

## THE NEED TO SIMPLIFY FINANCIAL AID FOR COLLEGE STUDENTS

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In 1965, the Higher Education Act expanded financial aid for U.S. college students, and since then enrollment rates have risen dramatically. But enrollment of low-income students has not kept pace, and gaps in college enrollment between students from high- and low-income families are greater now than they were a generation ago. Uncertainty about the availability of financial aid fuels inequality – as does the sheer complexity of applying for aid. Reforms are needed.

### Why Rising Inequality in College Access is Troubling

All Americans have a stake in broad access to postsecondary education because it fuels economic growth and is a key ingredient for individuals to get ahead. People with college degrees not only earn higher pay – at a historically high rate – they are also more likely to find and keep jobs, receive better employment benefits, smoke less, and vote more.

Financial aid plays an essential role in keeping college accessible. Two-thirds of undergraduates will receive some kind of grant assistance, with over a third getting Pell Grants. In 2012-13, full-time undergraduates received an average of over \$13,000 in aid, including over \$7,190 in grants, nearly \$5,000 in federal loans, and \$1,280 in other assistance including education tax credits and work-study. Of course, even after accounting for aid, attending college is still much more expensive today than it was a generation ago. But taking full advantage of available financial aid can make college much less expensive.

Yet there is strong evidence that qualified students are leaving money on the table. Too many are failing to apply for aid that might help them stay in college until degrees are earned, and some are failing to apply to college at all because they assume they cannot afford it.

### The Complexity of Aid Obscures College Opportunities

More than thirty years of research has shown that providing students with more money for college can improve access. College attendance goes up by three to five percentage points for every \$1,000 decrease in the net price. Unfortunately, many prospective U.S. students do not realize that they can get aid to meet college costs. Everyone finds it challenging to apply to college, but low-income young people, or those who are the first college-goers in their families, can be overwhelmed by having to complete applications and seek financial aid at the same time.

Students often have little idea of what financial assistance they can receive until after they have applied to colleges and been accepted. This is like a car salesman revealing a substantial discount only after a customer has committed to buying the car. Not surprisingly, the result is that discounts mostly go to students who already know they are headed to college. Many of the potential students for whom aid would matter most walk away from the college application process before even learning the true discounted price their families would have to pay.

Details of the financial aid process are also tremendously important. Programs with the most impact tend to have simple, easy-to-understand eligibility rules and application procedures, but the nation's largest college grant program, Pell Grants, requires applicants to submit the lengthy and burdensome "Free Application for Federal Student Aid" before they can find out how much aid they could receive. Recent efforts at simplification have reduced the questions from 127 to 116, but for most households this application remains longer than the income tax form. Even when all the information is filled in, the resulting aid calculation remains hard to understand.

A recent experimental study provided dramatic evidence that simplifying the process matters. In the experiment, randomly chosen low-income families who visited a tax-preparation center received personal help with completing and submitting the Free Application for Federal Student Aid. This simple intervention took less than ten minutes and cost less than \$100 per participant, yet it significantly boosted college enrollment and Pell Grant aid to the lucky families.

### Promising Reforms

Research suggests four promising directions to improve the transparency and predictability of financial aid, and thereby reduce current income gaps in college access and completion.

**Get rid of elaborate aid applications.** Most questions on the federal aid application can be answered with information on family size and earnings already available in official Internal Revenue Service records. As experts have proposed, individuals could learn about aid automatically, after indicating college interest on a tax return or short supplemental form.

**Set aid eligibility for the duration of college.** Currently, students have to reapply for aid each year. Many students fail to reapply while others find, unexpectedly, that their aid level has suddenly changed. Students might be more likely to start and finish a degree if they can predict their eligibility for all expected years of study, not just year by year.

**Help people "navigate" aid and college studies.** Like America's new health reform law, federal financial aid should allocate about five to ten percent of resources for personalized guidance to interested individuals. Research suggests that such aid given by phone, text, or mail could substantially increase enrollment and persistence.

**Support completion, not just enrollment.** Currently, Pell Grant awards max out when students take just 12 credits per term, not enough to complete a degree on time. This also penalizes students who want to finish faster. Grants should let students progress at their own pace.

**Restructure student loan repayments.** Many students need loans in addition to grants, yet loans would be less risky if students and their families knew *before enrolling in college* that they would not have to worry about crippling repayments no matter what jobs they find after graduation. Repayments should be keyed to incomes.

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Read more in Judith Scott-Clayton, "Full Committee Hearing – Ensuring Access to Higher Education: Simplifying Federal Student Aid for Today's College Student," Testimony before the U.S. Senate Committee on Health, Education, Labor and Pensions, November 2013; Judith Scott-Clayton and Sandy Baum, "Redesigning the Pell Grant Program for the Twenty-First Century," Brookings Institution, October 2013; Judith Scott-Clayton, "Information Constraints and Financial Aid Policy," in *Student Financing of Higher Education: A Comparative Perspective*, edited by Donald E. Heller and Claire Callender (Routledge, 2013), 75-97; and Judith Scott-Clayton and Susan M. Dynarski, "College Grants on a Postcard: A Proposal for Simple and Predictable Student Aid," Brookings Institution, February 2007.