran) if you (1) have engaged in active duty in the U.S. Armed Forces (Army, Navy, Air Force, Marines or Coast Guard) or are a National Guard or Reserve enlistee who was called to active duty for purposes other than training, or were a cadet or midshipman at one of the service academies, and (2) were released under a condition other than dishonorable. Also answer "Yes" if you are not a veteran now but will be one by June 30, 2007.



FAFSA

July 1, 2006 — June 30, 2007
FREE APPLICATION FOR FEDERAL STUDENT AID

OMB # 1845-0001

Step One: For questions 1–30, leave blank any questions that do not apply to you (the student).

1-3. Your full name (as it appears on your Social Security card)

1. LAST NAME 2. FIRST NAME 3. MIDDLE INITIAL

4-7. Your permanent mailing address

4. NUMBER AND STREET (INCLUDE APT. NUMBER)

5. CITY (AND COUNTRY IF NOT U.S.) 6. STATE 7. ZIP CODE

8. Your Social Security Number

- -

9. Your date of birth

1 9

10. Your permanent telephone number

() -

11-12. Your driver's license number and state (if any)

11. LICENSE NUMBER 12. STATE

13. Your e-mail address

WE WILL USE THIS E-MAIL ADDRESS TO CORRESPOND WITH YOU. YOU WILL RECEIVE YOUR FAFSA INFORMATION THROUGH A SECURE LINK ON THE INTERNET, SENT TO THE E-MAIL ADDRESS YOU PROVIDE. LEAVE BLANK TO RECEIVE INFORMATION THROUGH REGULAR MAIL. WE WILL ONLY SHARE THIS ADDRESS WITH THE SCHOOLS YOU LIST ON THE FORM AND YOUR STATE. THEY MAY USE THE E-MAIL ADDRESS TO COMMUNICATE WITH YOU.

@

14. Are you a U.S. citizen? Pick one. See page 2.

- a. Yes, I am a U.S. citizen. Skip to question 16. 1
- b. No, but I am an eligible noncitizen. Fill in question 15. 2
- c. No, I am not a citizen or eligible noncitizen. 3

15.

ALIEN REGISTRATION NUMBER

16. What is your marital status as of today?

- I am single, divorced or widowed 1
- I am married/remarried 2
- I am separated 3

17. Month and year you were married, separated, divorced or widowed

MONTH YEAR

18. What is your state of legal residence?

STATE

19. Did you become a legal resident of this state before January 1, 2001?

- Yes 1 No 2

20. If the answer to question 19 is "No," give month and year you became a legal resident.

MONTH YEAR

21. Are you male? (Most male students must register with Selective Service to get federal aid.)

- Yes 1 No 2

22. If you are male (age 18–25) and not registered, answer "Yes" and Selective Service will register you.

- Yes 1 No 2

23. What degree or certificate will you be working on during 2006–2007 school year? See page 2 and enter the correct number in the box.

24. What will be your grade level when you begin the 2006–2007 school year? See page 2 and enter the correct number in the box.

25. Will you have a high school diploma or GED before you begin the 2006–2007 school year?

- Yes 1 No 2

26. Will you have your first bachelor's degree before July 1, 2006?

- Yes 1 No 2

27. In addition to grants, are you interested in student loans (which you must pay back)?

- Yes 1 No 2

28. In addition to grants, are you interested in "work-study" (which you earn through work)?

- Yes 1 No 2

29. Highest school your father completed Middle school/Jr. High 1 High School 2 College or beyond 3 Other/unknown 4

30. Highest school your mother completed Middle school/Jr. High 1 High School 2 College or beyond 3 Other/unknown 4

31. Do not leave this question blank. Have you ever been convicted of possessing or selling illegal drugs? If you have, answer "Yes," complete and submit this application, and we will send you a worksheet in the mail for you to determine if your conviction affects your eligibility for aid.

- No 1
 Yes 2
- DO NOT LEAVE QUESTION 31 BLANK**

Step Two: For questions 32–45, report your (the student's) income and assets. If you are married as of today, report your and your spouse's income and assets, even if you were not married in 2005. Ignore references to "spouse" if you are currently single, separated, divorced or widowed.

32. For 2005, have you (the student) completed your IRS income tax return or another tax return listed in question 33?
 a. I have already completed my return. 1 b. I will file, but I have not yet completed my return. 2 c. I'm not going to file. (Skip to question 38.) 3

33. What income tax return did you file or will you file for 2005?
 a. IRS 1040..... 1 d. A tax return with Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Marshall Islands, the Federated States of Micronesia, or Palau. See page 2..... 4
 b. IRS 1040A or 1040EZ..... 2
 c. A foreign tax return. See page 2..... 3

34. If you have filed or will file a 1040, were you eligible to file a 1040A or 1040EZ? See page 2. Yes 1 No 2 Don't Know 3

For questions 35–47, if the answer is zero or the question does not apply to you, enter 0.

35. What was your (and spouse's) adjusted gross income for 2005? Adjusted gross income is on IRS Form 1040—line 37; 1040A—line 21; or 1040EZ—line 4. \$,

36. Enter your (and spouse's) income tax for 2005. Income tax amount is on IRS Form 1040—line 57; 1040A—line 36; or 1040EZ—line 10. \$,

37. Enter your (and spouse's) exemptions for 2005. Exemptions are on IRS Form 1040—line 6d or on Form 1040A—line 6d. For Form 1040EZ, see page 2.

38-39. How much did you (and spouse) earn from working (wages, salaries, tips, combat pay, etc.) in 2005? Answer this question whether or not you filed a tax return. This information may be on your W-2 forms, or on IRS Form 1040—lines 7 + 12 + 18; 1040A—line 7; or 1040EZ—line 1.
 You (38) \$,
 Your Spouse (39) \$,

Student (and Spouse) Worksheets (40–42)

40-42. Go to page 8 and complete the columns on the left of Worksheets A, B, and C. Enter the student (and spouse) totals in questions 40, 41 and 42, respectively. Even though you may have few of the Worksheet items, check each line carefully.
 Worksheet A (40) \$,
 Worksheet B (41) \$,
 Worksheet C (42) \$,

43. As of today, what is your (and spouse's) total current balance of cash, savings, and checking accounts? Do not include student financial aid. \$,

44. As of today, what is the net worth of your (and spouse's) investments, including real estate (not your home)? Net worth means current value minus debt. See page 2. \$,

45. As of today, what is the net worth of your (and spouse's) current businesses and/or investment farms? Do not include a farm that you live on and operate. See page 2. \$,

46-47. If you receive veterans' education benefits, for how many months from July 1, 2006, through June 30, 2007, will you receive these benefits, and what amount will you receive per month? Do not include your spouse's veterans' education benefits.
 Months (46)
 Monthly Amount (47) \$,

Step Three: Answer all seven questions in this step.

48. Were you born before January 1, 1983? Yes 1 No 2
 49. At the beginning of the 2006-2007 school year, will you be working on a master's or doctorate program (such as an MA, MBA, MD, JD, PhD, EdD, or graduate certificate, etc.)? Yes 1 No 2
 50. As of today, are you married? (Answer "Yes" if you are separated but not divorced.) Yes 1 No 2
 51. Do you have children who receive more than half of their support from you? Yes 1 No 2
 52. Do you have dependents (other than your children or spouse) who live with you and who receive more than half of their support from you, now and through June 30, 2007? Yes 1 No 2
 53. Are (a) both of your parents deceased, or (b) are you (or were you until age 18) a ward/dependent of the court? Yes 1 No 2
 54. Are you a veteran of the U.S. Armed Forces? See page 2. Yes 1 No 2

If you (the student) answered "No" to every question in Step Three, go to Step Four.
 If you answered "Yes" to any question in Step Three, skip Step Four and go to Step Five on page 6.

(Health Profession Students: Your school may require you to complete Step Four even if you answered "Yes" to any Step Three question.)

Step Five: Complete this step only if you (the student) answered "Yes" to any Step Three question.

84. Go to page 7 to determine how many people are in your (and your spouse's) household. Enter that number here.

85. Go to page 7 to determine how many people in question 84 will be college students, attending at least half time between July 1, 2006, and June 30, 2007. Enter that number here.

Step Six: Please tell us which schools may request your information, and indicate your enrollment status.

Enter the 6-digit federal school code and your housing plans. Look for the federal school codes at www.fafsa.ed.gov, at your college financial aid office, at your public library, or by asking your high school guidance counselor. If you cannot get the federal school code, write in the complete name, address, city and state of the college. For state aid, you may wish to list your preferred school first.

1st FEDERAL SCHOOL CODE	NAME OF COLLEGE	STATE	HOUSING PLANS
86. <input type="text"/>	OR <input type="text"/> ADDRESS AND CITY	<input type="text"/>	87. on campus <input type="radio"/> 1 off campus <input type="radio"/> 2 with parent <input type="radio"/> 3
88. <input type="text"/>	OR <input type="text"/> ADDRESS AND CITY	<input type="text"/>	89. on campus <input type="radio"/> 1 off campus <input type="radio"/> 2 with parent <input type="radio"/> 3
90. <input type="text"/>	OR <input type="text"/> ADDRESS AND CITY	<input type="text"/>	91. on campus <input type="radio"/> 1 off campus <input type="radio"/> 2 with parent <input type="radio"/> 3
92. <input type="text"/>	OR <input type="text"/> ADDRESS AND CITY	<input type="text"/>	93. on campus <input type="radio"/> 1 off campus <input type="radio"/> 2 with parent <input type="radio"/> 3
94. <input type="text"/>	OR <input type="text"/> ADDRESS AND CITY	<input type="text"/>	95. on campus <input type="radio"/> 1 off campus <input type="radio"/> 2 with parent <input type="radio"/> 3
96. <input type="text"/>	OR <input type="text"/> ADDRESS AND CITY	<input type="text"/>	97. on campus <input type="radio"/> 1 off campus <input type="radio"/> 2 with parent <input type="radio"/> 3

98. See page 7. At the start of the 2006-2007 school year, mark if you will be: Full time 1 3/4 time 2 Half time 3 Less than half time 4 Not sure 5

Step Seven: Read, sign and date.

If you are the student, by signing this application you certify that you (1) will use federal and/or state student financial aid only to pay the cost of attending an institution of higher education, (2) are not in default on a federal student loan or have made satisfactory arrangements to repay it, (3) do not owe money back on a federal student grant or have made satisfactory arrangements to repay it, (4) will notify your school if you default on a federal student loan and (5) will not receive a Federal Pell Grant for more than one school for the same period of time.

If you are the parent or the student, by signing this application you agree, if asked, to provide information that will verify the accuracy of your completed form. This information may include U.S. or state income tax forms that you filed or are required to file. Also, you certify that you understand that the **Secretary of Education has the authority to verify information reported on this application with the Internal Revenue Service and other federal agencies.** If you sign any document related to the federal student aid programs electronically using a Personal Identification Number (PIN), you certify that you are the person identified by the PIN and have not disclosed that PIN to anyone else. If you purposely give false or misleading information, you may be fined \$20,000, sent to prison, or both.

99. Date this form was completed. MM/DD 2006 or 2007

100. Student (Sign below)

Parent (A parent from Step Four sign below)

If this form was filled out by someone other than you, your spouse or your parents, that person must complete this part.

Preparer's name, firm and address

101. Preparer's Social Security Number (or 102)

102. Employer ID number (or 101)

103. Preparer's signature and date

SCHOOL USE ONLY: Federal School Code

D/O 1
FAA Signature

DATA ENTRY USE ONLY: P * L E

Notes for questions 55–83 (page 5) Step Four: Who is considered a parent in this step?

Read these notes to determine who is considered a parent on this form. **Answer all questions in Step Four about them**, even if you do not live with them. (Note that grandparents, foster parents and legal guardians are not parents.)

If your parents are living and married to each other, answer the questions about them.

If your parent is widowed or single, answer the questions about that parent. If your widowed parent is remarried as of today, answer the questions about that parent and the person whom your parent married (your stepparent).

If your parents are divorced or separated, answer the questions about the parent you lived with more during the past 12 months. (If you did not live with one parent more than the other, give answers about the parent who provided more financial support during the past 12 months, or during the most recent year that you actually received support from a parent.) If this parent is remarried as of today, answer the questions on the rest of this form about that parent and the person whom your parent married (your stepparent).

Notes for question 65 (page 5)

Include in your parents' household (see notes, above, for who is considered a parent):

- your parents and yourself, even if you don't live with your parents,
- your parents' other children if (a) your parents will provide more than half of their support from July 1, 2006, through June 30, 2007, or (b) the children could answer "no" to every question in Step Three on page 4 of this form, and
- other people if they now live with your parents, your parents provide more than half of their support, and your parents will continue to provide more than half of their support from July 1, 2006, through June 30, 2007.

Notes for questions 66 (page 5) and 85 (page 6)

Always count yourself as a college student. Do not include your parents. Include others only if they will attend, at least half time in 2006–2007, a program that leads to a college degree or certificate.

Notes for question 84 (page 6)

Include in your (and your spouse's) household:

- yourself (and your spouse, if you have one),
- your children, if you will provide more than half of their support from July 1, 2006, through June 30, 2007, and
- other people if they now live with you, you provide more than half of their support, and you will continue to provide more than half of their support from July 1, 2006, through June 30, 2007.

Notes for question 98 (page 6)

For undergraduates, "full time" generally means taking at least 12 credit hours in a term or 24 clock hours per week. "3/4 time" generally means taking at least 9 credit hours in a term or 18 clock hours per week. "Half time" generally means taking at least 6 credit hours in a term or 12 clock hours per week. Provide this information about the college you are most likely to attend.

Information on the Privacy Act and use of your Social Security Number

We use the information that you provide on this form to determine if you are eligible to receive federal student financial aid and the amount that you are eligible to receive. Sections 483 and 484 of the Higher Education Act of 1965, as amended, give us the authority to ask you and your parents these questions, and to collect the Social Security Numbers of you and your parents. We use your Social Security Number to verify your identity and retrieve your records, and we may request your Social Security Number again for those purposes.

State and institutional student financial aid programs may also use the information that you provide on this form to determine if you are eligible to receive state and institutional aid and the need that you have for such aid. Therefore, we will disclose the information that you provide on this form to each institution you list in questions 86–96, state agencies in your state of legal residence, and the state agencies of the states in which the colleges that you list in questions 86–96 are located.

If you are applying solely for federal aid, you must answer all of the following questions that apply to you: 1–9, 14–16, 18, 21–22, 25–26, 31–36, 38–45, 48–67, 70–74, 76–85 and 99–100. If you do not answer these questions, you will not receive federal aid.

Without your consent, we may disclose information that you provide to entities under a published "routine use." Under such a routine use, we may disclose information to third parties that we have authorized to assist us in administering the above programs; to other federal agencies under computer matching programs, such as those with the Internal Revenue Service, Social Security Administration, Selective Service System, Department of Homeland Security, Department of Justice and Veterans Affairs; to your parents or spouse; and to members of Congress if you ask them to help you with student aid questions.

If the federal government, the U.S. Department of Education, or an employee of the U.S. Department of Education is involved in litigation, we may send information to the Department of Justice, or a court or adjudicative body, if the disclosure is related to financial aid and certain conditions are met. In addition, we may send your information to a foreign, federal, state, or local enforcement agency if the information that you submitted indicates a violation or potential violation of law, for which that agency has jurisdiction for investigation or prosecution. Finally, we may send information regarding a claim that is determined to be valid and overdue to a consumer reporting agency. This information includes identifiers from the record; the amount, status and history of the claim; and the program under which the claim arose.

State Certification

By submitting this application, you are giving your state financial aid agency permission to verify any statement on this form and to obtain income tax information for all persons required to report income on this form.

The Paperwork Reduction Act of 1995

The Paperwork Reduction Act of 1995 says that no one is required to respond to a collection of information unless it displays a valid OMB control number, which for this form is 1845-0001. The time required to complete this form is estimated to be one hour, including time to review instructions, search data resources, gather the data needed, and complete and review the information collection. If you have comments about this estimate or suggestions for improving this form, please write to: U.S. Department of Education, Washington DC 20202-4700.

We may request additional information from you to process your application more efficiently. We will collect this additional information only as needed and on a voluntary basis.

Worksheets
Calendar Year 2005

Do not mail these worksheets in with your application.
Keep these worksheets; your school may ask to see them.

Student/Spouse	Worksheet A	Parents
For question 40	Report Annual Amounts	For question 78
\$	Earned income credit from IRS Form 1040—line 66a; 1040A—line 41a; or 1040EZ—line 8a.	\$
\$	Additional child tax credit from IRS Form 1040—line 68 or 1040A—line 42	\$
\$	Welfare benefits, including Temporary Assistance for Needy Families (TANF). Don't include food stamps or subsidized housing.	\$
\$	Social Security benefits received, for all household members as reported in question 84 (or 65 for your parents), that were not taxed (such as SSI). Report benefits paid to parents in the Parents column, and benefits paid directly to student (or spouse) in the Student/Spouse column.	\$
\$	Enter in question 40.	Enter in question 78.

For question 41	Worksheet B	For question 79
Report Annual Amounts	Report Annual Amounts	Report Annual Amounts
\$	Payments to tax-deferred pension and savings plans (paid directly or withheld from earnings), including, but not limited to, amounts reported on the W-2 Form in Boxes 12a through 12d, codes D, E, F, G, H and S	\$
\$	IRA deductions and payments to self-employed SEP, SIMPLE, and Keogh and other qualified plans from IRS Form 1040—line 28 + line 32 or 1040A—line 17	\$
\$	Child support you received for all children. Don't include foster care or adoption payments.	\$
\$	Tax exempt interest income from IRS Form 1040—line 8b or 1040A—line 8b	\$
\$	Foreign income exclusion from IRS Form 2555—line 43 or 2555EZ—line 18	\$
\$	Untaxed portions of IRA distributions from IRS Form 1040—lines (15a minus 15b) or 1040A—lines (11a minus 11b). Exclude rollovers. If negative, enter a zero here.	\$
\$	Untaxed portions of pensions from IRS Form 1040—lines (16a minus 16b) or 1040A—lines (12a minus 12b). Exclude rollovers. If negative, enter a zero here.	\$
\$	Credit for federal tax on special fuels from IRS Form 4136—line 15 (nonfarmers only)	\$
\$	Housing, food and other living allowances paid to members of the military, clergy and others (including cash payments and cash value of benefits)	\$
\$	Veterans' noneducation benefits such as Disability, Death Pension, or Dependency & Indemnity Compensation (DIC), and/or VA Educational Work-Study allowances	\$
\$	Other untaxed income not reported elsewhere on Worksheets A and B (e.g., workers' compensation, untaxed portions of railroad retirement benefits, Black Lung Benefits, disability, combat pay not reported on the tax return, etc.) Don't include student aid, Workforce Investment Act educational benefits, non-tax filers' combat pay, or benefits from flexible spending arrangements, e.g., cafeteria plans.	\$
\$	Money received, or paid on your behalf (e.g., bills), not reported elsewhere on this form	XXXXXXXX
\$	Enter in question 41.	Enter in question 79.

For question 42	Worksheet C	For question 80
Report Annual Amounts	Report Annual Amounts	Report Annual Amounts
\$	Education credits (Hope and Lifetime Learning tax credits) from IRS Form 1040—line 50 or 1040A—line 31	\$
\$	Child support you paid because of divorce or separation or as a result of a legal requirement. Don't include support for children in your (or your parents') household, as reported in question 84 (or question 65 for your parents).	\$
\$	Taxable earnings from need-based employment programs, such as Federal Work-Study and need-based employment portions of fellowships and assistantships	\$
\$	Student grant and scholarship aid reported to the IRS in your (or your parents') adjusted gross income. Includes AmeriCorps benefits (awards, living allowances and interest accrual payments), as well as grant or scholarship portions of fellowships and assistantships.	\$
\$	Enter in question 42	Enter in question 80.

Appendix B: A Sample SAR

**U.S. DEPARTMENT OF EDUCATION
FEDERAL STUDENT AID**

WWW.FAFSA.ED.GOV 1-800-4-FED-AID (1-800-433-3243 or TTY: 1-800-730-8913) START HERE. GO FURTHER.

FINAL 9/08/2006

000117C041 DRN: 2401
OMB No.1845-0008

CHRISTOPHER E. STUDENT
1234 ABCDEFGHIJKLMNOPQRSTUVWXYZABCD
ABCDEFGHIJKLMNOPQ, MD 12345 June 27, 2007
EFC: 00000 C

Dear CHRISTOPHER E. STUDENT,

Thank you for submitting your information for federal student aid to the U.S. Department of Education.

This is your Student Aid Report (SAR) for the **2007-2008** award year. Keep a copy of this SAR for your records.

You (the Student)

Here is where you are this year in the process of applying for student financial aid:

<p>1. You applied for financial aid by completing a Free Application for Federal Student Aid (FAFSA).</p>	<p>▼</p>	<p>2. Now you should check your SAR information and resolve the issues described on page 3.</p>	<p>3. Your school has the authority to request copies of certain financial documents to verify information you reported on your application.</p>
---	----------	--	--

U.S. Department of Education

Here is where we are in collecting, processing, and storing your information for the 2007-2008 award year:

<p>1. We received your information and processed it. Our results are below.</p>	<p>▼</p>	<p>2. We sent your information and results to you and made them available for the school(s) you listed in Step Six to request.</p>	<p>3. We will update your federal student aid record with any changes you make.</p>
---	----------	--	---

Based on the information you have submitted, we have used the standard formula to calculate your EFC, which is 00000. Your school will use this number to determine what types of aid and how much you are eligible for based on your educational costs.

School(s)

Here are the steps your school(s) will take to put together your 2007-2008 financial aid package:

<p>1. Your school(s) received your information and our results.</p>	<p>▼</p>	<p>2. Your school(s) have the authority to ask you to verify your information.</p>	<p>3. Your school(s) may put together or change an aid package and notify you.</p>
---	----------	--	--

The amount of aid you receive from your school(s) will depend on the cost of attendance at your school(s), your enrollment status (full-time, three-quarter-time, half-time, or less than half-time), Congressional appropriations, and other factors. Review your financial aid notification from your school(s) or contact your Financial Aid Administrator.

Please read the important information on page 2, and then go to page 3 to see what you need to do next.

X9XX999999 999

PAGE 1 OF 8



1 2 3 4 5 6 7 8 9 S T 0 1

2007-2008 Student Aid Report (SAR)

THE OFFICE OF MANAGEMENT & BUDGET WANTS YOU TO KNOW:

OMB According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1845-0008. The time required to complete this information collection is estimated to be an average of 15 to 30 minutes, including the time to review instructions, search existing data resources, gather the data needed, and complete and review the information collected. If you have any comments concerning the accuracy of the time estimate(s) or suggestions for improving this form, please write to: U.S. Department of Education, Washington, DC 20202-4651. If you have any comments or concerns regarding the status of your individual submission of this form, write directly to: Federal Student Aid Information Center, P.O. Box 84, Washington, DC 20044.

FAFSA By answering questions 97a through 97h, and signing the Free Application for Federal Student Aid (FAFSA), you give permission to the U.S. Department of Education to provide information from your application to the college(s) listed in Step Six. You also agree that such information is deemed to incorporate by reference the certification statement in Step Seven of the financial aid application. To learn more about the Privacy Act and how your information may be used, you may refer to page 4 of the paper FAFSA or the Privacy Act link on FAFSA on the Web.

PI To protect the confidentiality of your application data, you should never give, share or disclose your PIN with anyone, including commercial service providers that provide assistance with the financial aid process. You should keep your PIN in a safe location. If you think your PIN has been compromised, please go to the Federal Student Aid PIN web site at www.pin.ed.gov and change your PIN.

WARNING: If you are convicted of drug distribution or possession, your eligibility for Title IV student financial aid is subject to suspension or termination. If your drug conviction status changes at any time during the 2007-2008 award year, you must update your answer to question 31.

For Financial Aid Office Use Only

This information will be used by your Financial Aid Administrator to determine your eligibility for student aid.

SAR C Flag: Y	Dependency Status: I	Rejects Met: 01 02 03 04 05 07
Application Source: 2A	Dependency Override: X	Application Receipt Date: 06/19/2007
Transaction Source: 4C	FAA Adjustment: X	Transaction Receipt Date: 06/20/2007
Processed Record Type: X	Reprocessing Code: X	Verification Flag: X
Duplicate SSN Flag: X		

MONTHS: 1 2 3 4 5 6 7 8 9 10 11 12
 PRIMARY EFC: 0000 0000 0000 0000 0000 0000 0000 0000 0000 0000 0000 0000
 SECONDARY EFC: 0000 0000 0000 0000 0000 0000 0000 0000 0000 0000 0000 0000
 PC: 99999
 SIC: 99999

Auto Zero EFC Flag: Y SNF Flag: N Pell Eligible Flag: Y

MATCH FLAGS:

SSN Match Flag: 4	Selective Service Registration Flag: N	Selective Service Match: X
DHS Match Flag: X	DHS Verification #: 123456789012345	SSA Citizenship Code: X
DHS Sec. Conf. Flag: X	YA Match Flag: 1	FSSN Match Flag: 4
NSLDS Match Flag: 2	NSLDS Database Results Flag: 1	MSSN Match Flag: 4
	NSLDS Transaction Number: 01	

COMMENTS: 001 002 003 004 005 006 007 008 009 010 011 012 013 014 015 016 017 018 019 020



X9XX999999 999

PAGE 2 OF 8

1 2 3 4 5 6 7 8 9 S T 0 1

2007-2008 Student Aid Report (SAR)

COMMENTS ABOUT YOUR INFORMATION

Based on the information we have on record for you, YOUR EFC IS 00000. Your school will use this number to determine your financial aid eligibility for federal grants, loans, and work study, and possibly available funding from your state and school. You may be eligible to receive a Federal Pell Grant and other federal student aid.

ISSUES AFFECTING YOUR ELIGIBILITY

If you want to register with Selective Service, you may answer "yes" to both questions 21 and 22 on this SAR, complete a Selective Service registration form at your local post office, or register online at www.sss.gov. Selective Service will not process your registration until 30 days before your 18th birthday.

The Social Security Administration (SSA) did not confirm that you are a U.S. citizen. You need to provide your school with the documentation of your citizenship status before you can receive federal student aid.

WHAT YOU MUST DO NOW

Your school has the authority to ask you to provide copies of certain financial documents for you and your parent(s).

We assumed certain information to calculate your eligibility for federal student aid. We printed the assumption we made and the word "assumed" in the "You Told Us" column for each of these items. If our assumptions are correct, do not change them.

Be sure to review the items printed in darker print on this SAR and make corrections if necessary.

NOTE: You reported a value(s) that exceeds the amount of space allowed on the SAR. We printed all of the lines in darker print for those fields.

OTHER INFORMATION YOU NEED TO KNOW

If your parents have now filed their 2006 tax return, correct this SAR to reflect the information as reported on their tax return. If your parents still haven't filed, notify your Financial Aid Administrator once they file.

ATTENTION: You did not list any schools or the schools listed are not in our eligible school file. To receive federal student aid, you must attend a school that participates in the federal student aid program.

If you need additional help with your SAR, contact your school Financial Aid Administrator (FAA) or the Federal Student Aid Information Center at 1-800-4-FED-AID (1-800-433-3243). If your address changes, send the correction on your SAR or call 1-800-4-FED-AID to make the correction on your record.

X9XX999999 999

PAGE 3 OF 8



1 2 3 4 5 6 7 8 9 S T 0 1

2007-2008 Student Aid Report (SAR)**Summary of Federal Student Loans**

The information below is the total amount of student loans that you owe as currently reported to us by your loan holder(s). These loans are administered by the U.S. Department of Education (ED). You should confirm that these loan totals are correct. You can use your Federal Student Aid PIN to view details on the individual loans that make up these totals at the National Student Loan Data System (NSLDS) web site at www.nsls.ed.gov. For more information about your Federal Student Aid PIN, go to www.pin.ed.gov. If you feel that the amounts listed on this page are incorrect, or you have other questions related to a loan, you should contact the loan servicer indicated on the NSLDS web site. You can obtain general information about each of the types of loans that are listed below by visiting our studentaid.ed.gov web site.

Note that the 'Subsidized' and 'Unsubsidized' amounts include the appropriate portions of any Consolidation Loans you may have. If there is an amount listed for 'FFEL Unallocated Consolidation Loans' it is because we could not determine whether those balances were subsidized or unsubsidized.

Remember you are responsible for repaying all of the amounts that you borrow, plus interest. As a general rule, with an assumed interest rate of 5%, the monthly payment amount over a ten-year repayment period would be approximately \$10.61 for every \$1,000 that you borrowed. Of course your actual repayment amount will depend upon how much you borrow, the interest rate when you enter repayment, and how long your repayment term is.

Total Amount of Loans Outstanding -

FFEL (Bank Loans) and/or Direct Loans:	Total Principal Balance:	Remaining Amount to Be Disbursed to You, if Any:	Total:
Subsidized Loans:	\$ 123,456	\$ 123,456	\$ 123,456
Unsubsidized Loans:	\$ 123,456	\$ 123,456	\$ 123,456
FFEL Unallocated Consolidation Loans:	\$ 123,456	\$ 123,456	\$ 123,456
Total Amount of Loans Outstanding:	\$ 123,456	\$ 123,456	\$ 123,456
Federal Perkins Loans:			
Total Outstanding Principal Balance:	\$ 123,456		
2007-2008 Award Year Loan Amount:	\$ 123,456		

You may need this information to answer Questions 23, 25 and 26 on pages 5 and 6.**Codes for Question 23: TYPE OF DEGREE/CERTIFICATE**

- 1 - 1st Bachelor's degree
- 2 - 2nd Bachelor's degree
- 3 - Associate degree (occupational or technical program)
- 4 - Associate degree (general education or transfer program)
- 5 - Certificate or diploma for completing an occupational, technical, or educational program less than two years
- 6 - Certificate or diploma for completing an occupational, technical, or educational program of at least two years
- 7 - Teaching credential program (non-degree program)
- 8 - Graduate or professional degree
- 9 - Other/Undecided

Codes for Question 25: ENROLLMENT STATUS

- 1 - Full Time
- 2 - Three-Quarter Time
- 3 - Half Time
- 4 - Less Than Half Time
- 5 - Don't Know

Codes for Question 26: STUDENT AID TYPES

- 1 - Work-study (Student aid that you earn through work)
- 2 - Student loans (which you must pay back)
- 3 - Both work-study and student loans
- 4 - Neither
- 5 - Don't Know

If you need a copy of the worksheets used to answer questions 40-42 or 84-86, you can go to ED's web site (www.fafsa.ed.gov/worksheet.htm).

X9XX999999 999

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1 2 3 4 5 6 7 8 9 S T 0 1

2007-2008 Student Aid Report (SAR)

OMB No. 1845-0008

Check your SAR

- 13a If you find a mistake put the correct answer in the boxes or completely fill in an oval (example: ●).
- 13b Look for arrows (→ or ↖) in the area next to your information. For these items, give us a new answer, or if your current answer is correct, rewrite the same information exactly.
- 13c If you want to delete an answer, draw a line through your answer and through the empty box or oval (example:

10. Permanent Home Phone Number	301	555	1234
---------------------------------	-----	-----	------

).
- 13d Use your PIN to make corrections online at www.fafsa.ed.gov or send in pages 5-8 of this form.

Processed: 06/27/2007

123-45-6789 ST-01 DRN: 2401

Step One: You (The Student)

1. Last Name STUDENT	2. First Name CHRISTOPHER	3. Middle Initial E			
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: center;">FOR INFORMATION ONLY</td> <td style="width: 33%; text-align: center;">DO NOT SUBMIT</td> <td style="width: 33%;"></td> </tr> </table>			FOR INFORMATION ONLY	DO NOT SUBMIT	
FOR INFORMATION ONLY	DO NOT SUBMIT				
4. Permanent Street Address 201 MAIN STREET					
5. City IOWA CITY					
6. State Abbreviation IA		7. ZIP Code 52317			
8. Social Security Number 123-45-6789	9. Date of Birth (BLANK) ↖ / / 1 9	10. Permanent Home Phone Number (319)555-1234			
11. Driver's License Number STA7983-IA-0000123008	12. Driver's License State Abbreviation IA				
We will use this e-mail address to correspond with you. You will receive your SAR information through a secure link on the internet. We will only share this address with the schools you list on the form and your state. Leave blank to receive information through regular mail.					
13. Student's E-mail Address CHRISTOPHERSTUDENT@UNIVMD.COLLGPRK.EDU					
14. Citizenship Status U.S. CITIZEN U.S. Citizen <input type="radio"/> Eligible Noncitizen <input type="radio"/> Neither <input type="radio"/>					
15. Alien Registration Number A					
16. Marital Status BLANK → Single, Divorced or Widowed <input type="radio"/> Married/Remarried <input type="radio"/> Separated <input type="radio"/>					
17. Date of Marital Status Use MM/YYYY format (e.g., 03/1980)					
18. State of Legal Residence Abbreviation IA		21. Are you male? YES Yes <input type="radio"/> No <input type="radio"/>			
19. Did you become a legal resident of this state before January 1, 2002? YES Yes <input type="radio"/> No <input type="radio"/>		22. If you are male (age 18-25) and not registered, answer "Yes" and Selective Service will register you. YES Yes <input type="radio"/> No <input type="radio"/>			
20. If you answered "No" to question 19, date you became a legal resident.		23. Type of Degree/Certificate 1ST BA Enter Code from Instructions			

X9XX999999 999

PAGE 5 OF 8

You Told Us	Write in Information for New or Corrected Items only.	You Told Us	Write in Information for New or Corrected Items only.
24. Grade Level in College in 2007-2008? 1ST PREV ATTENDED	1st Never Attended..... <input type="radio"/> 1st Previously Attended..... <input type="radio"/> 2nd/Sophomore..... <input type="radio"/> 3rd/Junior..... <input type="radio"/> 4th/Senior..... <input type="radio"/> 5th or More..... <input type="radio"/> 1st Yr. Graduate/Professional <input type="radio"/> Cont. Graduate/Professional. <input type="radio"/>	26. First Bachelor's Degree by 7-1-2007? YES	Yes <input type="radio"/> No <input type="radio"/>
25. Enrollment Status in 2007 - 2008 FULL TIME	<input type="checkbox"/> Enter Code from Instructions	29. Father's Educational Level HIGH SCHOOL	Middle school/Jr. High <input type="radio"/> High school..... <input type="radio"/> College or beyond..... <input type="radio"/> Other/unknown..... <input type="radio"/>
26. What Student Aid Types Interest You? WORK-STUDY	<input type="checkbox"/> Enter Code from Instructions	30. Mother's Educational Level COLLEGE	Middle school/Jr. High <input type="radio"/> High school..... <input type="radio"/> College or beyond..... <input type="radio"/> Other/unknown..... <input type="radio"/>
27. High School Diploma or GED? YES	Yes <input type="radio"/> No <input type="radio"/>	31. Drug Conviction Affecting Eligibility? (BLANK)	No..... <input type="radio"/> Yes (Part-Year)..... <input type="radio"/> Yes/Don't Know..... <input type="radio"/>

Step Two: 2006 Student (and Spouse) Income and Assets

For 32-45, report your (the student's) income and assets. If you are married as of today, report your and your spouse's income and assets, even if you were not married in 2006. Ignore references to "spouse" if you are currently single, separated, divorced, or widowed. Remember to completely fill in the oval as follows: ●

For 38-39, answer the questions whether or not you filed a tax return. This information may be on your W-2 forms, or on IRS Form 1040-lines 7+12+18 + Box 14 of IRS Schedule K-1 (Form 1055); 1040A-line 7; or 1040EZ-line 1.

32. Filed 2006 Income Tax Return ALREADY COMPLETED	Have already completed..... <input type="radio"/> Will file, have not yet completed..... <input type="radio"/> Not going to file..... <input type="radio"/> (Skip to question 38)	38. Student's Income Earned from Work \$ (999,999 ASSUMED)	\$ [] [] , [] []
33. Type of 2006 Tax Form Used 1040	A. IRS 1040..... <input type="radio"/> B. IRS 1040A or 1040EZ..... <input type="radio"/> C. A foreign tax return..... <input type="radio"/> D. A tax return with Puerto Rico, a U.S. Territory or Freely Associated State..... <input type="radio"/>	39. Spouse's Income Earned from Work \$ (999,999 ASSUMED)	\$ [] [] , [] []
34. If you filed or will file a 1040, were you eligible to file a 1040A or 1040EZ? NO	Yes <input type="radio"/> No <input type="radio"/> Don't Know <input type="radio"/>	40. Amount from FAFSA Worksheet A \$ 12,345	\$ [] [] , [] []
For 35-47, if the answer is zero or the question does not apply to you, enter 0. Report dollar amounts (such as \$12,356.00) like this: EXAMPLE \$ [] [] , [] [] [] [] (no cents).		41. Amount from FAFSA Worksheet B \$ 12,345	\$ [] [] , [] []
35. Adjusted Gross Income from IRS Form (IRS Form 1040-line 37; 1040A-line 21; or 1040EZ-line 4.) \$ (999,999 ASSUMED)	\$ [] [] , [] []	42. Amount from FAFSA Worksheet C \$ 12,345	\$ [] [] , [] []
36. U.S. Income Tax Paid from IRS Form (IRS Form 1040-line 57; 1040A-line 35; or 1040EZ-line 13.) \$ (99,999 ASSUMED)	\$ [] [] , [] []	43. Cash, Savings, and Checking \$ 123,456	\$ [] [] [] , [] [] []
37. Exemptions Claimed from IRS Form (1040-line 6d; 1040A-line 6d; for Form 1040EZ see page 2.) 02	[] []	44. Net Worth of Investments \$ 123,456	\$ [] [] [] , [] [] []
		45. Net Worth of Businesses/Investment Farms \$ 123,456	\$ [] [] [] , [] [] []
		46. How Many Months VA Education Benefits Received? 12	[] []
		47. Monthly VA Benefits Amount \$ 1,234	\$ [] [] , [] [] []

Step Three: Student Status For 48 - 55 write in information for New or Corrected Items only.

48. Born Before 1-1-1904? NO (YES ASSUMED)	Yes <input type="radio"/> No <input type="radio"/>	52. Have dependents other than children or spouse? YES	Yes <input type="radio"/> No <input type="radio"/>
49. Working on a master's or doctorate program in 2007-2008? NO (YES ASSUMED)	Yes <input type="radio"/> No <input type="radio"/>	53. Are your parents deceased, or were you (until age 18) a Ward/Dependent of Court? YES	Yes <input type="radio"/> No <input type="radio"/>
50. Are you married? (YES ASSUMED)	Yes <input type="radio"/> No <input type="radio"/>	54. Are you on active duty in U.S. Armed Forces? YES	Yes <input type="radio"/> No <input type="radio"/>
51. Have children who receive more than half of their support from you? NO	Yes <input type="radio"/> No <input type="radio"/>	55. Are you a veteran of U.S. Armed Forces? NO	Yes <input type="radio"/> No <input type="radio"/>

DRN: 2401

Step Four: 2006 Parental Information

Complete this section if you (the student) answered "No" to all questions in Step Three. If you do not live with your two parents, then provide information about the parent you lived with most during the past year (if that parent is married, provide information about the stepmother or stepfather to whom that parent is married).

56. Parents' Marital Status MARRIED/REARRIED	Married/Remarried <input type="radio"/> Single..... <input type="radio"/> Divorced/Separated <input type="radio"/> Widowed..... <input type="radio"/>	57. Date of Marital Status	
58. Your Father's/Stepfather's Social Security Number XXX-XX-6789	59. Your Father's/Stepfather's Last Name FULLLASTNAMETEST	60. First Initial E	61. Father's/Stepfather's Date of Birth APRIL 06, 1963
62. Your Mother's/Stepmother's Social Security Number XXX-XX-6789	63. Your Mother's/Stepmother's Last Name FULLLASTNAMETEST	64. First Initial E	65. Mother's/Stepmother's Date of Birth APRIL 03, 1963
66. Parents' number of family members in 2007-2008 (12 ASSUMED)		78. If your parents filed or will file a 1040, were they eligible to file a 1040A or 1040EZ? NO	Yes..... <input type="radio"/> No..... <input type="radio"/> Don't Know <input type="radio"/>
67. Parents' number of family members in college in 2007-2008 (2 ASSUMED)		For 79-89, if the answer is zero or the question does not apply, enter 0. Report dollar amounts without cents. For 82-83, this information may be on W-2 forms, or on IRS Form 1040-lines 7+12+18 + Box 14 of IRS Schedule K-1 (Form 1065); 1040A-line 7; or 1040EZ-line 1.	
68. Parents' state of legal residence MD		79. Adjusted Gross income from IRS Form 1040 \$ 123,456	
69. Parent legal resident of the state before January 1, 2002? NO	Yes <input type="radio"/> No <input type="radio"/>	80. U.S. Income Tax Paid \$ 123,456	
70. If "No" to question 69, enter the date parent became legal resident. OCTOBER 1996	Use MM/YYYY format (e.g., 03/1980)	81. Exemptions Claimed 03	
71. Parent received Supplemental Security Income (SSI)? YES	Yes <input type="radio"/> No <input type="radio"/>	82. Father's/Stepfather's Income Earned from Work \$ 123,456	
72. Parent received food stamps? YES	Yes <input type="radio"/> No <input type="radio"/>	83. Mother's/Stepmother's Income Earned from Work \$ 123,456	
73. Parent received free/reduced price lunch? YES	Yes <input type="radio"/> No <input type="radio"/>	84. Amount from FAFSA Worksheet A \$ 12,345	
74. Parent received Temporary Assistance for Needy Families (TANF)? YES	Yes <input type="radio"/> No <input type="radio"/>	85. Amount from FAFSA Worksheet B \$ 12,345	
75. Parent received Nutrition Program for Women, Infants and Children (WIC)? YES	Yes <input type="radio"/> No <input type="radio"/>	86. Amount from FAFSA Worksheet C \$	
76. Filed 2006 Income Tax Return WILL FILE	Have already completed <input type="radio"/> Will file, have not yet completed..... <input type="radio"/> Not going to file..... <input type="radio"/>	87. Cash, Savings, and Checking \$ 123,456	
77. Type of 2006 Tax Form Used 1040	A. IRS 1040..... <input type="radio"/> B. IRS 1040A or 1040EZ..... <input type="radio"/> C. A foreign tax return..... <input type="radio"/> D. A tax return with Puerto Rico, a U.S. Territory or Freely Associated State..... <input type="radio"/>	88. Net Worth of Investments \$ 123,456	
		89. Net Worth of Businesses/Investment Farms \$ 123,456	

Step Five: Student's Household Information

90. Number of Family Members in 2007-2008
02

91. Number in College in 2007-2008
2

92. Student received Supplemental Security Income (SSI)?
YES Yes No

93. Student received food stamps?
YES Yes No

94. Student received free/reduced price lunch?
YES Yes No

95. Student received Temporary Assistance for Needy Families (TANF)?
YES Yes No

96. Student received Nutrition Program for Women, Infants and Children (WIC)?
YES Yes No

Housing Plans:
1 -- on campus
2 -- off campus
3 -- with parent

Step Six: Student's School Information
You Told Us

97.a First College Name, City and State
NEW Federal School Code or NEW College Name, City, State
ABCDEFGHIJKLMNORSTUVWXYZ
ABCDEFGHIJKLMNORSTUVWXYZ

97.b Housing Plans
OFF CAMPUS

97.c Second College Name, City and State
ABCDEFGHIJKLMNORSTUVWXYZ
ABCDEFGHIJKLMNORSTUVWXYZ

97.d Housing Plans
OFF CAMPUS

97.e Third College Name, City and State
ABCDEFGHIJKLMNORSTUVWXYZ
ABCDEFGHIJKLMNORSTUVWXYZ

97.f Housing Plans
OFF CAMPUS

97.g Fourth College Name, City and State
ABCDEFGHIJKLMNORSTUVWXYZ
ABCDEFGHIJKLMNORSTUVWXYZ

97.h Housing Plans
OFF CAMPUS

Your FAFSA information was sent to all schools that you listed although they are not all shown here. To see all of the schools you listed go to www.fafsa.ed.gov and select "View and Print Your Student Aid Report".

98. Date Completed
JANUARY 10, 2007 DO NOT CORRECT

99. Signed By?
STUDENT DO NOT CORRECT

100. Preparer's Social Security Number
REPORTED

101. Preparer's EIN
REPORTED

102. Preparer's Signature
SIGNED

If this form was filled out by someone other than you, your spouse, or your parent(s), that person must complete this part.

Application Receipt Date: 01/15/2007

Parent's E-mail Address: CHRISTOPHER.E.STUDENTS.MOTHER@HOME.TESTDOM.COM

Step Seven: Please read, sign, and date.
You must read and sign this Certification.

Certification:
All of the information on this SAR is true and complete to the best of my knowledge. If I am asked, I agree to give proof that my information is correct. The proof might include a copy of the 2006 U.S. Income Tax Form filed by me or my family. If I sign any document related to the federal student aid programs electronically using a Personal Identification Number (PIN), I certify that I am the person identified by the PIN and have not disclosed that PIN to anyone else. I understand that if I purposely give false or misleading information on this SAR, I may be subject up to a \$20,000 fine, a prison sentence, or both.

If you made no changes:

- Do NOT send your SAR to the address given on this page.
- Follow the instructions on your SAR. You may need to contact your school.

If you made changes:

- You may make corrections from the U.S. Department of Education's web site (www.fafsa.ed.gov). You must use your PIN to access your record.

OR

- Read the certification statement above and sign to the right.

Send pages 5, 6 to: Federal Student Aid Programs
P.O. Box 7004
Mt. Vernon, IL 62664-0074

Student Signature (Required to process your application. Sign in box below.)

1 Student Date

CHRISTOPHER E. STUDENT

Parent Signature (one parent whose information is provided in Step Four)

2 Parent Date

Data Entry Use Only

P * L E

If you need another copy of your SAR:

- Call the Federal Student Aid Information Center at 1-800-4-FED-AID (1-800-433-3243)

Appendix C: Technical Information

Data

Student aid statistics and simulations are based on restricted-use, individual-level data from the nationally representative 2003–04 NPSAS (ED 2005a), which includes data from the FAFSA for 56,440 undergraduate federal aid applicants. We dropped the 8 percent of observations that were missing key variables such as the EFC, family income, and family size, leaving a sample of 51,822 undergraduates.

Calculating Aid Eligibility in the Current System

Throughout the paper, we used the EFC and Pell formulas and rules as outlined in the 960-page federal student aid handbook (ED 2003a). The EFC is the aid system’s measure of each family’s ability to pay for college. In the current aid system, it is used to calculate eligibility for the Pell Grant and Stafford Loan, as well as other, smaller aid programs.

The federal EFC formula for dependent students adds together parents’ adjusted gross income (or W-2 earnings for non-tax-filers) and other income. It then subtracts a number of allowances, of which the largest is taxes paid, and adds in 12 percent of parents’ assets over an asset protection allowance that depends on parents’ ages and marital status. The resulting figure is called parents’ adjusted available income (AAI). An assessment rate from 22 to 47 percent is applied to this number, and the result is then divided by the number of children in college to obtain the parents’ expected contribution. Thirty-five percent of any student assets are added to this figure to yield the student’s expected contribution. Students have no asset protection allowance.

The expected contribution for independent students with children is calculated much like that of parents of dependent children (see previous paragraph). The expected contribution of independent

students without children is calculated much like that of dependent students (see previous paragraph), but with higher income and asset allowances. The total contribution is divided by the number of family members in college to calculate the EFC.

For both dependent and independent students, the Pell Grant is currently awarded by subtracting the EFC from the maximum Pell Grant (\$4,050). Following federal rules, grants between \$0 and \$199 are rounded down to \$0, and grants between \$200 and \$399 are rounded up to \$400. Pell Grants of over \$2,700 are adjusted downward for students at very-low-tuition institutions (tuition and fees of less than \$675 in 2003–04) using what is called the tuition sensitivity adjustment. Pell Grants are also reduced if the calculated amount exceeds the cost of attendance at the student’s institution (which is provided in NPSAS, as reported by the schools). Among full-time students in our sample, the tuition sensitivity adjustment applied to only 35 students and the cost of attendance adjustment applied to none.

Pell awards are prorated for those who go to college part time, which includes two-thirds of independent students. While we do an excellent job replicating the EFC for these students (as we do for full-time students), we had difficulty replicating the exact, prorated Pell Grant. Instructions on how to prorate Pell Grants for part-time students fill nearly 50 pages (!) in the federal student aid handbook (ED 2003a), and the data required for some of these calculations are lacking in NPSAS. While we can replicate actual Pell awards within \$100 for 90 percent of full-time students, we can do the same for only 45 percent of part-time students (though we can replicate 70 percent of such awards within \$500). In many cases (12 percent of part-time students), we estimate a nonzero award while there is no Pell actually reported in the data. Hence, our cost estimates regarding Pell Grants for part-time students are somewhat less precise than those for full-time students.

Authors

SUSAN M. DYNARSKI, Associate Professor of Public Policy at Harvard University's Kennedy School of Government, studies and teaches the economics of education and tax policy. She has a special interest in the interaction of inequality and higher education. She has been a Faculty Research Fellow at the National Bureau of Economic Research since 1999 and is a Visiting Fellow at Princeton University in 2005-06. Dynarski has studied the impact of grants and loans on college attendance; the impact of state policy on college completion rates; and the distributional aspects of college savings incentives. She has testified on her research to the United States Senate and the President's Commission on Tax Reform. Her research has been published in academic and policy journals, as well as featured in the popular media. Dynarski earned an A.B. in Social Studies at Harvard College, a Master's in Public Policy at Harvard University and a Ph.D. in economics at MIT.

JUDITH SCOTT-CLAYTON is a doctoral candidate in Public Policy at Harvard University's Kennedy School of Government, where her primary research fields are labor economics and public finance. Her current research focuses on the economics of higher education, and its role in addressing or exacerbating inequalities in educational attainment and labor market outcomes. With Professor Susan Dynarski, she has examined the equity and efficiency costs of complexity in the federal system for student financial aid, and has proposed strategies for simplification. Her other research examines the causes and consequences of a large increase over the past 30 years in the amount of time college students spend working while still enrolled in school. Her academic study is funded by a National Science Foundation Graduate Research Fellowship. Originally from Indianapolis, Indiana, Judith graduated summa cum laude from Wellesley College in 2000.

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