

# FAFSA Reform and the Free College Movement

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# Introduction

About 19 million people submit a Free Application for Federal Student Aid (FAFSA) each year. The widespread reliance on the FAFSA has spurred efforts to simplify and improve the application process and associated aid formula.

But the interest in free college programs in the past five years raises the question: how necessary will the FAFSA, and reforms to the FAFSA, be if state or federal higher education move away from the heavy reliance on means-tested financial aid and toward a free college system?

Paper available here: <https://tcf.org/content/report/fafsa-free-college-movement/>



# Roadmap

- Goals and design of free college programs
  - State and federal programs
  - How they relate to the FAFSA and means-tested aid.
- Proposed FAFSA reforms and free college
- New recommendations for FAFSA reforms in the context of free college.



# Some Current Challenges Free College Programs Attempt to Address

- + Underfunding of means-tested aid often results in high, unmanageable, and inequitably held student debt.
- + High costs prevent students from enrolling or lead students to drop out.
- + Confusion about the actual cost of college in the meanstested aid model leads students not to apply for college or financial aid.

These hurdles are especially challenging for many low -income and first -generation students , who may have less support and information in the financial aid application process.



# Free College State Programs

Recent programs (post2015) are mostly last-dollar community college programs.

- + States pay the tuition balance left after Pell Grants are applied.
- + Eligibility limitations based on enrollment intensity, age, or area of study exclude the vast majority of students.

The message of the free college promise can significantly impact the enrollment of low-income students. But in some programs, the policy design choices mean that:

- + Dollars may disproportionately go to upper-middle-income students.
- + The program does not address non-tuition cost barriers.
- + It excludes part-time and older students.



# Free College State Programs and FAFSA

State programs still rely on FAFSA.

- + FAFSA completion is often mandatory to verify participant's eligibility and to make "last dollar" determination.
- + States may use FAFSA data (such as EFC) to assess eligibility.
- + Students must also complete the FAFSA to get grants and loans to help pay for non-tuition costs (i.e., housing, transportation, health care, etc.).

Exception: California College Promise Grant

- + Accepts verification of income or qualification for other public benefits in place of a FAFSA.
- + Less than half of community college students in the state who received a fee waiver (equivalent to tuition) completed a FAFSA waiver to qualify.



# Free College Federal Proposals

Federal policymakers have introduced four different bills regarding free or debt-free college guarantee.

- + Proposals from Democratic presidential candidates also featured free tuition benefits.

Proposals are mostly **first-dollar programs** designed as a federal-state match.

- + The federal government covers most of the participants' tuition and states cover the remaining costs.
- + Participants can use other funding sources to cover nontuition costs.

They all rely on the FAFSA, either to determine qualification for funds to cover unmet need, or for non-tuition aid.



# New Reforms Are Necessary

If all goes well under a free college system, more low-income students will enroll in schools that may have otherwise been financially out of reach, making the reliance on the FAFSA critically important.

Missing the opportunity to overhaul the aid process in any free college plan would leave a significant barrier for students who will still rely on means - testing, especially for low -income students in need of non -tuition aid.



# Existing FAFSA Reform Proposals

## 1 One-Time FAFSA

- + Annual FAFSA renewal produces minimal changes in aid eligibility, but 16% of first year students who receive aid do not renew their FAFSA.

## 2 Reduce the Number of Questions

- + Ask for just a few data points (i.e. parental income, parents' marital status, family size, and number of family members in college).

## 3 Eligibility Alignment with Public Benefits

- + Use existing determinations of eligibility for other federal benefits programs as a proxy.

## 4 Negative EFC

- + Identify those with the most need and provide more aid through a Pell Grant expansion.



# Reforms in a Free College World: Recommendations

1

## Drastically Reduce the Number of Questions and Simplify the Award Level of Determination

- + Increase the students who qualify for the maximum Pell Grant.
- + Automatically qualify public benefit recipients for a maximum Pell Grant.

2

## Standardize the Methodology Schools Use to Calculate the Cost of Attendance

- + Research shows these institutions' calculations of nontuition costs are often inaccurate, as current policies incentivizes institutions to set the cost of attendance low.
- + Reduce scenarios where more students enroll in college due to free college, only to find out they cannot afford non-tuition costs.



# Reforms in a Free College World: Recommendations

3

## Allow Families to Provide Current Income Numbers Via Self-Attestation, to be Reconciled During Tax Time

- + Low-income students are proven to rely heavily on processes that allow for simpler statements of income, when available.
- + Would allow families experiencing more recent income dips to provide updated information.
- + Simplified questionnaire would allow for seamless tax reconciliation.

4

## Reduce Reliance on the FAFSA for Non-Tuition Costs

- + Federal proposals could include pilots for location-based, universal non-tuition benefits.

5

## Fix the American Opportunity Tax Credit (AOTC) to Streamline with Pell Grant Aid

- + With tuition covered, federal proposals should also reconcile the new FAFSA process with the AOTC to expand the Pell Grant.
- + At the last, proposals should reform the AOTC to cover non-tuition costs.



# Reforms in a Free College World: Recommendations

6

## Leverage State Support for Simplification

- + States are likely to continue to rely heavily on federal grant aid to meet their promise.
- + A complicated application and verification process may result in lower student enrollment, limiting the effectiveness of the state grant program.

7

## Address Verification Barriers Through State Policy Design

- + States that require applicants to prove their income in the verification process by submitting new documents like income tax returns, 1099s, and W2s create additional barriers for low-income students.
- + Do not require students who get chosen for verification to have to complete the process before receiving their promise grant.



# *Questions?*

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