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# Does the FAFSA Discriminate against Low-Income Students?

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The purpose of the Free Application for Federal Student Aid (FAFSA) is to let low-income students apply for financial aid to pay for college. This money helps them access and complete a college education. It might seem strange, then, to ask whether the FAFSA discriminates against low-income students. After all, the goal of the form is to help low-income students get the money for which they are eligible. Why would the form discriminate against the students it is supposed to help?

But, the FAFSA seems to target low-income students for extra scrutiny and complexity, above and beyond the requirements for middle- and high-income students. This forces low-income students to run a gauntlet of small and large slights, each of which hinders their progress to a college degree or certificate.

The discrimination against low-income students is pervasive. It affects the financial aid forms and formulas, deadlines, verification, the IRS Data Retrieval Tool and the IRS Get a Transcript Tool.

## Complexity of Financial Aid Application Forms

Financial aid applications appear to focus more on preventing middle- and high-income students from looking poor than on enabling low-income students to afford a college education. This increases the length of the form and the complexity of the financial aid process. Low-income students are less likely to succeed when forced to jump through a series of hoops. Each additional hoop provides another opportunity for failure.

Even well-meaning attempts to simplify the FAFSA have resulted in the addition of more questions to determine whether the applicant is eligible for the simplified form. It is ironic that the U.S. Department of Education must add questions to the FAFSA in order to remove others from the form. For example, the FAFSA added ten questions about means-tested federal benefits in order to remove the six asset questions for the simplified needs test. Even though these questions also enable auto-zero EFC, which sets the expected family contribution (EFC) to zero for students with very low income, somehow the math still doesn't seem to add up. Why can't these questions be automated through database matches?

Low-income students can easily lose eligibility for simplified financial aid formulas – the simplified needs test and auto-zero EFC, among others – because of quirks in the system. For example, self-employed taxpayers are required to file IRS Form 1040 instead of IRS Form 1040A or 1040EZ to claim the self-

employed health insurance deduction and to pay self-employment taxes. Approximately 13% of low-income taxpayers pay self-employment taxes, according to Table 1.4 of the [IRS Statistics of Income](#).

Even if low-income students and parents aren't self-employed, there are many other ways a low-income student may end up having to file an IRS Form 1040:

- They may have to file a 1040 to pay FICA taxes on tips.
- A 1040 is required to report state and local income tax refunds and capital gains/losses.
- The penalty on early withdrawal of savings, even if just a few dollars, will make the family ineligible for the simplified financial aid formulas.
- Even when students do qualify for the simplified needs test or auto-zero EFC, more than a dozen states do not allow state residents to skip the relevant questions on the FAFSA.

## **Financial Aid Formulas**

The federal need analysis methodology limits the financial aid eligibility of low-income students in several ways.

- Low-income families might be living below the poverty line, but the FAFSA does not allow the expected family contribution (EFC) to go below zero. This caps the amount of financial aid a low-income student can receive at the cost of attendance. The definition of cost of attendance does not include student health insurance or other basic necessities, even for independent students. Low-income students are three times more likely to be independent students than middle- and high-income students, based on data from the 2011-2012 National Postsecondary Student Aid Study (NPSAS).
- Many low-income students are the primary wage-earners for their families, but the FAFSA's financial aid formula assumes that parents are the primary wage-earners. Since the 2000-2001 award year, the federal financial aid formula has allowed the negative adjusted available income of a dependent student's parents to offset the student's income, but any excess student income still is assessed at the student's rate, which is higher than the parent's rate. This causes low-income students who may be the primary wage-earners for their families to receive as much as \$8,728 less aid when compared with students whose parents are the primary wage-earners for their families, based on the 2017-2018 federal need analysis methodology. Student assets also are assessed at a much higher rate than parental assets (20% vs. up to 5.64%).
- If a working student quits his or her job to go to college full-time, the FAFSA does not automatically adjust income and taxes paid to compensate for the reduction in income. Some colleges do not make adjustments for voluntary reductions in income, even when the student appeals for a professional judgment review.
- Low-income students often are left with unmet financial need, because of inadequate federal and state grants, and have no resources to cover the gap. Some colleges ration limited financial aid funds by requiring a minimum student contribution, which increases the amount of unmet

need. Low-income students are twice as likely to be left with unmet need as middle- and high-income students, based on data from the 2011-2012 NPSAS.

- Except at the wealthiest colleges, financial need is met with loans, not just grants and student employment. Loans do not cut college costs. They just spread out the costs over time.

It is no wonder that low-income students are twice as likely to borrow for college. Low-income students graduate with about \$4,000 more debt, on average, than middle- and high-income students. Forcing low-income students to borrow is more likely to stop them from pursuing a postsecondary education, because they are much more risk-adverse than wealthier students.

Low-income students also work longer hours than middle- and high-income students, in part because their financial aid packages include work-study jobs. According to the 2011-2012 NPSAS, two-thirds of students with family income under \$50,000 work an average of 30 hours per week (including work-study jobs) during the academic year. The inclusion of student employment (work-study) in financial aid packages also establishes a caste system on campus, where low-income students must often work in the cafeteria, serving food to their wealthier peers.

## **Early State FAFSA Deadlines**

A dozen states have early FAFSA deadlines, designed to limit spending on state grants, where grants are awarded on a first-come, first-served basis until the funds are depleted. But, since low-income students tend to file the FAFSA later than middle- and high-income students, this disadvantages low-income students when they apply for financial aid. Low-income students are half as likely as middle- and high-income students to file the FAFSA during the first three months of the FAFSA application season, based on an analysis of data from the 2009 follow-up to the 2003-2004 Beginning Postsecondary Students (BPS) longitudinal study. Students who file the FAFSA during the first three months tend to get double the grants, on average, of students who file the FAFSA later.

## **Verification**

Low-income students are disproportionately more likely to be selected for verification, which presents yet another opportunity for them to lose the financial aid for which they are eligible. The following data is based on anecdotal evidence, and as such is not scientific and may suffer from selection bias. Only the U.S. Department of Education has the data to confirm the accuracy of these estimates or understand the rationale for these phenomena.

- Low-income students seem to be three times more likely to be selected for verification than middle- and high-income students.
- Low-income students who receive the maximum Federal Pell Grant or half of the maximum Federal Pell Grant seem to be even more likely to be selected for verification. It is unclear why there seems to be a spike in the number of low-income students selected for verification at half

of the maximum grant. This may be an artifact of the formulas used to select FAFSAs for verification.

- Low-income students with an *automatic* zero EFC (as opposed to a *calculated* zero EFC) seem to be four times more likely to be selected for verification than middle- and high-income students with an automatic zero EFC.
- Among middle- and high-income students, the likelihood of being selected for verification increases with increasing EFC (i.e., with decreasing Federal Pell Grant eligibility), up until the EFC cutoff for Federal Pell Grant eligibility, where the likelihood of being selected for verification plummets.

Anecdotal evidence also suggests that low-income students are much less likely to complete verification than middle- and high-income students. Perhaps as many as half – or more – do not complete verification. This is not because they are ineligible or don't belong in college, but rather because each additional hoop they must jump through erects additional barriers that prevent them from receiving the grants for which they are eligible. For example, parents of low-income students do not understand why the federal government has to ask about their income not once, but twice. Just how many times must low-income students prove that they are poor? Verification also gives parents who don't support their children's college dreams or who are actively opposed to their children pursuing a college education, another opportunity to say "no."

When the U.S. Department of Education uses rhetoric that describes verification as preventing fraud, it promotes a stereotype that portrays low-income students as criminals. At most, a very small percentage of students don't complete verification because of fraud. Most students who fail to complete verification were, in fact, eligible for the Federal Pell Grant, but the bureaucracy blocked their access to needed financial aid funds.

## **IRS Data Retrieval Tool**

The IRS Data Retrieval Tool might allow low-income students to bypass verification, since any data element that is transferred unmodified from the IRS to the FAFSA is not subject to verification. But, the student's address on the FAFSA cannot be different than the address on their federal income tax return. Low-income students are much more likely to have moved since they filed their federal income tax returns, according to the [U.S. Census Bureau](#). They are also much more likely to be homeless, according to the [National Coalition for the Homeless](#), since homelessness and poverty are linked.

Low-income students and parents might also fall below IRS tax return filing thresholds, which appear in Table 1-1 of [IRS Publication 17](#). This is especially true for families living below the [federal poverty line](#) or earning the federal minimum wage. Even when the IRS confirms through the Data Retrieval Tool that they did not file a federal income tax return, the IRS does not confirm the amount of their income or that their income fell below the filing thresholds, so they remain subject to verification.

## IRS Tax Return Transcripts

If a student's FAFSA is selected for verification, the student and parents may be required to obtain an IRS Tax Return Transcript.

- They cannot use the IRS's online Get a Transcript tool because it requires them to have a mobile phone registered in their name and either a credit card account number or the account number of a mortgage, home equity loan or home equity line of credit in their name. Very few low-income families can satisfy these requirements.
- Low-income families might be able to use the simpler version of the online IRS Get a Transcript tool, except if they are homeless or have moved since filing their federal income tax returns.

Many low-income students have encountered difficulty in obtaining a verification of non-filing letter from the IRS, especially one that satisfies U.S. Department of Education requirements. The IRS is also sometimes requiring the applicant to make an appointment to receive IRS Form 13873, even when the nearest IRS office is hundreds of miles away.

When the applicant has filed IRS Form 4506-T to have the tax return transcript or verification of non-filing letter sent to the financial aid office, the IRS has sometimes said that it cannot comply with the request. Instead, the IRS insists on sending the response to the applicant's address.

## Recommendations

Clearly, the federal government has legitimate reasons for the policies and procedures that unintentionally discriminate against low-income students and their families. The IRS was forced to implement stricter taxpayer authentication on the Get a Transcript tool after hackers were able to access the tax records of about 100,000 taxpayers in early 2015. The U.S. Department of Education selects the FAFSAs of Federal Pell Grant recipients for verification because that's where there's the greatest risk of financial aid fraud.

Nevertheless, this undermines the U.S. Department of Education's college access goals by creating additional obstacles for low-income students to overcome when seeking financial aid.

The U.S. Department of Education should consider the impact of government policies and procedures on low-income students. Perhaps, the U.S. Department of Education could adopt workarounds that are less likely to thwart college access. For example, the IRS could adopt simpler authentication requirements for the Get a Transcript tool if the taxpayer chooses to have the tax return transcripts sent directly to college financial aid offices. The colleges must be listed on the FAFSA and the Social Security numbers of the student and parents (as applicable) must also match.

The U.S. Department of Education also should consider the trade-offs between the impact on college access and the impact on program integrity. For example, the sampling size for verification could be reduced for low-income applicants. Currently, the odds of being selected for verification are an order of magnitude greater than the odds of an IRS audit of federal income tax returns. The IRS and Social

Security Administration (SSA) are unwilling to share income data with the U.S. Department of Education without taxpayer consent. But, perhaps they would be willing to identify FAFSA applications that should *not* be selected for verification based on the applicant's low-income status?

Likewise, the U.S. Department of Education should identify which questions on the FAFSA are most problematic for low-income students, as opposed to all students. Low-income students might find a different set of questions to be challenging than middle- and high-income students. That might suggest ways to streamline the application that reduce drop-off by low-income students. It also could suggest questions where more automated help might be necessary or where the help text could vary based on the low-income status of the applicant and the applicant's family.

Congress should consider simplifying the FAFSA and federal student aid programs. This will not only make it easier to file the form, but it will reduce opportunities for low-income students to fall out of the system. The following changes would yield a fairer treatment of low-income students.

- The FAFSA should be used to determine eligibility only for grants and other forms of gift aid. Eligibility for student loans and student employment should not depend on the FAFSA.
- The FAFSA should no longer treat student and parent income separately, with different formulas. Instead, student and parent income should be combined and subjected to the same assessments. This will eliminate problems that occur when the student is the primary wage-earner for his or her family.
- The FAFSA should no longer treat student and parent assets separately, with separate formulas.
- The FAFSA should be revised to allow the expected family contribution (EFC) to go below zero, so that it adequately reflects the dire financial circumstances of students who live below the poverty line.
- The answers to the questions about means-tested federal benefits should be implemented through a database match.