

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



EACH YEAR, in an effort to increase college attendance, the federal government provides college aid worth approximately \$16 billion through Pell grants and the Hope and Lifetime Learning tax credits. The idea behind this aid is straightforward: more students, especially those from low- and middle-income families, would go to college if they could afford it. But while in theory federal student aid should increase college enrollment, there is scant evidence that the current system does so.

It doesn't have to be this way. Other programs have been effective at increasing college enrollment rates. What distinguishes these programs is that they are simple and deliver information early enough to affect student decisions. In contrast, the federal student aid system puts up a barrier of complicated paperwork and doesn't tell students how much aid they are eligible for until after they have had to decide whether to apply to college.

In a discussion paper for The Hamilton Project, Susan M. Dynarski and Judith Scott-Clayton of Harvard University propose a dramatically simplified aid process that could increase college enrollment by as much as 7.4 percentage points among the grant-eligible population. Under their proposal, students could determine their grant aid eligibility by consulting a simple table that is small enough to fit on a postcard. The application process would be as easy as checking a box on the family's regular tax returns.

## THE CHALLENGE

Rising college tuition costs are a major concern for U.S. families. While a college education is a very smart long-term investment, low- and middle-income families face difficulties paying for college in the short term. Thus, even though myriad studies reveal that investment in a college education provides returns that far outweigh its costs (about \$440,000, on average, in higher wages over the graduate's lifetime), students may be deterred from going to college because of short-term financial constraints. The federal student aid system is designed to help families overcome these financial constraints. Unfortunately, the current system flunks the most basic test: there is scant evidence that it increases college enrollment rates.

We need aid to work: college matriculation and graduation rates are low among low-income students. Only 6 percent of students from low socioeconomic status families achieve a bachelor's degree, compared with 40 percent of students from high socioeconomic status families. Low attendance among poor families is rooted in multiple causes, including weak academic preparation. But even among well-prepared students, these educational attainment gaps persist, suggesting that financial concerns are part of the problem.

“There is scant evidence that the current federal student aid system increases enrollment rates.”

One could argue whether the federal government gives out enough financial aid, but the problem goes even deeper: the aid that the federal government does give out has little, if any, effect on students' decisions to go to college. Key reasons for this failing are that the information about aid is delivered too late to influence students, and that the aid application process requires students and their families to wade through an unnecessarily complex application process.

Consider the low- or middle-income parents of a high school student, concerned that college is beyond their financial reach. This family won't get definitive information about aid eligibility until *after* their child has applied to and been admitted to college, in the spring of the child's senior year of high school. Even worse, the tax credits are calculated as much as sixteen months after the student has enrolled and paid tuition. The poor timing means that the aid dollars do little to help persuade this student to apply to college.

Now imagine that this family decides that it is worth taking the time and effort to apply for both college and aid, despite not knowing whether college will be affordable. They then enter a maze of paperwork. In order to figure out how much aid they are eligible for, they must file the Free Application for Federal Student Aid (FAFSA), which at five pages and 127 questions is longer and more complicated than the typical federal tax return, and is much longer than the simplified tax forms filed by most families who are eligible for federal grant aid. This obstacle may be particularly imposing for parents who are not college educated or who might not speak English well or have an Internet connection in their home. Again, many prospective college students who are on the fence will be discouraged and will decide it is not worth the trouble to apply. In the end, poor timing and complexity conspire to waste human potential.

## A NEW APPROACH

Susan Dynarski and Judith Scott-Clayton propose a dramatically simple fix to this broken system: design the student aid formula to be so short and simple that it can be put on a postcard, and do away with the current application process. Dynarski and Scott-Clayton acknowledge that the length and detail of the FAFSA is meant to target aid to those who need it most, but their research shows that most of the complexity in the FAFSA doesn't make much of a difference in determining who gets how much aid. Through detailed statistical analyses, Dynarski and Scott-Clayton show that the distribution of aid would change little even if the FAFSA were reduced to just a few questions. For example, if 90 percent of the questions were thrown out, the average Pell grant would change by only \$54 per year. Reducing the number of questions would both simplify the

application process and allow aid information to be delivered early.

Dynarski and Scott-Clayton's proposal would replace the current federal grant aid and tax credits with a simplified grant system, under which aid would be determined by family income and the number of children in the household. Because the formula would be so simple, aid eligibility could even be reproduced on a postcard (Exhibit 1). That postcard could be mailed to families and posted in schools, so that the clear availability of aid dollars would encourage students to prepare for and apply to college. Families would apply for aid simply by checking off a box on their income tax forms.

The new system would be simple and predictable, allowing families to easily determine their eligibility well before their child applies to college. The benefits would be numerous and large.

### 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.

## Benefits

**Increase college enrollment.** Research suggests that aid programs are most effective when they are simple and provide clear, early information. One prominent example was the Social Security Student Benefit Program (discontinued in 1981), under which the children of Social Security beneficiaries continued to receive benefits past their usual expiration at age eighteen as long as they enrolled in col-

lege. The program was simple: the Social Security Administration sent a letter to child beneficiaries shortly before their eighteenth birthdays asking if they intended to go to college. If the child replied that she did, and if this was confirmed by her college registrar, she kept getting her checks. The program provided early information, because the student knew how much money she would get from prior experience. And it was effective, substantially increasing college enrollment rates among benefit-eligible students.

### Proposal Highlights

#### The Challenge

- College entry and completion rates are low among low-income students, even those who are well prepared for college.
- Federal college aid programs do not appear to affect students' decisions about whether to go to college: their complexity discourages some students, and the information arrives too late to help others.

#### A New Approach

- Susan Dynarski and Judith Scott-Clayton propose simplifying the aid formula, eliminating the need for a separate application for aid—families would only need to check a box on their tax forms—and allowing aid to be easily estimated and publicized years ahead of time.
- Simplification could increase college enrollment rates up to 7.4 percentage points among the grant-eligible population at an added cost of \$4 billion to \$9 billion.

Because it is simple and predictable, the financial aid system proposed by Dynarski and Scott-Clayton would be more effective than the current system at increasing college enrollment. The authors estimate that, if their proposed program had the same effects as other simple college aid programs, it would increase enrollment among the grant-eligible population by between 5.6 and 7.4 percentage points. The effects would likely be concentrated among students whose families earn less than \$50,000, since they would receive the largest grants and their attendance rates have the most room for improvement.

**Stop penalizing work.** The current aid system effectively penalizes students who work to put themselves through college: it reduces their benefits by \$0.50 for every \$1 they earn above a certain low threshold. This amounts to an effective tax of 50 percent on individuals who have relatively low incomes. It especially hurts students from low-income families, who tend to work more, and older, independent students—an increasingly large group of students—who may work a full-time job while in school. The reformed system would eliminate the student work penalty.

**Families get funds when they need them.** Currently, families receive their tax credits as much as sixteen months after they have paid for college tuition. This hurts families who don't have significant

savings and either can't borrow or have to borrow at high rates in order to pay tuition. The new system would turn all tax credits into grants and deliver the money to schools at the time of enrollment, eliminating this problem.

**Less paperwork.** Since families won't have to fill out a separate form for financial aid, they'll save a lot of time—a total of almost 100 million hours a year, the equivalent of about 50,000 full-time jobs. In addition, if colleges don't have to audit the complex FAFSAs—they currently have to audit 30 percent of them—they would save an estimated \$432 million per year in administrative costs.

**Single program.** The current system of college financial aid shunts low-income families into one program (the Pell Grants) and middle- and upper-income families into another (the education tax credits). Funding for the Pell has stagnated, while tax benefits for middle-class families have skyrocketed. The new approach would combine the Pell Grants 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.

## Cost

Dynarski and Scott-Clayton estimate that their proposal would cost \$4 billion to \$9 billion per year more than the current aid program. The increased costs would arise from three sources: First, the authors note that implementing the new formula in a revenue-neutral fashion would create some winners (students who get more aid than they did before) and some losers (students who get less). To avoid having any group of students lose significant amounts, they propose increasing the amount of aid from \$15.7 billion to \$18.6 billion.

At five pages and 127 questions, the FAFSA is longer and more complicated than the typical tax form.

Second, Dynarski and Scott-Clayton estimate that the simplified formula is likely to increase by about 6 percentage points the number of grant-eligible young people who accept aid awards and go to school; as a result, costs would rise to \$20.3 billion. 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.

Finally, the simplified program is likely to encourage more students to take up funds for which they are already eligible. While researchers agree that the take up rate for Pell grants and the tax credits is substantially below 100 percent, there is considerable uncertainty about the extent to which students currently forgo aid. While pointing out the uncertainty that surrounds their estimate, Dynarski and Scott-Clayton argue that their proposed simplification might increase the take-up rate to 85 percent, and raise the final cost of the new program to \$25 billion dollars, about \$9 billion more than the current program costs.

## Implementation Questions

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

Very few households have both substantial assets and incomes that are low enough to make them

A dramatically simple fix:  
make the student aid formula  
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and mailed to high school  
students across the country.

eligible for grant aid. This is especially true because, in the current formula, the most commonly held assets—homes and retirement funds—are protected (i.e., not included in the formula), and assets beyond those only begin to count if they are above a certain threshold (up to \$54,500) that increases with the age of the parents. Thus, simplification will give a small amount of money to families who may not need it—but the benefit is that eliminating assets from the formula allows financial aid to be run through the tax system, and therefore eliminates the need for a separate application process. Including assets is also problematic because it discourages and penalizes saving: two families who have had the same income over recent years will be treated differently, with the one that scrimped and saved effectively penalized for its prudence.

#### **How will states react to federal simplification?**

The authors' simplification proposal would have the greatest effect if states adopted parallel reforms. Despite the potential benefits of state action, inertia or other factors may lead some states to continue to use complicated aid forms. If every state were to create its own aid form to replace the FAFSA, this could undo some of the benefits of federal simplification.

To prevent this outcome, the authors suggest that the federal government consider matching state financial aid grants that are determined using only the data required in their proposal.

#### **How will colleges react to federal simplification?**

The authors also note that colleges might not cooperate with the new federal system, most likely by demanding that students fill out complicated aid forms in order to get institutional aid, which is paid for by the colleges themselves. Again, some of the benefits of the proposed simplification would be undone if every school created its own aid form to replace the FAFSA: students would then confront many forms instead of just one.

Three quarters of college students attend community colleges or state universities. Very few of them receive aid from their schools; for them, government aid is typically the only aid. Still, Dynarski and Scott-Clayton recommend that the federal government encourage these schools to use the simplified formula—for example, by offering a bonus to their students' federal grant aid if they do so. In addition, they note that aid simplification could save these schools significant amounts of time and money that could be put to better use.

#### **What about loans?**

The grants proposed for the lowest income groups are sufficient to cover tuition at community colleges and at many public universities. They will not cover living expenses, or tuition at the more expensive public universities. As is the case now, students would need loans to cover the shortfall. Dynarski and Scott-Clayton emphasize that the subsidized Stafford loan system could be improved through simplification similar to their grant proposal, although they would prefer an income-contingent

loan program similar to those operating in Australia, New Zealand, and the United Kingdom. In these programs, graduates 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 outcomes that would saddle them with unsustainable loan payments.

## CONCLUSION

Simple, effective college aid programs can be a powerful tool for increasing college enrollment rates, thereby strengthening long-term economic growth and broadening the benefits of that growth. Unfortunately, the current federal student aid program is neither simple nor effective. Indeed, its complexity actually screens out students who are teetering on the margin of college entry. To fix this broken system, Susan Dynarski and Judith Scott-Clayton offer a dramatically simplified system of financial aid that promises to significantly increase college enrollment rates in America.

## Learn More About This Proposal

This policy brief is based on The Hamilton Project discussion paper, *College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid*, which was authored by:

### SUSAN M. DYNARSKI

**Associate Professor of Public Policy, Harvard University**

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.

### JUDITH SCOTT-CLAYTON

**Doctoral candidate in Public Policy, Harvard University**

Scott-Clayton's current research focuses on the economics of higher education, and its role in addressing or exacerbating inequalities in educational attainment and labor market outcomes.

## Additional Hamilton Project Proposals

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- **[Success by Ten: Intervening Early, Often, and Effectively in the Education of Young Children](#)**

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**The Project is named after Alexander Hamilton**, the nation's first treasury secretary, who laid the foundation for the modern American economy. Consistent with the guiding principles of the Project, Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces.

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