Weighing the Costs and Benefits of Complexity in Student Aid

Susan M. Dynarski[*]
Harvard University, Kennedy School of Government
& National Bureau of Economic Research

Judith E. Scott-Clayton[*]
Harvard University, Kennedy School of Government

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A growing body of empirical evidence shows that financial aid can increase college enrollments. Puzzlingly, there is little compelling evidence of the effectiveness of Pell Grants and Stafford Loans, the primary federal student aid programs. Complexity and uncertainty in the aid system may be the culprit. The perspectives of classical and behavioral economics suggest that complexity in the aid system at the very least imposes substantial transaction costs and at worst discourages the target population from applying for student aid. While the bounds on the costs of complexity are wide, we show that its benefits are miniscule. Detailed data from federal student aid applications shows that a radically simplified aid process can reproduce the current distribution of aid using a fraction of the information now collected.

Introduction

The complexity of the federal tax code has been the focus of reform efforts for decades, and has received considerable attention from economists. The federal system for distributing student financial aid is similarly convoluted, yet has received relatively little attention. For the typical household, the aid application (the Free Application for Federal Student Aid, known as the FAFSA) is longer and more complicated than the federal tax return. If complexity burdens those on the margin of college entry, this will blunt the impact of aid on schooling decisions. The aid process is also highly uncertain, with definitive information about aid for college not revealed until the spring of the senior year in high school. Uncertainty about aid could similarly blunt its impact on behavior: high school students most sensitive to cost are unlikely to start down the path to college if they do not know it is affordable.

 Evidence on the behavioral impact of aid supports our hypothesis. While simple, easily communicated aid programs have been shown to have a robust impact on college entry and completion, we have little to no compelling evidence that the traditional forms of student aid (which require a FAFSA) increase schooling for their target populations. Complexity may be the culprit. Simply put, potential college students cannot respond to a price subsidy if they do not know it exists.

We use the perspectives of both classical and behavioral economics to examine the costs of complexity in student financial aid. We estimate that the financial cost of complexity is at least several billion dollars a year. Colleges spend over $2 billion annually on salaries for staff who administer federal financial aid or other aid based on the federal aid formula. We conservatively estimate that the FAFSA takes about ten hours to complete. Ten million FAFSAa are each year; assuming the current, average hourly wage of $17.50, this is a time cost of $1.75 billion per year. Colleges are statutorily required to audit at least 30 percent of these aid applications; at least three million such audits take place annually. By comparison, the Internal

Revenue Service (IRS) audit rate on personal income tax returns is 1.5 percent, or two million audits per year.

The non-financial costs of complexity are much more uncertain. Economic theory and empirical evidence predict that complexity and uncertainty in aid could undermine its ability to affect schooling decisions. A long-standing theoretical and experimental literature suggests that even seemingly minor differences in program design can have profound impacts upon behavior (Kahneman and Tversky, 2000). A burgeoning empirical literature has demonstrated that these predictions hold in real-life situations (Madrian and Shea, 2001).

While the bounds on the costs of complexity are wide, we show that its benefits are conclusively miniscule. With student-level data from the 2003-04 National Postsecondary Student Aid Survey (NPSAS:04), we find that much of the complexity in the aid system does little to improve the targeting of aid. Nearly all of the variation in aid is generated by a handful of the more than 70 data items used in the aid formula. Adjusted gross income (or, for tax non-filers, earnings from work), marital status, family size, and the number of family members in college explain over three-quarters of the variation in federal grant aid. For three-quarters of applicants, this simplified aid formula produces grants within $100 of the grants produced by the current formula. For about 85 percent of students, simulated grants are within $500 of current grants.

The items that drive eligibility—adjusted gross income and family size—are already collected via income tax forms, raising the possibility that students could apply for aid without ever submitting an aid application. A key lesson of our research is that we can substantially reduce complexity and uncertainty in the aid system if we are willing to tolerate minor imperfections in measuring ability to pay. Reducing complexity appears to have little potential downside and improves the likelihood that aid will serve its intended goal: opening the doors of college to those who have the ability but not the means to further their education.

Student Aid in the US

Two programs provide the bulk of federal aid to college students: the Pell Grant and the Stafford Loan. Pell grants average $2,500 per recipient, with a maximum value of $4,050. Pell Grants flow almost exclusively to families with incomes below $40,000 (Stedman, 2003). During the 2004-05 academic year, $13 billion in Pell Grants was delivered to five million students (College Board, 2005). During the same year, $41 billion in loans was delivered to undergraduates through the Stafford Loan program. Half of the Stafford loans distributed are need-based "subsidized" loans, for which the government pays the interest while the student is in college. The other half is "unsubsidized" Stafford loans, for which interest accrues during college. While the unsubsidized loans are provided regardless of need, students must go through the need-determination process to access them. Dependent undergraduates can borrow $2,625 for the first year of college, $3,500 for the second year and $5,500 in each of the next three years.[1] Stafford loans do not require a credit check. Parents can borrow unsubsidized loans up to the cost of college (net of aid) through the federal PLUS program, which does require a credit check and for which interest accrues during college (U.S. Dept. of Education, 2005b).

Evidence on the Impact of Student Aid

Our standard model of human capital unambiguously predicts that subsidizing college costs raises the privately-optimal level of schooling. While the theoretical predictions are clear, it is an empirical question how much a given dollar of subsidy affects behavior. Answering this empirical question is a challenge, since eligibility for subsidies is certainly not random. Rather, aid is offered to students on the basis of characteristics that have their own effect on the

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[1] Beginning in the 2007-08 academic year, loan limits will increase to $3,500 for the first year and $4,500 for the second year.

probability of college attendance. For example, Pell Grants flow to low-income youth. If these students are relatively unlikely to attend college, perhaps because of low levels of parental education or low-quality secondary schooling, then estimates of the effect of aid based on this source of variation in aid will be downwardly biased. Conversely, since many colleges use merit scholarships to attract high-achieving students, the bias on estimates of the effect of aid will, in some cases, be positive. Since many studies in this literature pool all sources of aid into a single variable, it is frequently impossible to sign the bias on a given estimate.

We can attempt to eliminate this bias by controlling for a vector of regressors. Common covariates include measures of financial resources, such as parental income, and measures of individual ability, such as standardized test scores. Whatever the particular empirical strategy or functional form, these studies share the common assumption that controlling for observables can absorb individual differences correlated with schooling decisions and schooling costs. Under plausible conditions, this approach will fail. First, we may not properly model the schooling decision, by omitting relevant variables or including them in the wrong functional form. Second, even if we correctly model the schooling equation, data on relevant characteristics may simply be unavailable. For example, parental wealth affects schooling decisions, both directly and through eligibility for aid, but complete information on parental wealth is rarely available in survey data, especially among adults who have completed their education.

In sum, the omitted variables problem may be unsolvable using standard multiple regression methods. One solution is a randomized, controlled trial, in which aid amounts are randomly assigned to a pool of potential college students. Such an experiment has never been fielded. Alternatively, the analyst can use observational data to study the outcome of a natural, or quasi, experiment, in which a discrete shift in aid policy differentially affects observationally identical individuals. We next describe the evidence from such studies.

Dynarski (2003) takes advantage of variation in grant eligibility induced by the elimination of the Social Security student benefit program in the early Eighties. From 1965 to 1982, the Social Security Administration paid for millions of students to go to college. Under this program, the 18- to 22-year-old children of deceased, disabled or retired Social Security beneficiaries received monthly payments while enrolled full-time in college. The average annual payment in 1980 to the child of a deceased parent was $6,700. At the program's peak, 12 percent of full-time college students aged 18 to 21 were receiving Social Security student benefits.[2]

In 1981, Congress voted to eliminate the program. Enrollment sank rapidly and by the 1984-85 academic year, program spending had dropped by $3 billion. Except for the introduction of the Pell Grant program in the early 1970s, and the various GI Bills, this is the largest and sharpest change in grant aid for college that has ever occurred in the United States. Using difference-in-differences methodology, and proxying for benefit eligibility with the death of a parent during an individual's childhood, Dynarski (2003) finds that the elimination of the Social Security student benefit program reduced college attendance probabilities of the affected group by more than a third. These estimates suggest that an offer of $1,000 in grant aid increases the probability of attending college by about 3.6 percentage points.

A more recent set of policy innovations has provided variation in aid that has proved valuable to researchers. Since the early Nineties, over a dozen states have established broad-based merit aid programs. In 1993, Georgia introduced the Georgia HOPE (Helping Outstanding Pupils Educationally) Scholarship, funded by a state lottery. The program allows free attendance at Georgia's public colleges for state residents maintain at least a B average in high school and college. Those attending private colleges are eligible for an annual grant that roughly equals average tuition at the public universities. Dynarski (2000) estimates the impact of Georgia's program by comparing changes in college attendance rates in Georgia to changes in other

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[2] Statistics in this paragraph are drawn from Table 54 in Social Security Administration (1982), Table A in College Board (1998) and Table 174 in US Department of Education (1998).

southeastern states during the same time period. The effect of HOPE is identified by differences between Georgia and the rest of the southeastern United States in the time trend of college attendance rates. She finds that the program substantially increased college entry in Georgia, by 4 to 6 percentage points per $1,000 in aid. Research on similar state programs has also shown them to be effective in increasing college attendance (Abraham and Clark, 2006; Kane, 2003; Dynarski, 2004a and forthcoming). The programs also appear to increase the share of young people completing a college degree (Dynarski, forthcoming). Effects are strongest among women, especially Blacks and Hispanics.

This body of research has established that young people are sensitive to college costs in making their schooling decisions. In fact, from a rational perspective, they appear to be "too" sensitive, given how small the direct costs of college are. At the typical public college, required tuition and fees average $6,000; at a community college they are closer to $2,000 (College Board, 2006). These costs are quite small when weighed against the lifetime return to a college degree. On average, college graduates make fifty percent more than high school graduates (College Board, 2004). These returns accrue for decades, whereas tuition costs accumulate for only a few years. The strong response of young people to the aid programs just described provides indirect evidence that present costs loom very large for this population.

All of the programs discussed above are outside of the traditional, federal student aid system. What about the traditional programs? There is little to no persuasive evidence that the federal aid programs are similarly effective - or at all effective - in increasing the college enrollment of young people. This lack of evidence does not reflect lack of effort: the Pell Grant program has received considerable attention from researchers. 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 did not increase disproportionately. Kane (1995) utilizes more years of data and

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limits the sample to women, whose enrollment patterns were less disrupted by the Vietnam War than those of men, but is also unable to find an effect. Bettinger (2004) uses regression-discontinuity analysis to examine whether the Pell Grant reduces the dropout rate among college students; his results suggest this is the case but he stresses that his estimates are too sensitive to specification and functional form to draw strong conclusions. Just one study using quasi-experimental methods compellingly estimates an effect of the Pell on schooling decisions: Seftor and Turner (2002) find a small but robust effect on the college attendance of older, independent students.

When examined as a whole, this body of evidence is puzzling. How can some aid programs produce such large, robust impacts while the others have little detectable effect? The populations are similar: the Social Security student benefit program served families similar to that served by Pell: low-income, nonwhite, disproportionately headed by single parents. The merit aid programs appear to have been particularly effective for Blacks and Hispanics. So the answer is not that the population served by Pell is insensitive to price.

A striking difference between the effective programs and the traditional programs is in the paperwork requirements they impose on applicants. The HOPE application consists of a half-page of basic biographical information. High schools proactively send transcript data to the state in order to identify scholarship winners. Application requirements were even simpler in the Social Security student benefit program. The Social Security Administration proactively sent a letter to each beneficiary shortly before the 18th birthday, asking about college plans. If the beneficiary was planning on college, benefit checks continued to arrive. Renewal required only confirmation of enrollment from the college registrar. By contrast, the traditional aid programs impose complicated paperwork and procedural requirements on applicants. We describe this process in detail in the next sections.

A second difference between the effective aid programs and the traditional aid programs is in the extent to which students understand the programs and can accurately estimate their eligibility in the years preceding college. In the case of the Social Security program, families knew exactly the benefits they would receive, since a student who qualified simply received the child benefits that had previously gone to her family. Similarly, people are quite knowledgeable about the Georgia HOPE program. More than seventy percent of Georgia high-school freshmen are able to name the program without prompting. Fifty-nine percent, when asked to list some requirements of HOPE, volunteer that a high school GPA of 3.0 is necessary (Henry, et al, 1998). This level of knowledge about a government program would be remarkable among adults; it is even more striking among young teenagers. By contrast, a US Government Accounting Office (GAO) analysis found that nearly ninety percent of high school sophomores in 1980 did not know about the Pell Grant program (US GAO, 1990).

The Financial Aid Form

Establishing eligibility for federal aid is called "need determination." The data elements that determine "need" are collected in the FAFSA, which is required for all federal grants and loans.[3] From information on the FAFSA, the U.S. Department of Education computes the expected family contribution (EFC), an estimate of how much the family can pay out of pocket for college. "Need" is defined as the difference between the cost of attendance (e.g., tuition, fees, books, living expenses) and this family contribution. The basics of need-determination have changed little since they were laid out over fifty years ago. In 1953, John Monro, dean of admissions at Harvard College, described to his colleagues at a College Board conference the formula he used to assign financial aid to Harvard admits. The assembled aid administrators were eager to establish a common formula for assigning aid, so that they could quash the

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[3] Most state aid and school scholarships also require the FAFSA. Some colleges require an additional aid application, such as the College Board's PROFILE or a school-specific form.

competitive bidding for the best students that that had recently developed among elite colleges. Within a year, a common aid application was in use (Duffy and Goldberg, 1998; Wilkinson, 2005). The schools that initiated this need-determination process typically enrolled students from families with relatively high incomes and asset holdings, and so sought detailed measures of wealth and income so that they could measure need among families with complicated financial situations.[4] As we next show, today's FAFSA reflects its history, providing extremely fine measures of ability to pay at levels of income that far exceed the effective cutoffs for federal aid.

The FAFSA collects detailed information about the student's and parents' income, assets and expenditures. In Table 1 we compare the FAFSA to the IRS 1040, 1040A and 1040EZ income tax forms (see Appendix for a copy of the 2006-07 FAFSA). The FAFSA, at five pages and 127 questions, is longer than Form1040EZ (one page, 37 questions) and Form 1040A (two pages, 83 questions). It is comparable to Form 1040 (two pages, 118 questions). For the families targeted by need-based aid, complexity in the aid application rivals the complexity they experience in the income tax system. 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. The contrast between Form 1040EZ and the FAFSA is especially striking. With a third of the FAFSA's questions and a fifth of its pages, the IRS captures the information needed to determine tax liability for the very population targeted by need-based aid.

Why is the FAFSA so long? As Table 1 shows, the FAFSA captures finer measures of financial resources than the tax forms. Thirty-three FAFSA questions probe for sources of income not shown on the W-2, compared to two on the 1040EZ, 12 on the 1040A and 19 on the 1040. Further, while none of the tax forms ask about assets, the FAFSA has six questions on this topic. And because the aid formula applies different "tax rates" to the student and parents, the

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[4] Until 1973, the federal aid application asked about make and model of the family car (Wilkinson, 2005).

FAFSA inquires twice about each financial resource, once of the parents and once of the student.[5]

There are few questions on the FAFSA that low-income families can simply ignore. For example, on the required worksheets (see Appendix) there are only two questions that are generally irrelevant for low-income families: a question about IRA deductions for self-employed workers and a question about foreign income. Most of the questions on these worksheets could apply to individuals of any income, including questions about child support, retirement savings plans, educational benefits, and "other untaxed income not reported elsewhere." Several worksheet questions, such as those about welfare and EITC benefits, are *only* relevant for low income families.

We should note that there have been several efforts to simplify the FAFSA. In 1986, 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 are legally allowed to skip more than 50 of the over 70 financial questions on the FAFSA. Congress also 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.

These efforts do not appear to have simplified the aid application process. Among those who had their FAFSA processed using the simplified needs test and who were eligible to skip the asset questions, 48 percent provided asset information. Among those who had their application processed under the automatic-zero EFC formula, 90 percent responded to questions that they were not required to answer. For example, 63 percent completed at least part of Worksheet A and 30 percent reported non-zero assets.[6]

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[5] The marginal tax rate on parental income ranges from 22 to 47 percent, while for student earnings the tax rate is zero below an earnings protection allowance and 50 percent above that allowance. The highest tax rate on parental assets is about six percent for each year of college, while the student's assets can be taxed at 35 percent (this rate will fall to 20 percent as of the 2007-2008 academic year). See Dynarski (2004b) for a discussion of how the aid tax on assets varies by ownership and asset type.

[6] Authors' calculations from NPSAS:04.

Why do aid applicants answer questions they don't have to answer? First, the option to skip questions is poorly communicated. Approved shortcuts are never mentioned on the paper FAFSA, filled out by about half of dependent, undergraduate applicants with incomes below $50,000.[7] The option to skip questions is mentioned only midway through the online version of the FAFSA. Since families are instructed to prepare for the online application by filling out printed worksheets that never mention the option to skip questions, they are likely to have already gathered the requisite data (or given up on the application) by the time they reach the option to skip a question. Second, when are offered the option to skip a question on the online FAFSA, they are warned that doing so may threaten their eligibility for state- or school-administered aid (U.S. Department of Education, 2005c).

The Financial Aid Process

We have just described the process of filling out a FAFSA, which is similar in length to a 1040. There is a key difference between the two processes however. When a taxpayer has completed her 1040, she knows how much tax she owes. More than twenty of the questions on the 1040 are calculations or look-ups in tax tables that allow filers to arrive at this bottom-line of tax liability. Completing the FAFSA yields absolutely no information about aid eligibility. In fact, definitive information about aid eligibility does not arrive until months after the FAFSA is submitted, in the spring before college enrollment.

Figure 1 illustrates the student aid process. Prospective freshmen typically file a FAFSA in spring of their senior year of high school. Many schools require that the FAFSA be filed by March 1, but students are not allowed by the Department of Education to file a FAFSA until January 1. Once the FAFSA is submitted, the U.S. Department of Education computes the EFC.

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[7] Authors' calculations from NPSAS:04.

The EFC, but not any estimate of aid eligibility, is mailed to the applicant as well as the colleges to which she has applied (U.S. Department of Education, 2005d).

The federal government does not notify students of their federal aid eligibility; rather, this is left to the colleges to which students are admitted. Colleges use the EFC to personalize a package of grants and loans for each student, which they then mail out in award letters, typically in March and April. Only upon receiving these award letters do students learn about their federal aid for the upcoming year.

Does Complexity in Student Aid Improve Targeting?

Complexity in the aid system arises from efforts to precisely measure ability to pay for college. The design of the current federal aid system reveals a social preference to focus grant funds on "needy" students. The rationale for the FAFSA is that its detailed questions allow aid administrators to identify these needy students. The marginal contribution of each question to this targeting goal can be quantified, and in this section we undertake this exercise. Out goal is to measure the benefits of complexity: the degree to which it improves the targeting of aid. These benefits can then be weighed against the costs of complexity, which we explore in the next section. To preview the results: we find that that of the 127 questions on the FAFSA only a handful have any substantial effect on the distribution of student aid. Most of the FAFSA could be eliminated without doing violence to the revealed distributional priorities of the federal aid programs.

Using data from the nationally representative 2003-04 National Postsecondary Student Aid Survey (NPSAS:04), we examine the relationship between federal aid received and information in the FAFSA. Our sample consists of 24,253 dependent and independent undergraduates who attended college full-time in 2003-04 and who applied for federal aid (see

Appendix for details). We focus on Pell Grants, since they are the most expensive component of federal need-based aid.

We first use the NPSAS data to replicate the current distribution of aid. We use the federal financial aid formula (described in Appendix) to calculate aid and compare these calculated aid amounts with their true values, provided in the NPSAS. Our calculations of Pell Grants and EFCs are extremely close to their true values. Regressing the actual against the predicted values yields an R^2 of 1.00 for the EFC and 0.997 for the Pell Grant. To measure the influence of the various FAFSA components on aid, we sequentially exclude data items from the aid formula, recalculate aid, and compare the simulated aid amounts to the baseline values described above.[8] Mechanically, this is achieved by setting the value of the excluded items to zero.[9] We measure the predictive power of these simulations with the R^2 from regressions of the baseline aid values against their simulated values under simplification.

While the R^2 communicates the proportion of the variation in aid that can be attributed to each set of variables, it does not tell us who wins and who loses. We therefore plot gains and losses against families' financial resources. As our measure of financial resources, we will primarily use the aid system's current summary statistic for a family's ability to pay for college, the expected family contribution (EFC). If our simulations reproduce the current distribution of aid across the EFC, then we have successfully reproduced the current system's distributional priorities. We will also use adjusted gross income, a more familiar metric for financial resources, for some of our graphs.

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[8] We are not the first to estimate the predictive power of individual FAFSA items on student aid. Kane (1995) notes that most of the variation in Pell Grants can be explained using just a few variables. Stoll and Stedman (2004) use student-level FAFSA data (from the 1999-2000 NPSAS) to simulate the effect on the EFC of excluding items from the aid calculation.

[9] We have also tested setting excluded values to their means or medians, with substantively similar results. For state of residence and elder parent's age, which are excluded from some simulations, a value of zero is not meaningful, so we assign to all applicants the default values that the aid formula imputes when these items are missing from a FAFSA.

Simulation A: Distribute Aid Using Income, Assets & Family Structure

We start by eliminating all of the data used in the aid calculation except for adjusted gross income of the parents (or independent students and their spouses), dependent students' earnings, parents' and students' assets, parents' and students' marital status, family size and number of family members in college. This approach discards parents' and student's taxes paid, the types of income tax forms filed and the required "worksheets" (reproduced in Appendix) that elicit information about transfer income (such as the EITC, welfare, and Social Security) and other income (child support). These worksheets account for 45 of the 70 financial questions used in the calculation of aid.

Using only the items in Simulation A would cut the number of financial questions on the FAFSA by more than 80 percent. With this substantial reduction in complexity, Pell Grant eligibility changes by less than $100 for 76 percent of aid applicants. The correlation between the existing Pell and the simulated Pell is 0.95. This approach has a negligible impact on program costs, with the average Pell dropping by $14. All of this decrease occurs for families with income over $30,000; families with lower incomes actually see an increase in their grants (see Figure 2).

Why are we able to throw out so much information about applicants, with so little consequence for their Pell eligibility? First, many of the data items on the FAFSA are relevant to very few families (e.g., living stipends for the military and clergy, foreign income); that is, while these items affect eligibility, they are non-zero for a small number of people. Second, some of the items are common, but only at the top or bottom of the income distribution (e.g., IRA rollovers and welfare benefits). Those at the top or bottom of the income distribution qualify for no aid or the maximum of aid solely on the basis of their income, rendering additional information about their financial situation irrelevant. If we know that a family of four earns $20,000 a year, we also know the family is eligible for the Pell Grant and information about the family's Food Stamps, medical expenses and welfare benefits is redundant. Similarly, if a family

of three earns $100,000 a year, then information about the family's 401(k) investments, financial assets, and business income is redundant.

Simulation B: Distribute Aid Using Income and Family Structure, Dropping Assets

We next discard parents' and student's assets from the calculation of aid. The "taxation" of assets by the aid formula has been roundly criticized by economists. Economists (e.g., Edlin, 1993 and Feldstein, 1995) have argued that the taxation of assets by the aid formula creates horizontal inequities: identical 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.

In practical terms, assets have little impact on the calculation of federal aid. When we drop all assets from the aid formula, only 25 percent of applicants experience any change in their Pell Grant, and only 13 percent experience a change of $500 or more. Excluding assets increases the average Pell at low levels of income (Figure 3). Total Pell expenditures in this simulation increase by just 3.3 percent. Assets have so little effect on aid eligibility because few households have assets that are "taxed" by the aid 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 that increases with the age of the parents (up to $54,500). Among dependent students who file a FAFSA, 85 percent have no assets above the disregard. Among those from families with income below $50,000, it's 93 percent.[10] As a result, for the overwhelmingly majority of families the effective tax rate on assets is already zero.[11]

It could be the case, 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, the students filing a

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[10]Authors' calculations from NPSAS:04.
[11] 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.

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FAFSA would be unrepresentative of the entire population of college students. We can 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 2004 Survey of Consumer Finances, focusing on households that contain children and have income of below $50,000 (the effective income cap for Pell eligibility). Among all such households, the 50th percentile of non-retirement financial assets is below $1000 and the 95th percentile is below $40,000.[12] The analogous figures for dependent Pell recipients in NPSAS:04 are quite similar: $200 and $31,000.[13]

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 population of low-income, high-asset families will gain Pell eligibility if assets are completely removed from taxation. This is not to say that there *no* such families will gain eligibility: 0.25 percent of families with income in the Pell range have more than $250,000 in non-retirement financial assets. But this is a small portion of the population, and so the dollar costs of "wrongly" giving Pells to such asset-rich, income-poor families are low. By contrast, the reduction in complexity is large once it is aggregated across the other 99.75 percent of households.

Simulation C: Distribute Aid Using Income and Family Structure, Dropping All Assets and Dependent Students' Earnings

The aid formula taxes student earnings (over an income protection allowance of $2,550) at a rate of fifty percent. [14] Variation in students' earnings is driven predominantly by work

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[12] Authors' calculations from the 2004 Survey of Consumer Finances. Figure is for households with children and incomes below $50,000.The 99th percentile of financial, non-retirement assets for this population is roughly $160,000.

[13] The 99th percentiles of non-retirement financial assets for dependent and independent Pell recipients are $95,000 and $13,000, respectively.

[14] In 2007-2008, the disregard will rise to $3,000 and the tax rate will fall to 35 percent. Students also receive allowances for federal taxes paid and an estimate of state taxes paid. If parents' total allowances exceed parents' income, the excess parents' allowance is used to protect more of the student's income.

hours, rather than variation in hourly wages. As a result, this is primarily a tax on students' work effort. The tax falls more heavily on low-income households, since both student work hours and earnings drop as parental income rises. While 73 percent of dependent students from lower-income families have positive earnings, the figure is 62 percent for students from upper-income families.[15] Median student earnings are $2,730 for the lower-income group, as compared to $2,231 for the upper income group.

When we exclude the earnings of dependent students from the calculation of aid eligibility, the Pell Grants of seventy-two percent of aid applicants are essentially unchanged. The correlation of this simulated Pell grant with the current Pell grant is 0.88. In Figure 4, we plot the associated changes in Pell Grant eligibility against income. Pell Grants increase most for those whose parents earn between $15,000 and $40,000 per year. Since discarding dependent students' earnings mechanically increases calculated need, three times as many applicants would see a significant increase ($500 or more) in Pell eligibility as would see a significant decrease. As a result, this the most expensive approach so far discussed, with average Pell Grants increasing by $185 per applicant (11.5 percent); grants change only for dependent students (for independent students, approaches B and C are equivalent).

This last approach limits the data required to calculate aid items to income, marital status, family size, and number of family members in college. For younger, dependent students, these data items reflect the income and characteristics of their parents' household. For older students who have their own households, these data items reflect the income and characteristics of their own household. Most of these data items are already collected in income tax returns, a point to which we will return later in the paper.

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[15] We divide families at the rough median of household income, $50,000.

Economic Perspectives on Complexity

The previous section showed that the benefits of complexity are quite small. What are its costs? We posited earlier in the paper that complexity and uncertainty in traditional student aid may blunt its ability to influence schooling decisions. In this section, we flesh out this hypothesis, borrowing insights from economic theory and evidence. Both classical and behavioral economics offer useful insights into the effect of complexity in aid on schooling decisions. The classical model highlights the transaction costs of applying for aid (primarily time costs), which reduce the net value of aid to potential students. For students on the margin of college, these additional transactions costs may tip the cost-benefit calculation against college enrollment. Behavioral economics suggests that complexity in aid could discourage a student from attending college even if a rational calculation of schooling costs and benefits would suggest that college was the optimal choice.

A Rational Perspective on Complexity in Student Aid

In the human capital model, individuals weigh the present costs of schooling against its future benefits. Costs include opportunity costs (forgone earnings) and direct costs (tuition and fees). For some students, these costs will be partially offset by financial aid. The value of any such aid, in turn, is reduced by the opportunity cost of the time required to obtain the aid. To obtain federal aid, students (or their families) need to learn about the system and its rules, collect the required documents, and fill out the FAFSA.

We have no firm estimates on the time consumed by any of these required steps, but we can make well-informed guesses. We showed in Table 1 that the FAFSA is comparable in length to a 1040, which the IRS estimates it takes 16 hours to complete. The shorter 1040A and 1040EZ are estimated to require 13 and eight hours, respectively. Blumenthal and Slemrod (1992), based on their own survey data, conclude that the time required for tax compliance averages 27 hours

per filing household, with time estimates higher for low- and high-income households. Ten hours per family is a conservative estimate of the length of time required to complete a FAFSA: longer than the IRS's estimate of the time needed for a 1040EZ, but less than their estimates for the 1040A or long form, and substantially less than the 27 hours estimated by Blumenthal and Slemrod.

The Department of Education estimates that it requires only one hour to fill out the FAFSA. The explanation offered us by Department of Education administrators is that once a household has completed their taxes the marginal effort required to complete a FAFSA is minor. Table 1 shows clearly the FAFSA requests multiple data items not requested by even the long form. It seems particularly unlikely that completing the eight financial questions on the 1040EZ would provide much traction on completing the 72 financial items queried on the FAFSA.

The timing of FAFSA applications and tax filings also suggests that completing the 1040 does not smooth the way toward completing the FAFSA: 40 percent of students' parents and 21 percent of students file their FAFSA before filing their federal taxes.[16] Such applicants are required to file amended FAFSAs once they complete their tax returns, further adding to their time costs. Schools urge applicants to file the FAFSA early so that they do not miss a chance to access limited aid funds.[17]

It is likely that the length of time required to learn about and comply with any given provision of the aid process is higher for low-income families. Half of low-income high school seniors have no parent who attended college (ED 2002) and so have no experience with the aid

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[16] Authors' calculations from NPSAS:04.

[17] Nine percent of FAFSA applicants file in January, before households have even received their W-2 forms and other end-of-year tax documents. This time pattern of FAFSA filing is driven by the deadlines of individual schools and states, some of which request that the FAFSA be submitted by the first of January or February. For example, Michigan State University: "As soon as possible after the January 1 preceding your fall semester, file the FAFSA. If you or your parents haven't filed taxes yet, use estimated data on the FAFSA and correct it later if necessary. " http://finaid.msu.edu/fa101.asp Students are commonly warned that delaying submission of the FAFSA may threaten their access to limited student aid funds.

system.[18] Thirteen percent live in families in which English is not the primary language, double the rate of high-income youth (ibid). More than two-thirds of children from families with incomes below $25,000 have no Internet access at home, compared with 12 percent of families with incomes above $50,000 (Day, Janus, and Davis 2005).[19]

These time costs of applying for aid reduce the value of financial aid for applicants. In theory, they could blunt the impact of aid on schooling decisions. At average hourly wages of $17.50 (Bureau of Labor Statistics), we estimate the annual time cost of filling out the FAFSA to be $1.75 billion. On a per-family basis, this is $175, which is unlikely to obviate the value of federal aid. For low-income applicants, even a FAFSA that required many nights to complete would be worthwhile. The opportunity costs of teenagers and low-income parents are low: median earnings for a high school graduate are roughly $20,000. Ten hours of time for these families therefore reduces the value of aid by only about $100.

Further, the returns to a college education dwarf any reasonable estimate of the costs of applying for aid. Barrow and Rouse (2005) estimate that getting a college degree is equivalent to a $300,000 windfall—and this is a net benefit, *after* subtracting out tuition costs and wages foregone while enrolled. Any rational individual deterred from going to college by transaction costs of the magnitude described so far could only have a very low expected return to college. If this is the case, then the welfare losses produced by this person failing to go to college are quite small.

A Behavioral Perspective on Complexity in Student Aid

A rational calculation of transaction costs did not get us far in explaining the null impact of federal aid on schooling decisions. But a growing body of economic research has shown that

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[18] Authors' calculations, comparing families with income below $25,000 to those with income above $50,000.
[19] Authors' calculations using published tables from the computer and internet supplement to the Current Population Survey (Day, Janus, and Davis 2005).

individual decisions depart systematically from rationality, particularly in settings in which present sacrifice is required in order to access future gains. Savings behavior has received particular attention from behavioral economists. From a rational perspective, people should save for retirement. Non-savers agree with this rational perspective: repeated surveys show non-savers stating that saving is important and that they want to save. Similarly, survey data show that an overwhelming majority of low-income high school students believe that college is important, and that they intend to go. The analogy between saving and schooling is apt: both are capital-building endeavors that require current sacrifice in pursuit of future gain.

Kahneman and Tversky (2000) argue that people are typically loss averse: they avoid worthwhile bets because "losses weigh more heavily than gains." That is, a dollar lost decreases utility more than a dollar gained increases it. When gains that are probable but losses are certain, this will lead to risk aversion and avoidance of even "good bets." Certain costs and probable gains characterize savings and college. Savers must give up consumption now in hopes of positive market returns and a long enough life to enjoy the proceeds during retirement. Students must apply for aid, give up earnings, pay tuition, and study now in hopes of an uncertain payoff in the labor market. Like retirement savings, college is a good bet, but there is enormous variance in returns. For some, college will not pay off, and this possibility may weigh heavily in schooling decisions due to loss aversion.

Behavioral economists have also concluded that people's choices are strongly influenced by the default provided them (Samuelson and Zeckhauser 1988). This tendency can cause small bureaucratic details to have a disproportionate impact upon behavior. The best evidence on this comes from the studies of the defaults presented to employees in making choices about their retirement savings. At one large financial services firm, the default choice was non-participation in the employer 401(k). New employees could check a box on a form to initiate automatic payroll withdrawal; not checking the box (that is, the default) led to non-participation. The

company then altered the default, with *non*-participation requiring that the employee check a box on a form. This tiny change increased 401(k) participation by 50 percentage points (Madrian and Shea, 2001). No rational calculation of transaction costs would predict this sort of effect.

While there is scant empirical research specifically relating behavioral phenomena to college decision-making, it is pretty safe to conclude that teenagers are not more rational than adults. The time-inconsistent preferences that appear to undermine saving among adults also fit the behavior of low-income teenagers. In a project that tracked low-income youth as they made their schooling decisions, researchers found that few made a deliberate choice to not to go to college (Avery and Kane, 2004). Rather, they missed a key deadline, or incorrectly filled out a form, or failed to take a required class, and thereby fell off the path to college; that is, seemingly minor obstacles put youth off the path to college.

Defaults appear to particularly affect the behavior of these teenagers. For upper-income teenagers, the affirmative actions 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. 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. 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.

Weighing the Costs and Benefits of Complexity in Student Aid

On net, the evidence just discussed is intriguing but speculative. Behavioral economics predicts that complexity will discourage students from utilizing aid; quasi-experimental evidence

shows that complexity affects behavior in a different but related arena (retirement savings); and observational studies show that high many school students who intend to go to college get tripped up by minor obstacles. This body of evidence comprises a strong but not dispositive case that complexity blunts the effect of aid.[20]

We have firmer evidence of more pedestrian costs of complexity in aid. We already calculated the time costs for applicants, estimating that they are roughly $2 billion per year. Additionally, administrative costs are borne by colleges and by the federal government. Costs to the government of administering the aid-eligibility process are about $220 million, small relative to the volume of aid delivered annually. The lion's share of costs is borne by the colleges, who are responsible for answering students' questions, verifying student information, and packaging and disbursing federal student aid. The federal government requires that schools audit ("verify") at least 30 percent of aid applications. In aid audits, schools verify family size, number of family members enrolled in college, adjusted gross income, taxes paid and untaxed income and benefits, including Social Security and child support.[21] Families produce the necessary documents for this verification, increasing their time costs. At least 3 million such audits take place each year.[22] By comparison, the IRS audit rate is 1.5 percent, implying that 2 million IRS audits take place annually.

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[20] An ongoing experiment on the deterrent effects of complexity on the FAFSA will provide solid evidence in this area. Eric Bettinger, Bridget Terry Long, and Phil Oreopolous have partnered with H&R Block to pre-fill the FAFSA and provide projected financial aid estimates to randomly-selected individuals who utilized H&R Block's tax preparation services. College enrollment data for the treatment and control groups will then be collected from administrative records.

[21] Students who miss audit deadlines can lose their aid. Ohio State University: "[B]e sure you respond by the deadline date listed on your verification notification so that you receive full consideration for all programs. Students who submit verification materials after their deadline will not be awarded funds from most need-based institutional scholarship and grant funds or from Federal SEOG, Federal Perkins Loan or Federal Work-Study funds. It is important to make sure that all tax forms are SIGNED and that each page of the documentation includes THE STUDENT'S NAME AND SOCIAL SECURITY NUMBER. Please allow 2 - 4 weeks for processing following our receipt of ALL required documents….All of your federal and need-based aid will be on hold until verification is resolved." http://sfa.osu.edu/howtoapply/index.asp?tab=f#pagecontent

[22] A survey by the National Association of Student Financial Aid Administrators found that schools audit 40 percent of aid applications; one in ten schools audit all applications. Williams (2006).

Financial aid administrators and support staff paid by the colleges are responsible for these tasks, which they must undertake in accordance with the 225-page *Federal Student Aid Handbook*. A survey of 650 institutions by the National Association of Financial Aid Administrators (NASFAA) found that financial aid offices on average employed nine full-time staff members (Williams, 2006). Using salary estimates from the same organization (Williams 2004), the 6,444 institutions eligible for federal aid would spend a total of $2.1 billion on salaries for full-time financial aid professionals.[23] To help pay colleges' administrative costs, the Department of Education allocated to schools administrative allowances of $83.4 million in 2005. However, estimates of the annual cost of required audits alone range from $132 million (US Office of the Inspector General) to $432 million (Advisory Committee on Student Financial Assistance, 2005).

These administrative costs, along with cost of time spent completing the FAFSA, constitute a lower bound on the cost of complexity in student aid: several billion dollars a year. The upper bound is much blurrier: at worst, complexity in aid discourages from attending college the very population it targets for assistance. Could the system be simplified? The key variables that predict aid -- income and family composition -- are currently collected in federal income tax returns. In principle, therefore, the aid application could be eliminated altogether and eligibility for student aid determined using data already collected by the IRS. Families could apply for a grant by checking off a box on their income tax form, instructing IRS to forward applicants' adjusted gross income, dependency status, and number of dependents to the Department of Education. This would eliminate the time costs of applying for aid, saving $2 billion in hours currently lost to filling out aid forms. Further, if income information came directly to the Department of Education from the IRS, rather than from self-reports on a FAFSA, schools would

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[23] Estimates assume each office employs one director at $62,000, one assistant director at $44,000, 2.5 officers at $35,000 each, 1.3 clerical staff at $29,000 each and three other staff members at $30,000 each. Salary estimates are from Williams (2004) and are inflated to 2006 dollars.

no longer need to audit three million applications a year. Every application would effectively be "audited," since the data generating eligibility would come directly from IRS.

As in the current system, eligibility for the 2006-07 academic year could be based on 2005 income, as reported to the IRS in early 2006. A potential logistical hurdle is that the IRS is not able to confirm income data immediately upon receiving an income tax return. In this case, eligibility could be based on income from a previous tax year. 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. This approach would have other useful properties. It would reduce the incentive to shift income between years in order to avoid taxation of a single year's income by the aid formula. Several years of income are also a better measure of permanent income than a single year.

A potentially more powerful advantage is that a simplified aid formula would enable families to easily determine their eligibility well before their child applies to college. High school students of all income levels overestimate the cost of college. But while high-income students express confidence that they will find a way to pay, low-income students are pessimistic about their ability to pay for college (Avery and Kane, 2004). Information about aid could affect these decisions if they understood their aid options earlier. Spring of senior year, when information about aid eligibility currently arrives, is when many students decide *which* college to attend. It is unlikely that many students make their decision about *whether* to attend college this late in the game.

If aid eligibility were determined by just a couple of data items, such as income and family size, aid could be described in a lookup table simple enough to put on a poster that could hang in a high school hallway. The federal government could also proactively mail financial aid estimates to taxpayers, much as the Social Security Administration now mails out annual benefit

estimates. In both cases, early information may help people to make better-informed decisions about their long-term investments.

Conclusion

There is no doubt that the need-based aid system gets grants and loans to many low-income families who would be worse off without it. There is little to no evidence that this aid has the effect it is intended to have: getting more young people into college. In this paper, we have shown that the aid system can be substantially simplified while maintaining its revealed distributional priorities. The costs of complexity are difficult to measure precisely, but we have shown that the benefits are clearly miniscule. At a minimum, a simpler aid program would increase the efficiency of aid dollars by reducing the administrative and paperwork costs for schools and families. At best, simplification would clarify incentives for students and induce into college some who now believe it is unaffordable.

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Figure 1. The Student Aid Application Process

Fall - Spring of Senior Year	January-March of Senior Year	4-6 Weeks After Submitting FAFSA (2-3 weeks for on-line submissions)	March-April of Senior Year

Student Applies to Colleges
Student assembles and submits college applications, including test scores, transcripts, recommendations and essays.

Student Submits FAFSA to Government
Student and family provide detailed demographic and financial data, and list up to six schools to receive FAFSA data.

Student Receives SAR
The SAR provides the student's EFC and states whether he is eligible for a Pell Grant, but provides no dollar amount.

Student Learns Aid Eligibility
Student learns about amount of federal aid (Pell Grant, Stafford Loans, work-study) and school-specific aid (scholarships and loans).

Government Processes FAFSA
Processing service calculates the family's expected contribution (EFC) and sends a Student Aid Report (SAR) to the student and schools.

Colleges Receive Applications and Admit Students

Schools Receive SAR and Assemble Aid Package
Financial aid offices use the EFC, the school's cost of attendance, and other information to design a package of federal, state, and institutional aid, which is then sent to accepted students.

Table 1. 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 amt.*	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

Source: Authors' counts unless otherwise noted. Counts for the FAFSA are for dependent students with two parents, and includes 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.
*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.

Table 2. Consequences of Aid Simplification

	Baseline	Approach A *Drops taxes paid,* *type of tax form,* *and worksheets*	Approach B *Additionally* *drops assets*	Approach C *Additionally* *drops dependent* *students' earnings*
Percent of all full-time full-year applicants whose Pell…				
...remains the same (within $100)	1.00	0.76	0.75	0.72
...increases by $500 or more	0.00	0.05	0.07	0.12
...decreases by $500 or more	0.00	0.07	0.06	0.04
Correlation between new and old Pell Grant	1.00	0.96	0.95	0.92
R-squared	1.00	0.92	0.90	0.84
Change in average Pell (per full-time full-year applicant)	0.00	-13.61	53.79	185.17
Percentage change in total program costs*	0.00	-0.84%	3.34%	11.48%
Variables included in simulation:				
Assets	Y	Y		
Dependent students' AGI	Y	Y	Y	
Parental AGI, or independent student/spouse's AGI	Y	Y	Y	Y
Parental or independent students' marital status	Y	Y	Y	Y
Family size	Y	Y	Y	Y
Number of family members in coll.	Y	Y	Y	Y
Number of FAFSA items required for simulation**	72	14	8	6

SOURCE: Authors' calculations using FAFSA data from NPSAS: 2003-2004. 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.

*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 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 1 are minor.

Figure 2. . (All FTFY)
Using Income and Assets of Parents and Students, Family Structure
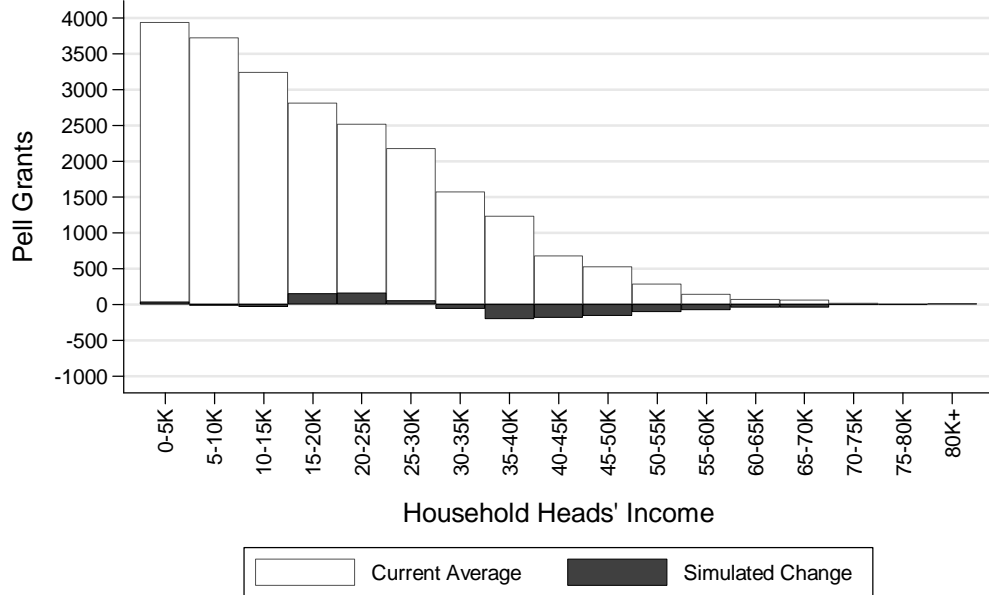
Note: Dollar amounts are in 2003-04$.

Figure 3   (All FTFY)
Using Income of Parents and/or Students, Family Structure
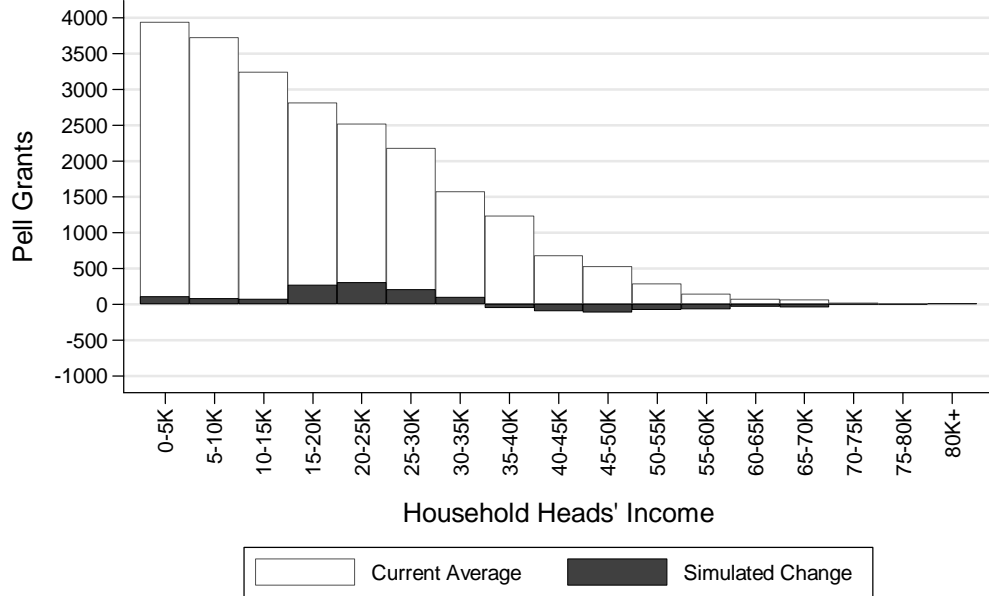
Note: Dollar amounts are in 2003-04$.

Figure 4 (Dependent FTFY)
Using Income of Parents, Family Structure
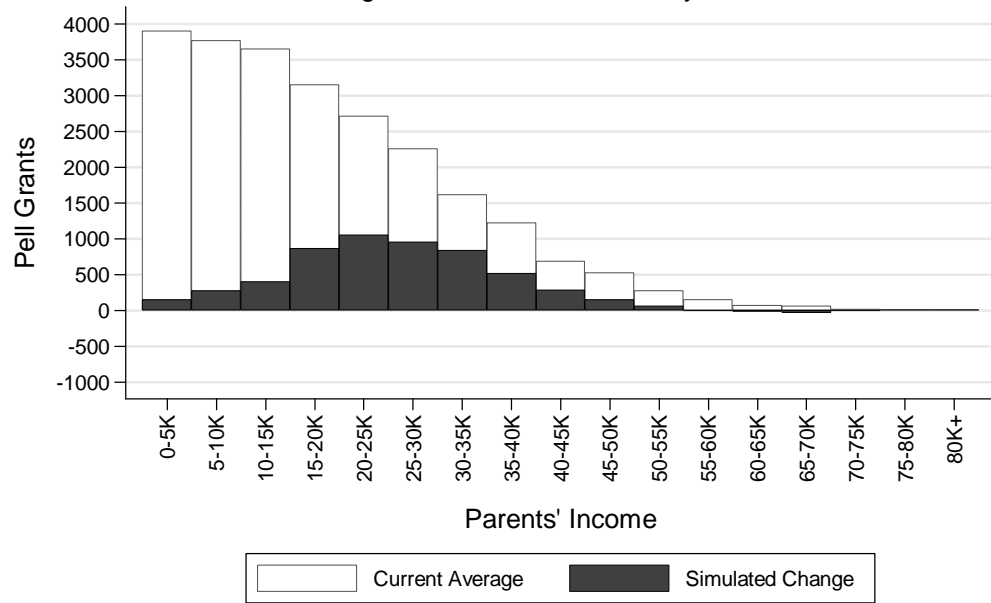
Note: Dollar amounts are in 2003-04$

Appendix

Data

　　　Student aid statistics and simulations are based on restricted-use, individual-level data from the nationally representative 2003-04 National Postsecondary Student Aid Survey (NPSAS:04). NPSAS:04 includes data from the Free Application for Federal Student Aid (FAFSA) for 56,440 undergraduate federal aid applicants. We limited our sample to 26,156 full-time undergraduates (dependent or independent) who attended the same institution for the full year. From this sample we drop 1,733 individuals who were missing an EFC, as well as 170 individuals missing other critical data elements such as income or family size. This results in a final sample of 24,253 individuals.

Aid Formula

　　　To replicate the student's Pell eligibility, as well as to test the consequences of formula simplification, we coded EFC, Pell, and Stafford loan formulas and rules for dependent students as outlined in the 960-page *2003-2004 Federal Student Aid Handbook*.

　　　The EFC formula sums parents' adjusted gross income (or W-2 earnings for non-tax-filers) and other income, subtracts a number of allowances (of which the largest is the amount of taxes paid), and adds in 12 percent of assets over an asset protection threshold that depends on marital status and elder parent's age. Marginal assessment rates from 22 to 47 percent are applied to this total (called parents' "adjusted available income"). The result is divided by the number of children in college to obtain the parents' expected contribution. The student's expected contribution is computed by adding student's adjusted gross income and other income, subtracting a few allowances, and applying a 50 percent assessment rate. 35 percent of any student assets are added to this figure to yield the student's expected contribution (students have no asset protection allowance).

　　　The Pell award is estimated by subtracting the EFC from the maximum Pell Grant ($4,050). Following federal rules, grants between zero and $199 are rounded down to zero and grants between $200 and $399 are rounded up to the minimum grant of $400. Pell Grants over $2,700 are adjusted downwards for students at very low-tuition institutions (tuition and fees less than $675, in 2003-2004) 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). In our sample, the tuition sensitivity adjustment applied to only 35 people and the cost of attendance adjustment applied to none.

　　　We exclude the six percent of observations for whom we cannot replicate the Pell or EFC within $1,000, even using all of the data and the exact federal aid formula. For half of these cases, we calculate a Pell grant of at least $1,000, while the actual grant is zero. These inconsistencies likely reflect data perturbations that are introduced by the Department of Education to protect confidentiality and changes in aid made at the discretion of a college's aid officer.
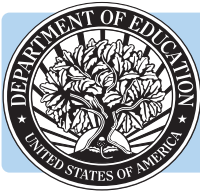
FAFSA

July 1, 2006 — June 30, 2007

FREE APPLICATION FOR FEDERAL STUDENT AID

OMB # 1845-0001

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** ✗ ✓

| 1 | 5 | | 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 received)*

*^CA   For initial awards - March 2, 2006
For additional community college awards - September 2, 2006 *(date postmarked)*

*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.

STATE AID DEADLINES

ISD5472

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 **c**. 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 1st bachelor's degree.
Enter **2** for 2nd bachelor's degree.
Enter **3** for associate degree (occupational or technical program).
Enter **4** for associate degree (general education or transfer program).
Enter **5** for certificate or diploma for completing an occupational, technical, or educational program of less than two years.

Enter **6** for certificate or diploma for completing an occupational, technical, or educational program of at least two years.
Enter **7** for teaching credential program (nondegree program).
Enter **8** for graduate or professional degree.
Enter **9** for other/undecided.

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 **1** for attended college before & 1st year undergraduate.
Enter **2** for 2nd year undergraduate/sophomore.
Enter **3** for 3rd year undergraduate/junior.

Enter **4** for 4th year undergraduate/senior.
Enter **5** for 5th year/other undergraduate.
Enter **6** for 1st year graduate/professional.
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: FOR INFORMATION ONLY

2. FIRST NAME: DO NOT SUBMIT

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: XXX–XX–XXXX

9. Your date of birth: MM DD 19 YY

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: A

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 MM YEAR YYYY

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 MM YEAR YYYY

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 ○ 3

DO NOT LEAVE QUESTION 31 BLANK

For Help – www.studentaid.ed.gov/completefafsa

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

   b. IRS 1040A or 1040EZ...................................... ○ 2

   c. A foreign tax return. **See page 2.** .... ○ 3

   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

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.)

For Help – 1-800-433-3243

Step Four:
Complete this step if you (the student) answered "No" to all questions in Step Three. Go to page 7 to determine who is a parent for this step.

55. What is your parents' marital status as of today?

Married/Remarried .... ◯ 1   Divorced/Separated .... ◯ 3

Single .... ◯ 2   Widowed .... ◯ 4

56. Month and year they were married, separated, divorced or widowed

MONTH YEAR
M M Y Y Y Y

57-64. What are the Social Security Numbers, names and dates of birth of the parents reporting information on this form? If your parent does not have a Social Security Number, you must enter 000-00-0000.

57. FATHER'S/STEPFATHER'S SOCIAL SECURITY NUMBER
☐☐☐ – ☐☐ – ☐☐☐☐

58. FATHER'S/STEPFATHER'S LAST NAME, AND
☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐ ,

59. FIRST INITIAL
☐

60. FATHER'S/STEPFATHER'S DATE OF BIRTH
M M D D 1 9 Y Y

61. MOTHER'S/STEPMOTHER'S SOCIAL SECURITY NUMBER
☐☐☐ – ☐☐ – ☐☐☐☐

62. MOTHER'S/STEPMOTHER'S LAST NAME, AND
☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐ ,

63. FIRST INITIAL
☐

64. MOTHER'S/STEPMOTHER'S DATE OF BIRTH
M M D D 1 9 Y Y

65. Go to page 7 to determine how many people are in your parents' household. Enter that number here. ☐☐

66. Go to page 7 to determine how many in question 65 (exclude your parents) will be college students between July 1, 2006, and June 30, 2007. Enter that number here. ☐

67. What is your parents' state of legal residence?
STATE ☐☐

68. Did your parents become legal residents of this state before January 1, 2001?   Yes ◯ 1   No ◯ 2

69. If the answer to question 68 is "**No**," give month and year legal residency began for the parent who has lived in the state the longest.
MONTH YEAR
M M Y Y Y Y

70. For 2005, have your parents completed their IRS income tax return or another tax return listed in question 71?

a. My parents have already completed their return. ◯ 1

b. My parents will file, but they have not yet completed their return. ◯ 2

c. My parents are not going to file. **(Skip to question 76.)** ◯ 3

71. What income tax return did your parents file or will they file for 2005?

a. IRS 1040 .... ◯ 1

b. IRS 1040A or 1040EZ .... ◯ 2

c. A foreign tax return. **See page 2.** .... ◯ 3

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

72. If your parents have filed or will file a 1040, were they eligible to file a 1040A or 1040EZ? **See page 2.**
Yes ◯1   No ◯2   Don't Know ◯3

For questions 73-83, if the answer is zero or the question does not apply, enter 0.

73. What was your parents' adjusted gross income for 2005? Adjusted gross income is on IRS Form 1040—line 37; 1040A—line 21; or 1040EZ—line 4.
$ ☐☐☐ , ☐☐☐

74. Enter your parents' income tax for 2005. Income tax amount is on IRS Form 1040—line 57; 1040A—line 36; or 1040EZ—line 10.
$ ☐☐☐ , ☐☐☐

75. Enter your parents' exemptions for 2005. Exemptions are on IRS Form 1040—line 6d or on Form 1040A—line 6d. For Form 1040EZ, **see page 2**.
☐☐

76-77. How much did your parents earn from working (wages, salaries, tips, combat pay, etc.) in 2005? Answer this question whether or not your parents filed a tax return. This information may be on their W-2 forms, or on IRS Form 1040—lines 7 + 12 + 18; 1040A—line 7; or 1040EZ—line 1.

Father/Stepfather (76) $ ☐☐☐ , ☐☐☐

Mother/Stepmother (77) $ ☐☐☐ , ☐☐☐

Parent Worksheets (78-80)

78-80. **Go to page 8** and complete the columns on the right of Worksheets A, B, and C. Enter the parents' totals in questions 78, 79 and 80, respectively. Even though your parents may have few of the Worksheet items, check each line carefully.

Worksheet A (78) $ ☐ , ☐☐☐

Worksheet B (79) $ ☐ , ☐☐☐

Worksheet C (80) $ ☐ , ☐☐☐

81. As of today, what is your parents' total current balance of **cash, savings, and checking accounts**?
$ ☐☐☐ , ☐☐☐

82. As of today, what is the net worth of your parents' **investments**, including real estate (not your parents' home)? *Net worth* means current value minus debt. **See page 2.**
$ ☐☐☐ , ☐☐☐

83. As of today, what is the net worth of your parents' current **businesses and/or investment farms**? Do not include a farm that your parents live on and operate. **See page 2.**
$ ☐☐☐ , ☐☐☐

Now go to Step Six.

For Help – www.studentaid.ed.gov/completefafsa

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.

86. 1ST FEDERAL SCHOOL CODE ☐☐☐☐☐☐ OR — NAME OF COLLEGE / ADDRESS AND CITY — STATE ☐☐
87. HOUSING PLANS — on campus ○ 1 — off campus ○ 2 — with parent ○ 3

88. 2ND FEDERAL SCHOOL CODE ☐☐☐☐☐☐ OR — NAME OF COLLEGE / ADDRESS AND CITY — STATE ☐☐
89. on campus ○ 1 — off campus ○ 2 — with parent ○ 3

90. 3RD FEDERAL SCHOOL CODE ☐☐☐☐☐☐ OR — NAME OF COLLEGE / ADDRESS AND CITY — STATE ☐☐
91. on campus ○ 1 — off campus ○ 2 — with parent ○ 3

92. 4TH FEDERAL SCHOOL CODE ☐☐☐☐☐☐ OR — NAME OF COLLEGE / ADDRESS AND CITY — STATE ☐☐
93. on campus ○ 1 — off campus ○ 2 — with parent ○ 3

94. 5TH FEDERAL SCHOOL CODE ☐☐☐☐☐☐ OR — NAME OF COLLEGE / ADDRESS AND CITY — STATE ☐☐
95. on campus ○ 1 — off campus ○ 2 — with parent ○ 3

96. 6TH FEDERAL SCHOOL CODE ☐☐☐☐☐☐ OR — NAME OF COLLEGE / ADDRESS AND CITY — STATE ☐☐
97. on campus ○ 1 — off campus ○ 2 — with parent ○ 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)
```
1
```

Parent (A parent from Step Four sign below)
```
2
```

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
```
1
```

SCHOOL USE ONLY: — Federal School Code ☐☐☐☐☐☐

D/O ○ 1

FAA Signature
```
1
```

DATA ENTRY USE ONLY: ○ P — ○ * — ○ L — ○ E

Page 6

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.

Page 7

Worksheets
Calendar Year 2005

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

Worksheet A
Report Annual Amounts

Student/Spouse — For question 40 | | **Parents** — For question 78

Student/Spouse (Q40)	Description	Parents (Q78)
$	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.—— $

Worksheet B
Report Annual Amounts

For question 41 | | **For question 79**

Student/Spouse (Q41)	Description	Parents (Q79)
$	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.—— $

Worksheet C
Report Annual Amounts

For question 42 | | **For question 80**

Student/Spouse (Q42)	Description	Parents (Q80)
$	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.—— $

For Help — 1-800-433-3243