



## The FAFSA Simplification Act: Policy Simulations and Implications for State Aid Programs

An analysis of the FAFSA Simplification Act's Student Aid Index formula and its impact on Iowans' eligibility for federal and state financial aid programs.

## EXECUTIVE SUMMARY

In anticipation of the new Free Application for Federal Student Aid (FAFSA) to be implemented on October 1, 2023, we describe the significant changes associated with the new needs analysis formula and its impact on Iowans' eligibility for federal and state financial aid programs.

### Key Findings:

- The new needs analysis formula treats small businesses and family farms as assets and does not consider the number of family members in college. Both changes will affect students' financial aid eligibility.
- The new measure of determining one's aid eligibility, the Student Aid Index (SAI), is likely to be lower than the current Expected Family Contribution (EFC) measure for some individuals. As a result, we anticipate an increase in the number of Pell grant recipients and overall Pell grant awards to be greater.
- A small share (5%) of Iowans will likely lose their eligibility under Iowa's largest financial aid program, the Iowa Tuition Grant.

## INTRODUCTION

In December 2020, Congress passed, and President Trump signed the Consolidated Appropriations Act of 2021, which contained the FAFSA Simplification Act that makes significant changes to the Free Application for Federal Student Aid (FAFSA). While some of the Act provisions have been implemented (e.g., elimination of the selective service question), most of its provisions are scheduled to take effect for the 2024-2025 award year. Two significant changes to the FAFSA include altering the federal needs analysis formula used to determine students' financial aid eligibility and renaming the Expected Family Contribution (EFC) to the Student Aid Index (SAI).

The purpose of this brief is to discuss the significant upcoming changes to the FAFSA form and needs analysis formula, provide initial estimates for SAI and Pell grant eligibility under the new formula, and demonstrate how the move from EFC to SAI will impact Iowans' state aid eligibility. We anticipate this to be our first of several policy briefs examining the FAFSA Simplification Act as it relates to Iowa's state-funded financial aid programs. In this first brief, we estimate SAIs and examine the simulated effect of the transition to the SAI on Iowa's largest financial aid program, the Iowa Tuition Grant (ITG).

## MAJOR FORMULA CHANGES

Starting on October 1, 2023, students and their families will use a new simplified FAFSA to qualify for federal, state, and institutional financial aid. The need assessment procedures that determine students’ aid eligibility will also change with the modifications to the number and type of questions asked on the form. Notable differences include:

- the ability for students to have a negative SAI up to -\$1,500, whereas \$0 was the lowest value for the EFC;
- elimination of state and other tax income exclusions;
- treatment of untaxed income (e.g., child support received is considered an asset instead of other income);
- non-tax filers and households with income below specific poverty thresholds can receive the maximum Pell Grant amount;
- allowing FAFSA filers with adjusted gross income below \$60,000 or receipt of a means test benefit to skip reporting on assets, such as savings, investments, or net worth of business or family farms.

In this section, we focus on the two modifications to the FAFSA and the need calculation that will substantially impact students’ aid eligibility and lead to significant differences between EFCs and SAIs.

### *Inclusion of small business and farm wealth*

Currently, the net worth of small businesses and family farms are excluded from the EFC needs analysis formula. Under the SAI formula, the net worth of businesses and farms is treated as an asset and included in the formula.<sup>1</sup> Given that Iowa is an agricultural state, we are concerned about treating family farms as an asset as many farmers could appear to have asset wealth that far exceeds their actual income.

Table 1 depicts what could happen when the net worth of small businesses and family farms is included in the SAI formula for a dependent student with a parental adjusted gross income of \$60,000. The family has a similar SAI and EFC when the net worth is less than \$250,000. However, when the net worth exceeds \$500,000, the SAI diverges from the EFC, impacting the student’s financial aid eligibility. For example, for a family with a farm net worth of \$1 million, the EFC was \$7,626. But under the SAI formula, the amount the family is expected to contribute to college increases to \$41,056. We anticipate that many family farms in Iowa with a net worth exceeding \$500,000 are likely to be impacted, as research from Iowa State University found that the average net worth of farms in Iowa was approximately \$1.9 million in 2021 (ISU, 2022).

<sup>1</sup> Assets are excluded from the SAI formula if the family received a means-tested benefits, or had an adjusted gross income that was less than \$60,000 and either reported on a Schedule C tax form a gain or loss of less than \$10,000 or did not file any tax schedules.

Table 1: Treatment of Small Business and Family Farm Net Worth

Parent AGI	Small Business/ Farm Net Worth	EFC	SAI
\$60,000	\$50,000	\$7,626	\$5,386
	\$250,000		\$9,725
	\$500,000		\$17,255
	\$1,000,000		\$41,056
	\$5,000,000		\$266,656

Notes: Based on a dependent student from a family size of 4, parent marital status is married, and 1 member in college. Calculation uses the average reported FAFSA amounts, such as tax paid and assets, among dependent filers with a family size of 4 and who have a parental income between \$55,000 and \$65,000.

### Treatment in the Number of Household Members in College

Another significant change in the SAI calculation relates to the treatment of the number of family members in college. Under the EFC formula, the number of family members in college is taken into account. It allows for the EFC to be distributed across the number of family members in college. Under the SAI formula, the number of family members in college is eliminated, which affects families with multiple members in college such that SAI will be the full amount for

each member in college. For example, under the current EFC formula, a family with two members in college with a total EFC of \$10,000, equating to \$5,000 for each family member. Under the SAI formula, each family member in college could have an SAI of \$10,000, resulting in the family having a total SAI of \$20,000. Overall, in the first year of SAI’s implementation, we anticipate that families with multiple members in college will lose federal and state financial aid eligibility and be expected to cover the loss in aid with personal finances for the number of students in college.<sup>2</sup>

<sup>2</sup> More information regarding the theoretical rationale to eliminate the number in college is discussed in Baum (2020), The Federal Methodology: Is It a Good Measure of Ability to Contribute Toward Educational Expenses and NASFAA (2021), Removal of Number in College Yields More Equitable, Simple Application Approach.

## SIMULATING THE TRANSITION FROM EFC TO SAI

To simulate students’ aid eligibility under the new needs analysis formula, we used administrative FAFSA/ISIR data for 124,735 undergraduate filers with residence in Iowa from the 2020-21 academic year.<sup>3</sup> First, we calculated filers’ SAI using the U.S. Department of Education’s preliminary guidance on implementing the FAFSA Simplification Act.<sup>4</sup> We then use the estimated SAI amounts to simulate filers’ Pell grant eligibility, and eligible Pell grant amounts if enrolled full-time. Lastly, we simulate the effect of using the SAI to determine eligibility and award amounts for ITG. Appendix A provides details on our process to simulate amounts.

### Student Aid Index Simulations

Table 2 compares the descriptive differences in Iowa for all undergraduate filers with a calculated EFC. These results are inclusive of dependent and independent filers. Overall, we find that the simulated SAIs result in a lower value when compared to EFCs. While the average SAI of \$16,688 is similar to the average EFC of \$16,254, the median SAI is substantially lower. For all filers, the median SAI is \$2,257 compared to a \$4,975 EFC, reducing filers’ financial obligation by approximately \$3,500. Less than one percent of filers had the same EFC and SAI. Almost 85% of filers experience a decreased financial obligation of more than \$500.

Table 2. Descriptive Statistics for EFCs and SAIs

Descriptive Statistics	EFC	SAI
Average	\$16,254	\$16,688
Median	\$4,975	\$2,257
Same EFC and SAI	<1%	
SAI within \$500 of the EFC	2%	
SAI increases over \$500	14%	
SAI decreases over \$500	84%	
Correlation between EFC & SAI	0.92	
R <sup>2</sup>	0.85	

Notes: The sample consists of 124,735 aid applicants with residence in Iowa who filed the FAFSA in 2020-21. Both EFC and SAIs are top-coded to \$999,999.

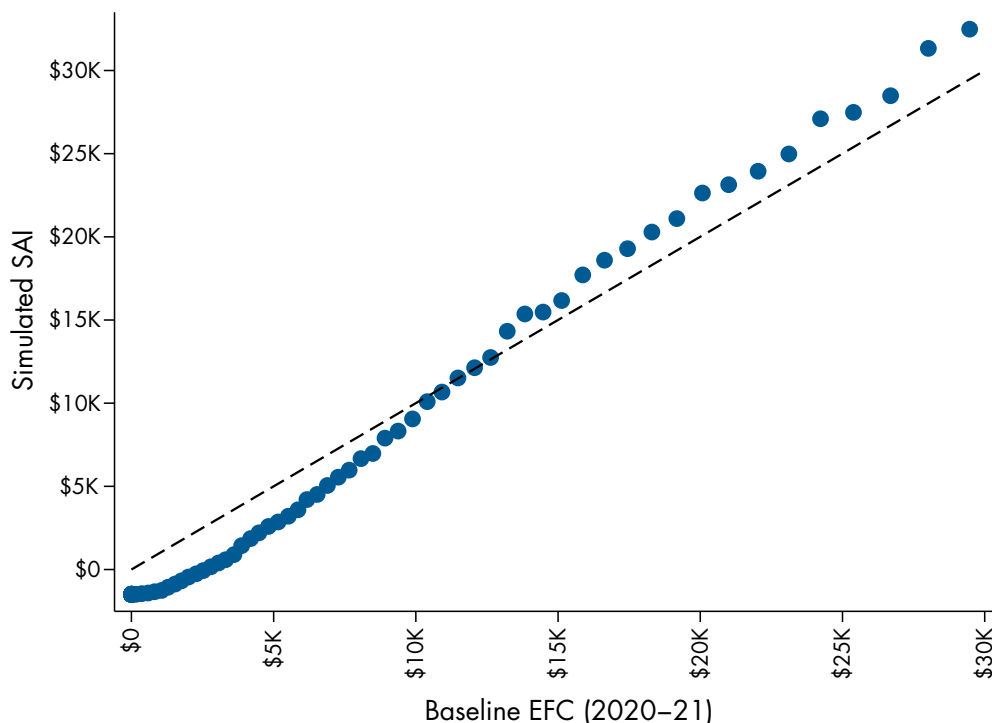
<sup>3</sup> Simulations were also estimated using 2019-20 and 2021-22 FAFSA data and provided similar results to the 2020-21 data. To save space, we are presenting estimates from 2020-21. Simulations from other FAFSA years are available upon request.

<sup>4</sup> ED’s Pell eligibility and SAI guidance was released on November 21, 2022. More information about the SAI formula is provided at <https://fsapartners.ed.gov/knowledge-center/library/handbooks-manuals-or-guides/2022-11-21/2024-25-draft-student-aid-index-sai-and-pell-grant-eligibility-guide>.

Figure 1 illustrates the relationship between EFCs and estimated SAIs. If EFCs and SAIs were perfectly correlated, the dots in the graph would align with the dashed line at the 45-degree angle. Below \$10,000, SAIs are lower than a

families' EFC, suggesting that aid eligibility change is likely to occur among these filers. Whereas filers with an EFC above \$15,000 will likely notice an increase in the measure determining their aid eligibility.

Figure 1. SAIs Relative to EFCs



Notes: Each dot represents 1% of the sample. See notes reported in Table 2. Figure was adapted from Dynarski, Scott-Clayton, and Wiederspan (2013).

**Changes to Pell Grant Eligibility**

Table 3 displays estimated Pell grant eligibility and Pell grant amounts for both EFCs and SAIs. A higher percentage of filers are Pell-eligible under the estimated SAI than EFC, by approximately 10 percentage points. As a result, the average eligible Pell grant increases by \$589. Most filers (73%) would have an eligible Pell amount within \$500 of the eligible Pell amount calculated with an EFC. Approximately a third of filers (27%) would experience an eligible Pell grant increase of \$500.

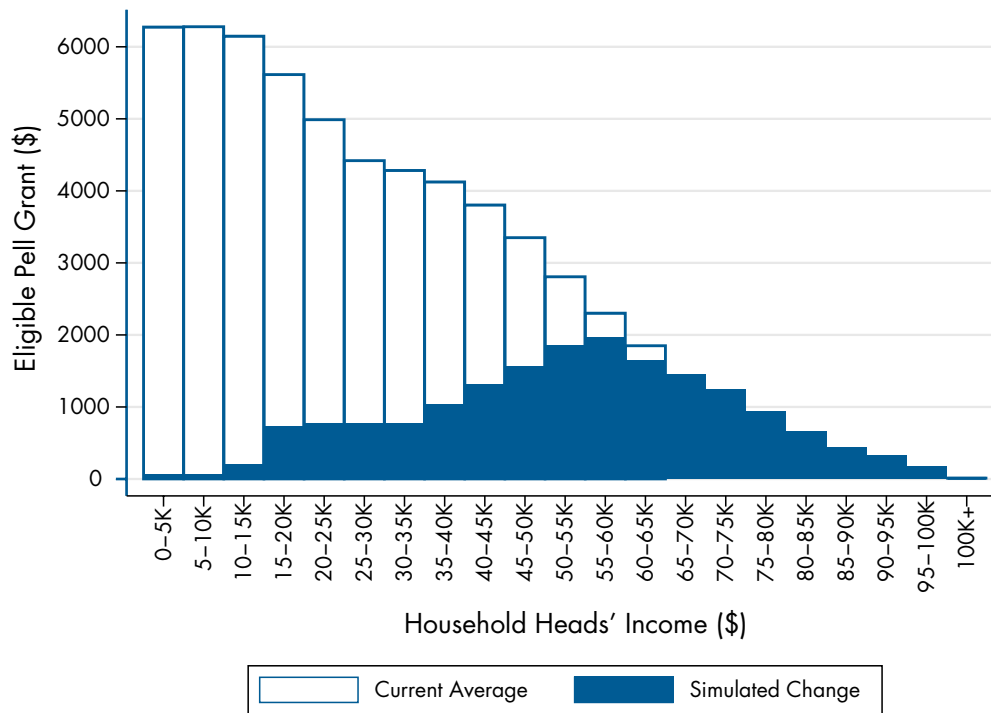
The changes in the distribution of eligible Pell amounts are depicted in Figure 2. The white bars represent the average eligible Pell grant for each income bracket using the EFC formula. In contrast, the dark bars represent the change in average eligible Pell grant amounts under the SAI formula. As Figure 2 demonstrates, the most significant increase in eligible Pell amounts is concentrated among families with incomes higher than \$55,000.

Table 3. Descriptive Statistics for Pell Grant Eligibility and Amounts

Descriptive Statistics	EFC	SAI
Percent Pell-eligible	52%	61%
Average eligible Pell grant (including zeros)	\$2,748	\$3,337
No change in eligible Pell amounts	69%	
Eligible Pell difference within \$500	73%	
Eligible Pell increases over \$500	27%	
Eligible Pell decreases over \$500	<1%	
Correlation between Pell estimates	0.92	
R <sup>2</sup>	0.84	

Notes: See notes in Table 2 for sample size. Pell eligibility and amounts were calculated using the SAI amounts reported in Table 2. See Appendix A for information on determining Pell grant eligibility and eligible amounts.

Figure 2. Simulating Effects on Eligible Pell Grant Amounts using SAI



Notes: Figure was adapted from Dynarski, Scott-Clayton, and Wiederspan (2013). Sample is divided into \$5,000 increments based on the household heads' income. Roughly 9% of the sample is represented in the 0-5K bin and 27% of sample is represented in the 100K+ bin. The remaining bins contain 2% to 5% of the sample.

**Impact on State Aid Programs: Iowa Tuition Grant**

Created in 1969, ITG provides financial aid to Iowa residents attending an undergraduate degree program at private, not-for-profit colleges and universities in Iowa. For the 2020-21 academic school year, the maximum award for ITG was \$6,200, and students needed to have an EFC between \$0 to \$15,000 to be ITG eligible. The first column in Table 4 displays ITG awards disbursed for the 2020-21 academic year. Approximately 66% of filers attending an Iowa independent college received an ITG award, averaging roughly \$3,400. The total amount disbursed was approximately \$46.5 million.

The second column in Table 4 displays students’ ITG eligibility using the SAI, but keeping the threshold at

\$15,000. For 92% of applicants, ITG eligibility would not change, 3% would experience a gain in ITG eligibility, and 5% would lose ITG eligibility. Overall, the average ITG award would decrease by \$58, and total awards would decrease by roughly \$1 million from the baseline of \$46.5 million.

For the final ITG simulation in Table 3 (last column), we estimate eligibility when considering total ITG awards. If we were to maintain ITG with status quo appropriations, the SAI threshold would need to be increased from \$15,000 to \$15,936. This would result in the same average ITG award and expenditures under the EFC formula (column 1), but 4% of filers gain eligibility, and another 4% lose eligibility.

Table 4: Comparing ITG Eligibility and Amounts under EFC and SAI

Descriptive Statistics	ITG Under EFC	ITG Under SAI (no change in threshold)	ITG Under SAI (status quo appropriations)
Percent ITG eligible	66%	65%	66%
Average ITG award (including zeros)	\$3,357	\$3,299	\$3,357
No change in ITG eligibility	-	92%	92%
Gain ITG eligibility	-	3%	4%
Lose ITG eligibility	-	5%	4%
Total ITG (in millions)	\$46.5	\$45.7	\$46.5
EFC/SAI Threshold	15,000	15,000	15,936

Notes: Sample consists of 13,858 aid applicants filing a FAFSA in 2020-21 and attending an ITG eligible Iowa institution. See Appendix A for details on determining ITG eligibility using SAI.

**Why are 5% of filers losing their ITG eligibility?**

Table 4 demonstrates that recipients lose their eligibility because they experienced an overall increase in the SAI from the EFC, from \$12,212 to \$20,970. Most students losing eligibility are dependents and less likely to be first-time enrollees. Almost 100% had an original EFC greater than \$7,500, and 98% had more than one family member enrolled in college. As mentioned above, SAI does not take into account the number of family members in college, and the

findings in Table 4 demonstrate how families with multiple members in college are likely to lose grant eligibility because of this change.

In both SAI estimates, a small share of filers are likely to notice their ITG eligibility change. If returning students were to be grandfathered into remaining ITG eligible, ITG would need an additional \$2.1 to \$2.3 million in funding to cover their ITG loss.

Table 4: ITG Recipients Losing Eligibility under SAI

Descriptive Statistics	EFC	SAI
Average	\$12,212	\$20,970
Share Dependent	94.3%	
Share Independent	5.7%	
Share with EFC above 7,500	99.2%	
Share with 1 family member in college	2%	
Share with 2 or more family members in college	98%	
1st Year in college	25%	
2 or more years in college	75%	

Notes: Sample is limited to the share of ITG recipients losing eligibility, as reported in Table 3, Column 2.



## DISCUSSION AND IMPLICATIONS

The move to a more simplified FAFSA is expected to be implemented for the 2024-25 academic year. This means that on October 1, 2023, students will be filing their FAFSA under the new SAI needs analysis formula. Our analysis shows several trends likely to occur because of this change.

First, SAIs are likely to be lower than EFCs for some individuals, and we should anticipate a significant increase in the number of Pell grant recipients and overall Pell grant awards to be larger. The increase in Pell awards may lead to cost savings in some state and institutional financial aid programs - as the Pell grant amount increases, there will be smaller awards from other aid programs. For example, Iowa College Aid administers the Future Ready Iowa Last-Dollar Scholarship (LDS), a financial aid program that covers the remaining gap between federal and state grants and scholarships, and tuition and fees. The increase in Pell grant awards and amounts will “crowd-out” LDS awards for some individuals. However, more research is needed to fully understand the extent to how this crowd-out will reduce overall awards in the LDS program.

Second, as our research demonstrates, eliminating the number of household members in college under the SAI formula will affect some applicants’ aid eligibility. Despite its exclusion, the FAFSA will continue collecting information on the number of family members in college to allow postsecondary institutions and states to utilize the number

for their respective aid programs. However, two different needs analysis measures could create complexity in a family, knowing which is the appropriate measure for aid eligibility and how their award amount was determined. This obscures legislative intent for a simplified process to receive aid. To avoid this complexity, we recommend that the state of Iowa and Iowa postsecondary institutions not deviate from the SAI formula, engage with students and their families to let them know about this change, and determine processes to assist those that lose their financial aid due to more than one family member being in college.

Third, our research could not account for small businesses and family farms net worth on filers’ SAI. However, we created scenarios in our simulations that demonstrate that net worth can increase one’s SAI and affect eligibility for some financial aid programs. Therefore, we recommend the federal Department of Education work with Congress to pass legislation excluding small businesses and family farms net worth from the SAI formula.

The transition from the EFC to SAI is a step in the right direction regarding FAFSA simplification and improving the process for students to receive financial aid. However, our analysis shows that this transition will likely have associated impacts. We must anticipate these effects to help Iowans as they seek out and finance their postsecondary opportunities.

## APPENDIX A: MODELING PROCESS

To simulate SAI amounts, we utilized Institutional Student Information Records (ISIR) from the U.S. Department of Education's (ED) Central Processing System (CPS) for all Iowans who filed the 2020-21 FAFSA. The sample was limited to 124,735 dependent and independent filers identified as undergraduates on the FAFSA form. We simulate each filer's SAI using the data elements collected on the FAFSA to calculate EFC and follow the SAI calculation formula from ED's preliminary guidance of the FAFSA Simplification Act. Elements that could not be included in our modeling because they are new to the SAI formula and not reported in the ISIR data include:

- Tax return schedules C, D, E, F, G, and H
- Net worth of small businesses or family farms
- Foreign income exclusion (as reported on U.S. tax return)
- Retirement plan rollover
- Receipt of federal housing assistance

We use 2018 poverty thresholds to reflect the income year reported on the 2020-21 FAFSA to determine Pell eligibility. Pell Grant eligibility and amounts were also calculated by subtracting the midpoint of simulated SAI amounts in

\$100 bins from the maximum Pell grant amount in 2020-21, which was \$6,345. Students who attend college full-time for the entire academic year and have a cost of attendance greater than the Pell maximum are eligible for the full Pell amount. Students who enroll less than full-time or have a cost of attendance less than the Pell maximum are eligible for a portion of the full Pell amount that is adjusted to their enrollment intensity and cost of attendance for each term. Unfortunately, Iowa College Aid does not collect information on students' enrollment nor cost of attendance that would permit us to adjust award amounts accordingly. Therefore, our Pell estimates highlight the share of filers who are Pell eligible and the eligible Pell amount if enrolled full-time.

To calculate ITG eligibility and amounts, we matched FAFSA records to the National Student Clearinghouse (NSC) in order to identify which FAFSA filers were attending an ITG eligible institution during the 2020-21 school year. We were able to match 13,858 filers. We simulated aid amounts by providing each eligible ITG student with the average award amount among ITG recipients for 2020-21, which was \$5,050. The total amount of ITG awards disbursed for 2020-21 was roughly \$46.9 million and the total number of recipients was 9,309.

## CITATIONS

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This brief was aided by support from the Bill & Melinda Gates Foundation and Iowa College Aid's participation in the State Higher Education Executive Officers Association's (SHEEO) financial aid learning community. The findings and conclusions presented are those of the authors and do not necessarily reflect the positions or policies of the Bill & Melinda Gates Foundation or SHEEO.