Center on
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THE COMPLICATION WITH FAFSA SIMPLIFICATION

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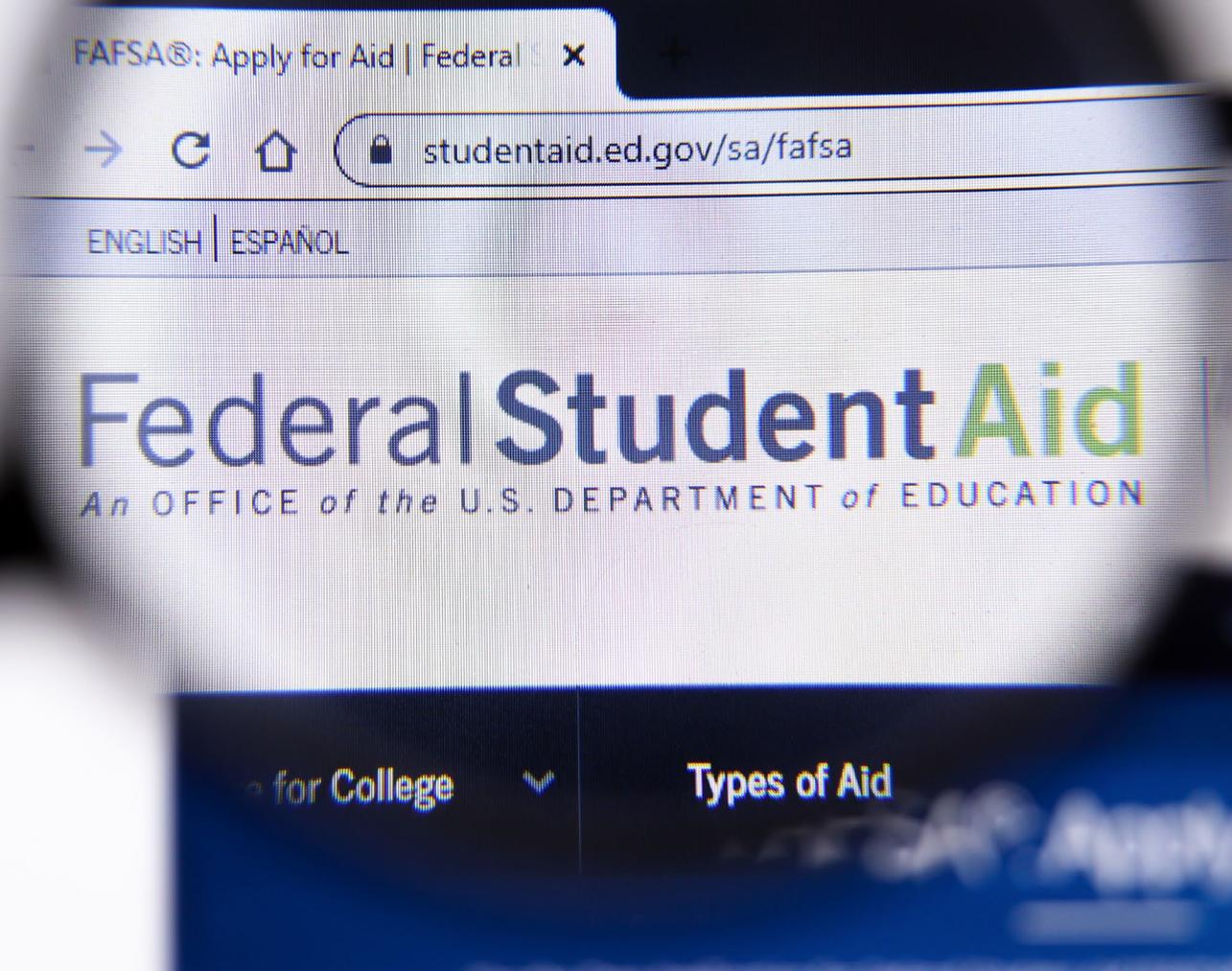
DISCLOSURES

It is well-understood that nobody understands college financial aid.

What prospective students will have to pay to attend college remains a mystery to many. One reason for this is the complexity of applying for financial aid. To do so, students must complete the Free Application for Federal Student Aid (FAFSA), which currently contains 108 questions, including detailed financial information. Many students and families find completing the form overwhelming.

Legislation enacted in December 2020 is intended to facilitate the process. It will reduce the number of questions on the FAFSA to 36. The law will also make it easier to import income data from tax records. The new FAFSA will be available in December 2023 for student aid requests for the 2024-2025 academic year. Making it easier to complete the FAFSA may increase the number of students who seek aid and attend college, a meaningful accomplishment.

Yet there are many other barriers that prevent students from accessing college. Price matters, too. How much will students have to pay? If the price changes, access will also change. Beyond the price itself, student knowledge of what they will have to pay also matters. If students do not know how much college will cost them, it will hinder their decision-making.

FAFSA "simplification" will also change prices. The law alters the formula used to calculate the amount of financial aid for which students are eligible. Many students will be eligible for more aid, but some will be eligible for less.

But changes in the amount that students will pay is only partly attributable to changes in how much aid they are eligible for. Financial aid provided by the federal government is based entirely on eligibility, but many higher education institutions provide additional aid using their own funds. Changes in the amount of aid students are eligible for may lead to changes in the

amount of financial aid institutions provide, which will depend on their budgetary impact.[1] Ultimately, FAFSA simplification will change college pricing in ways that are hard to predict and unlikely to be understood by students and their families.

The purpose of this report is to decipher the impact of FAFSA simplification on the price that different types of students pay for college. We first forecast the impact of the changes on students' eligibility for both federal and institutional financial aid. We then explore the potential impact of changes in student eligibility on institutional budgets and discuss how that may influence the strategic decisions that institutions make in response. This analysis will inform a discussion of FAFSA simplification's impact on how much students are likely to pay for college.

Throughout this discussion, we mainly focus on full-time, dependent students attending four-year institutions. Roughly half of college students attend four-year institutions and half of those students are dependents enrolled full-time. The "sticker price" (the listed tuition plus living expenses) at these institutions is higher than that at two-year colleges. Four-year colleges are also more likely than two-year colleges to provide financial aid with their own funds (partly because of the higher sticker price). Dependent students enrolled at these institutions also have financial circumstances that vary considerably. Independent students and those enrolled at two-year colleges typically have a more limited ability to pay for college. We will briefly address the impact of FAFSA simplification on those students below, but the impact is more straightforward for them.

For these dependent students enrolled full-time at four-year institutions, there will be winners and losers in this process. Some are likely to benefit from FAFSA simplification, paying less to attend college than they would have otherwise. Others, though, may end up paying more. Those students are unlikely to know that these changes are coming. All of this leads to one conclusion: FAFSA simplification may make it easier to complete the form, but its impact on college pricing is far from simple.

I. How Financial Aid is Calculated

The financial aid system is incredibly complex. We summarize the key elements here to facilitate understanding the potential impact of FAFSA simplification. The main purpose of providing personal and financial details on the FAFSA is to make an estimate of how much a family can afford to pay for the student to attend college. Currently, that estimate is called the Expected Family Contribution, or EFC. Starting with the 2024-25 academic year, its name will change to the Student Aid Index, or SAI. The idea is to remove the implication that the EFC indicates what students will "contribute," since students often must pay more than the EFC. Despite the name change, SAI will play the same role as EFC did in the old system. In both cases, a "contribution" or "assessment" is calculated separately for both the parent(s) and student and then added together to generate the EFC and the SAI, respectively.

The amount of aid for which students are eligible is determined by "financial need," which is the difference between the cost of attendance (COA) where students are enrolled and their EFC/SAI (need = COA – EFC/SAI). The COA includes stated tuition, living expenses, and other anticipated costs (books, travel, etc.). It would be better labeled the "maximum cost of attendance" because it ignores the availability of financial aid. Sometimes it is referenced as the "sticker price."

Pell Grants are an essential form of federal financial aid available to students from low-income families. They are grants, not loans, and they do not need to be repaid. The maximum Pell Grant was $6,895 for 2022-2023 and it will increase to $7,395 for 2023-2024. Students with a $0 EFC or SAI are eligible for the maximum grant. As a rough approximation, students are currently eligible for the maximum Pell Grant if their family's income is below $30,000 and they have limited assets.

Students with higher, but still limited, financial resources are still eligible for a Pell Grant. The exact grant amount (rounded into $50 increments) is equal to the difference between the maximum grant and their EFC/SAI (Pell = Max Pell − EFC/SAI). Again, as a rough approximation, students with family incomes below $60,000 and limited assets are still eligible for a positive Pell Grant. Students whose EFC/SAI is larger than the maximum Pell Grant do not receive a Pell Grant.

A Pell Grant is one element of financial aid awards that higher education institutions offer to students. These awards include different mechanisms students can use to help cover the cost of education that is otherwise beyond their financial reach. Beyond Pell Grants, the federal government also provides other methods to help fill the gap. These include subsidized student loans and student employment. Loans through the Federal Direct Student Loan Program are available, which are capped at $5,500 for freshman, $6,500 for sophomores, and $7,500 for juniors and seniors. The Federal Work-Study program provides funds to institutions to support student employment. Although the amount of earnings anticipated varies by institution, $2,500 reasonably approximates a typical amount awarded. Most institutions automatically include loans and student employment in their financial aid awards. For simplicity, we assume that they total $8,000 for all students with sufficient financial need to qualify for them. The FAFSA simplification law had no direct impact on loans and work-study funding. We ignore other, smaller sources of federal financial aid.

Many students have remaining financial need after these federal sources have been incorporated, particularly at four-year colleges and universities with higher sticker prices. Mathematically, remaining need is equal to the difference between the COA and the sum of the Pell Grant, federal student loans, work-study funding, and the EFC/SAI (remaining need = COA − EFC/SAI − Pell − loans − work-study). Some states may also provide additional public funding, but we ignore that here for simplicity. Otherwise, higher education institutions themselves are the main source of additional financial aid to cover at least part of that remaining need. They may offer "institutional grant aid" to fill some of that gap. The student is eligible for institutional aid equal to the remaining need as described above, but the amount of additional aid the institution provides is a policy decision.

For example, consider a student attending a public institution where the COA is $30,000. The student's EFC is $5,000 with $25,000 of financial need. This student would be eligible for a Pell Grant of $1,895 in 2022-23 (rounded to $2,000 for this exercise for simplicity) and, by assumption, federal loans and work-study funding of an additional $8,000. After accounting for all sources of federal financial aid, this student's remaining need is $15,000. The institution that the student attends could then provide additional financial aid of that amount, but typically they would offer less than that. At an average public four-year institution, the amount of additional financial aid a school (perhaps along with the state) would provide may amount to $10,000. Again, that amount is a policy decision.

A full understanding of the impact of FAFSA simplification on how much students ultimately pay for college (the "net price," equal to COA less all forms of grant aid) depends on how it changes Pell Grants and institutional grant aid. The impact on Pell Grants is formulaic. An increase in EFC/SAI results in a reduction in Pell Grants (and vice-versa), subject to its maximum value.

The impact on institutional aid, though, is far less clear. For those institutions that offer this form of aid, the amount of aid they award depends on institutional policies and are largely dictated by budget constraints. If their students' eligibility for aid changes, their policies may change as well to coincide with their budgetary needs. For instance, if aid eligibility increases, it is unclear whether the institution would have the ability to increase financial aid. They may need to adjust the method of determining how much aid to award to a student with a particular level of remaining need.

II. Upcoming Substantive Changes in Calculating SAI

Whether aid eligibility is determined by the EFC or the SAI, the underlying framework of the system is the same. The information provided by students and their parents are used to compute a contribution (EFC) or assessment (SAI) for each of them separately and then combined to create the EFC or SAI. The contributions/assessments are higher for students and parents that have more income or assets. Some income and assets are excluded from the calculation. Most notably, income below a threshold (the Income Protection Allowance, IPA) is not counted. This is similar to the personal exemption in the income tax system. The IPA is different for students and their parents. FAFSA simplification did not change this underlying structure.

Specific elements of this system will change, though, when the new law is implemented that will generate differences between the EFC and the SAI. Some of these changes will be important for a small subset of families (like the treatment of child support payments). Other changes will affect large numbers of families. In this discussion and in the analysis to follow, we focus on changes in the latter category.

INCREASES IN THE INCOME PROTECTION ALLOWANCES

The FAFSA simplification law will increase the IPA considerably for both parents and students. For parents, the IPA depends on family composition, but for a family of four with one child in college, the IPA will jump by $5,680 from $30,190 to $35,870. The impact of that increase depends on other factors, but as a rough approximation the parent's assessment would fall by perhaps $2,000 relative to the current EFC calculation. For students, the IPA is uniform; it will increase from $7,040 to $9,410. Depending on other factors, this could reduce the student's assessment by over $1,000. The two changes combined would reduce SAI by roughly $3,000. In other words, the family in this exam-

ple would be eligible for around $3,000 more financial aid according to the new formula, compared to what they would have received before FAFSA simplification. Most students will be affected by this.

ALLOWING FOR NEGATIVE STUDENT AND PARENT ASSESSMENTS

Currently, a student's EFC cannot fall below zero. After FAFSA simplification, that will no longer be true. Both the student and parent assessment components of the SAI will have a floor at -$1,500, not $0. That change will have a meaningful impact on many families. A positive parent or student assessment may be at least partially offset by the other's negative assessment. This is particularly relevant for student assessments since students often have limited earnings. Unless they earn more than $9,410, their assessment would be negative and could go as low as -$1,500. This negative value would add to the parents' assessment, lowering the combined SAI.

ALLOWING FOR A NEGATIVE SAI

When the student and parent assessment are summed to create the SAI, the total is also allowed to be negative, although it may not go below -$1,500. Students with a negative SAI are still eligible only for the maximum Pell Grant (which is not affected by the simplification). This change will increase affected students calculated "remaining need," making them eligible for additional institutional aid. How this translates to actual aid received depends on whether and how institutions respond.[2]

ELIMINATING THE SIBLING DISCOUNT

The current FAFSA reduces a family's EFC proportionally to the number of students in a family who are in college at the same time. If a family has two children in college, each student's EFC would be roughly half of what it would be if they did not have any other children in college at the same time; with three children in college, the EFC is set to approximately one-third its value when only one child is in college.

The simplified FAFSA will continue to ask about the number of siblings in college at the same time, but it will not use that information in the SAI formula. That is, the effective "sibling discount" will be eliminated. This change will have a sizable impact on financial aid eligibility for students with siblings in college at the same time. Ignoring other changes in the formula, students with one (two) sibling in college will have an SAI that is about twice (three times) as what their EFC under the current system. Ignoring other changes in the formula, students with one (two) siblings in college will have an SAI that is roughly twice (three times) the value of their EFC under the current system. The higher SAI translates to less eligibility for financial aid.

OTHER CHANGES

FAFSA simplification included several additional changes to financial aid calculations, but a few stand out. The first is an expansion of a provision that automatically qualifies a student for maximum aid eligibility. Beginning in 2024/25, students whose family income is below a poverty threshold (175% and 225%, respectively, for parents who are married or single) automatically qualify for the maximum Pell grant. For a family with two children, this threshold will rise to around $50,000 in 2022, with the exact cut-off determined by the parents' marital status. Currently, dependent students automatically qualify for a $0 EFC if their family income is below $27,000.

The new law also updates the requirements for the "simplified needs test." Students whose family income is below a certain level do not need to provide asset information on the FAFSA. That income cut-off will increase from $50,000 to $60,000 when the law goes into effect.

III. Comparing EFC and SAI

Any examination of the impact of FAFSA simplification on college pricing must start with a comparison of EFC and SAI. The difference between the two translates directly to differences in eligibility for financial aid. The

greater that difference, the larger the potential impact on how much financial aid students receive and how much they have to pay.

For this purpose, we use data constructed by the National Association of Student Financial Aid Administrators (NASFAA). They began with simulated FAFSA data for hundreds of students. Then they coded the detailed changes contained in the new SAI and applied that code to the data available for those students to estimate SAI. They accounted for the policy changes we described above, as well as changes that affect smaller numbers of students. Again, we restrict our attention to students who are dependents and who are enrolled full-time at four-year institutions.

Figure 1 compares the students' originally calculated EFC values to the predicted SAI values, focusing specifically on students with no siblings in college separately from those students with one sibling in college. These two groups represent 93% of the sample. The scatter plot shows quite clearly that the relationship between the EFC and SAI is very strong. There are a handful of outliers, though, and the notes to the figure highlight the reasons those outliers exist. They are all attributable to specific features of FAFSA simplification that have large effects on SAI for those who are affected but that affect relatively few students.

We augment the scatter plot with regression lines that are generated using all data for students with an SAI greater than the minimum of -$1,500.[3] We also omit the few identified outliers to obtain the best possible estimates for the vast majority of students. These lines fit the data very well—the R^2 is 0.98. The line for students with no siblings in college predicts that a student with an EFC of $0 would have an SAI of -$2,149. In practice, that would be floored to -$1,500. For every additional dollar of EFC, the typical student's SAI would increase by $0.935 (again, imposing the floor of -$1,500 for those with a predicted SAI below that level). A student with an EFC of around $20,000 (income typically in the vicinity of $100,000) would have a predicted SAI of $16,551. The SAI is $3,449 lower than EFC. The magnitude of this gap between EFC and SAI is consistent with our earlier conceptual discussion of the anticipated impact of the formula changes.

The relationship between the EFC and SAI for students with a sibling in college is very different. EFC for these students is cut in half relative to a student with no sibling in college. No such discount is applied in calculating the SAI. Whatever the translation from EFC to SAI would have been with no sibling, the SAI will be twice as high with one sibling. The result is that the prediction line is twice as steep (slope = $1.87) with an intercept that is twice as large (-$4,298). A student with a $20,000 EFC with one sibling in college would have an EFC of $40,000 with no sibling discount. That would translate to an SAI of $33,102, which is $13,102 higher than the EFC this student would face.

IV. Simulating the Impact of FAFSA Simplification on Aid Eligibility

How much a student pays for college depends on the COA and how much grant aid they receive. Pell Grants are determined based on EFC/SAI (assuming COA is greater than the maximum Pell Grant), but institutional grants are not. These grants depend on how much financial aid the student is eligible for after federal sources of aid have been incorporated (remaining need). They also depend on institutions' own financial aid policies that translate remaining financial need into financial aid awards. We cannot explicitly forecast any institutional policy changes that result from FAFSA simplification (although we offer speculation below). We can assess, though, changes in the amount of institutional financial aid for which students are eligible.

We use data from the 2015-2016 National Postsecondary Student Aid Study (NPSAS).[4] These data include 89,000 students; they contain sample weights to generate population-level estimates (19 million students, in total). We restrict our attention to the 21,000 dependent students who are enrolled full-time at a single four-year institution (representing 5 million students in the population). These data include relevant information for this exercise, including family characteristics, finances, and EFC along with the COA where the students are enrolled.

THE IMPACT ON INDIVIDUALS

For a given COA, EFC, and the number of siblings in college, we can calculate eligibility for Pell Grants and institutional grant aid under the current system. If we know a students' EFC, we can forecast SAI based on the analysis described earlier and displayed in Figure 1. This provides us with sufficient data to simulate aid eligibility using SAI. We can use this approach to compare aid eligibility under the two systems. The lynchpin for such an analysis is EFC.

The problem is that EFC is not an individual characteristic that has much intuitive meaning. It is a statistic that aggregates considerable financial detail and family characteristics. The question we want to know is how will FAFSA simplification affect different types of students that we can identify and recognize?

In our analysis, we focus on students that differ by family income and the number of siblings enrolled in college. To translate EFC to total family income, we estimate the linear relationship between the two.[5] The results enable us to translate family income to EFC for students with typical values of all other characteristics that contribute to actual EFC at that income level. We can then translate family income to SAI based on the forecast of EFC using the same approach described earlier.

We use these predicted EFC and SAI values by family income level to calculate eligibility for Pell Grants and institutional aid as we described earlier. In our analysis, we set the maximum Pell grant to $7,395 to be consistent with the increase taking effect in 2023-2024. To estimate institutional grant aid based on remaining need, we use two alternative COA levels of $30,000 and $60,000. These amounts roughly capture the median values at four-year public and private institutions, respectively. As indicated earlier, we assert a combined value of federal student loans and work-study funding of $8,000.

The results of this exercise are presented in an [inter-active tool](#) that we created. It displays the simulated change in eligibility for Pell Grants and institutional need-based financial aid brought about by FAFSA simplification for hypothetical students at the two different institutions. The user can see how these values change with family income and depending on the number of siblings in college at the same time. A cruder representation of the simulated changes is presented in Table 1. In either case, it is important to remember that the results regarding institutional aid represent the amount of aid for which students are eligible, not necessarily the amount of aid they will receive.

The results indicate that FAFSA simplification has very different effects on different types of students and institutions. For students from families with incomes of $30,000 or below, no additional Pell Grant money is available regardless of the number of siblings in college. Those students had a $0 EFC beforehand and a -$1,500 SAI afterwards—the reform does not allow for an additional Pell Grant payment based on a negative SAI. Institutions may use that information, though, to award those students additional institutional aid, so long as the total does not exceed the COA.

For students whose family income is in the range of $40,000 to $70,000 (the upper limit approximates median income) and with no siblings in college, their Pell Grants will increase by upwards of $2,500. Their eligibility for institutional grant-based aid will not be affected because their remaining need will not change. The difference between their EFC and SAI is offset by the change in the Pell Grant.

Students in this income range with siblings in college, though, stand to gain little. In fact, initial smaller gains in Pell Grants transition to losses as income rises within this range. A student whose family income is around $70,000 (and typical other characteristics) and one sibling in college stands to lose $2,000 in Pell Grant funding. Losses are even larger for students with two siblings in college around this middle-income level. Eligibility for institutional grant-based aid will not change much for these students.

All the simulations reported pertain specifically to dependent students attending four-year institutions. Those reported so far, though, do provide important insights regarding the impact of FAFSA simplification for other students. For those students attending community colleges, FAFSA simplification will only affect their eligibility for financial aid through possible changes in Pell Grant eligibility. Those institutions typically do not have funding available to offer institutional grants. The impact on independent students is also likely to be limited to Pell Grant eligibility. These students often have limited financial resources[6] and are likely to be eligible for the maximum level of institutional aid even at an institution that offers it. The remainder of our analysis returns to our earlier focus on dependent students attending four-year institutions.

For students with above median incomes, Pell Grant eligibility using EFC or SAI is largely exhausted regardless of the number of siblings in college. For those with no siblings in college, they will be eligible for more institutional need-based aid on the order of a few thousand dollars. At private institutions that have a higher COA, those potential benefits accrue to those with incomes approaching $225,000.

However, the reduction in aid eligibility for students with above median incomes who have siblings enrolled in college is substantial. Students with siblings enrolled in college with a family income of $120,000 may need to pay roughly $10,000 more to attend either a public or private institution. Students whose family income is $225,000 will be eligible for over $20,000 (one sibling) to $30,000 (two siblings) less financial aid at private institutions. Note that this change will affect all the siblings, so the effect for the family is double (triple).

THE NATIONAL IMPACT

Students without siblings in college will gain eligibility for financial aid because of FAFSA simplification. They will receive greater Pell Grant funding and they will become eligible for more institutional grant aid. This group, representing roughly two-thirds of students, will benefit from the law change with greater eligibility for financial aid.

Students with siblings in college will have a different experience. Pell eligibility will go up for some and down for others. Their eligibility for institutional grant aid will decrease, substantially for some. Overall, their eligibility for financial aid will go down. How these gains and losses balance in terms of the total eligibility for financial aid funds is unclear.

We calculate aggregate changes in Pell Grant and institutional aid eligibility using the same 2015-16 NPSAS data that we described earlier. This source contains EFC and COA data for a large sample of students. We translate those EFC values into SAI values using the approach depicted in Figure 1. We can then calculate the total amount of student eligibility for Pell Grants and institutional grant aid. We then apply available sample weights to provide estimates for all dependent students enrolled full-time at four-year institutions. In these calculations, all dollar amounts have been adjusted for inflation and are reported in 2022$.

We can also go one step further and distinguish those aggregate changes into the following categories: (a) changes in the number of students eligible for any Pell Grant awards or institutional grant aid, (b) changes in the amount of eligibility for Pell Grants and institutional grant aid for students who are eligible under both formulas (which we refer to as "continuously eligible"), and (c) the amount of eligibility gained or lost for students who will be newly eligible or those who lost eligibility. We also total the amount of negative SAI awards that will result when that provision is introduced. Appendix 1 provides a conceptual framework that documents how FAFSA simplification creates each of these effects.

The results of this exercise are reported in Tables 2 and 3. Table 2 provides these results separately by students' number of siblings in college. For those with no siblings in college, the aggregate benefits of FAFSA reform are substantial. Pell Grant receipt among the 1.7 million students (again, dependents at four-year institutions) who would be eligible under both formulas will jump by $1.6 billion, an increase of 16.5%.[7] An additional 174,000 students will become newly eligible for Pell Grants, receiving $383 million. Among the 1.9

million students eligible for Pell Grants under the SAI, 1.2 million of them will have a negative SAI that totals $1.7 billion.

Eligibility for institutional grant aid will also increase substantially. The 2 million continuously eligible students would be eligible for up to $3.4 billion more institutional aid and another 159,000 students will become eligible for $242 million in aid. The potential total benefit for this group is $3.7 billion.

Students with siblings in college, though, will fare poorly. Indeed, some will qualify for larger Pell Grants, but a small number will lose their eligibility. Their potential losses in the form of institutional grant aid are large. For the almost 900,000 students with one sibling in college who will maintain their eligibility, they stand to lose almost $3,000 each in institutional grant aid, totaling $2.5 billion. Another 157,000 will lose all eligibility that could have provided up to $7,900 in aid each, totaling $1.2 billion.

Similar patterns are observed for students with two siblings in college. The number of students affected is smaller because there are fewer students in this category, but the losses each student faces is greater.

All of the previous results at the individual level and those aggregated by the number of siblings in college highlight a primary finding of this analysis: There are clear winners and losers that will result from FAFSA simplification. Table 3 aggregates all the data to determine the collective net benefits associated with the policy, incorporating all the tradeoffs. On net, students will benefit from greater eligibility for Pell Grants. More students will be eligible for higher average benefits. In total, we estimate Pell Grant eligibility will rise by $2.6 billion for this group of students. The creation of a negative SAI has the potential of providing a similar benefit ($2.5 billion) to lower-income families if institutions choose to provide those students with greater aid.

Even just the greater Pell Grant eligibility is enough to overcome losses students may face in the form of reduced eligibility for institutional grant aid. Fewer students will be eligible for such aid and the potential loss will total $1.2 billion. On net, students are expected to be better off.

V. How Will Higher Education Institutions Respond?

As we have stressed earlier in this report, the amount of grant aid an institution provides for a given level of aid eligibility is a policy decision. The changes in eligibility for financial aid have the potential to influence institutions' finances, which may affect their policies. It is unclear how they will respond to those changes, but a better understanding of the financial implications of FAFSA simplification for institutions can inform our thinking regarding potential responses.

We note that the impact on revenue is mainly related to changes in institutional grant aid, not changes in Pell Grants.[8] Pell Grant funding will increase mainly because under the new formula, SAI tends to be lower than EFC was under the old formula. But that also means students will provide smaller direct payments to institutions, counteracting the increase in revenue from Pell Grants. This still benefits students—the share they pay will fall—but not institutions.

Institutional revenue will be affected, though, by changes in the amount of grants they award. Those grants are based on remaining need. One strategy is to provide grants in proportion to remaining need. If institutions maintain their current policies, the impact on institutional grants depends on that proportion and the gap between EFC and SAI.

Past research has found that the average student receives roughly 60 cents for every additional dollar of institutional aid eligibility (remaining need) at four-year institutions. Earlier, we estimated that eligibility for institutional grant aid will fall by $1.2 billion. If institutions maintain their current policies, combining those two estimates would suggest that institutional grants awarded will fall by $720 million. That would represent a reduction in institutional costs.

The question is whether institutions will maintain their current policies, locking in the differential impacts on eligibility for institutional grant aid that FAFSA simplification will create. Students with siblings in college will generate all the cost savings. They stand to lose thousands of dollars in financial aid. For those students who are already on campus, they will be shocked by the large increase in their net price, should these changes be implemented. They may have no idea those changes are on the horizon. At least for those students, institutions could choose to reinstate temporarily or permanently the sibling discount. They could award aid for these students the same way they do now.

Doing so would solve a political problem but create a budgetary problem. Without the provision eliminating the sibling discount, FAFSA simplification will increase eligibility for institutional grant aid, not reduce it. Students with no siblings in college will benefit from the changes, increasing costs to institutions. They will need to decide how they manage that tradeoff.

If the sibling discount is eliminated, at least at some point, institutions will need to decide how to spend the resulting savings. There are many competing needs for those funds on campus, but certainly one option is to increase financial aid. For example, they could simply increase the proportion of remaining need that is funded in their grant formula.

An alternative perspective exists, though, that could have different implications for the amount of institutional grant aid awarded. Much of the preceding discussion has focused on EFC/SAI and how much students can afford to pay. Instead, institutions could base their financial aid decisions on how much students are willing to pay, which may be greater than the amount the FAFSA formula determines they can afford. The two are related, but imperfectly. Affordability is a nebulous concept, and it is difficult to measure. Institutions could continue to charge students the same amount as before. Although such an approach is possible, past research has not found similar behavior in response to increases in the maximum Pell Grant.

FAFSA simplification might also affect sticker prices. In the past, [some observers](#) have suggested that institutions respond to an increase in Pell Grant funding by increasing tuition (the so-called "Bennett Hypothesis"). The increase in aid makes college more affordable, enabling institutions to increase the COA, the argument goes. This response seems unlikely in the current context because some students' eligibility for institutional financial aid is falling. A sticker price increase would make that problem worse.

VI. Conclusions

This report highlights the complicated implications for college pricing that FAFSA simplification will introduce. Despite these complications in the transition, the changes will likely have desirable effects. First, college will become more affordable for lower-income students. The benefit is greater for students with no siblings in college, but all low-income students will benefit at least to some extent.

Second, one could argue that these changes improve equity in the financial aid system. Conceptually, it is unclear why a sibling discount should exist. Raising two children from birth costs roughly the same if they are twins or if they are born four years apart. In a world where college is expensive and requires borrowing and saving, the timing of those expenses may be secondary concerns. From that perspective, providing discounts for siblings in college creates an inequity that this policy change corrects.

Yet doing so creates significant transitory problems for students who are currently of or near college age. All the reductions in aid eligibility that we document occur among students with siblings in college. For those already in college and likely for those approaching college age, the shock of facing higher prices is one they are not prepared for. That creates its own inequity.

Third, FAFSA simplification will likely improve institutions' finances if they introduce the net price increases that apply to students with siblings in college. How institutions will choose to spend that money is unclear, but one possibility is to use the additional funds to increase financial aid, effectively redistributing the financial aid budget away from students with siblings in college towards other students.

The open question in all of this is the strategic decisions that colleges and universities will make in response to the altered financial aid landscape. We have highlighted what we see as the most relevant issues, but we have no ability to forecast exactly how they will be resolved. Ultimately, those decisions will determine the specific impact of FAFSA simplification on college affordability.

END NOTES

1   This statement is not true for the relatively small number of institutions that "meet full need." Those institutions do provide all the aid for which a student is eligible. Most institutions do not meet full need.

2   Institutions that meet full need could replace loans and/or work-study funding otherwise included in financial aid packages with grant-based aid.

3   We estimate a single regression line for all students by imposing sibling discounts on SAI values before estimate the relationship between SAI and EFC. Then we predict SAI by taking away the sibling discounts that were initially imposed.

4   The individual-level NPSAS data required for this exercise is available through a restricted use data license from the National Center for Education Statistics in the U.S. Department of Education.

5   Before estimating this regression, we reverse the sibling discount that is built into the EFC. We subsequently reimpose those discounts for a given family income and alternative numbers of siblings in college. The sample used to estimate this regression is restricted to students with an EFC that is positive, but under $100,000. The resulting regression line is EFC = -11,726 + 0.305×(family income). All dollar values have been converted to 2022$.

6   According to our calculations from the 2015-16 NPSAS data, the median EFC is $0 for an independent student and $736 for a student enrolled at a community college.

7   Overall, 5.9 million students received Pell Grants in 2022-23, totaling $27.4 billion.

8   This is not true for institutions that use "institutional methodology," which means they base their financial aid awards on the CSS Profile rather than FAFSA.

Table 1: Individual Change in Student's Eligibility for Financial Aid Resulting from FAFSA Simplification

Family Income	Pell Grant Eligibility	Institutional Aid Eligibility: Public	Institutional Aid Eligibility: Private
No Siblings in College (64.8%)			
$0-$40,000		+	+
$40,000-$70,000	+		
$70,000-$120,000		++	++
$120,000-$180,000			+++
$180,000-$210,000			++
$210,000-$230,000			+
$230,000-$300,000			
One Sibling in College (30.0%)			
$0-$40,000		+	+
$40,000-$70,000			
$70,000-$90,000	-	-	-
$90,000-$150,000		--	--
$150,000-$180,000		-	---
$180,000-$280,000			----
$280,000-$300,000			---
Two Siblings in College (4.5%)			
$0-$60,000		+	+
$60,000-$90,000	--		
$90,000-$110,000	-	--	--
$110,000-$160,000		---	---
$160,000-$210,000		--	----
$210,000-$240,000		-	----
$250,000-$300,000			----

Key:

Gain/Loss	Symbol	Approximate Lower bound	Approximate Upper Bound
	+	0	$2,000
Gain	++	$2,000	$4,000
	+++	$4,000	$6,000
	-	0	-$5,000
Loss	--	-$5,000	-$10,000
	---	-$10,000	-$15,000
	----	-$15,000+	

Table 2: Impact of FAFSA Simplification on National Eligibility for Financial Aid
(Dependent Students enrolled Full-Time)

	Number of Students (in 1,000s)	Average Change in Eligibility	Total Change in Eligibility (in $1m)
No Siblings in College (3.3 million)			
Pell Grant Eligibility			
A. Continuously Eligible	1,678	$977	$1,639
B. Newly Eligible	174	$2,202	$383
Institutional Grant Aid Eligibility			
C. Continuously Eligible	2,011	$1,706	$3,431
D. Newly Eligible	159	$1,523	$242
E. Negative SAI	1,221	$1,397	$1,706
One Sibling in College (1.5 million)			
Pell Grant Eligibility			
A. Continuously Eligible	669	$672	$450
B. Lost Eligibility	39	-$557	-$22
Institutional Grant Aid Eligibility			
C. Continuously Eligible	889	-$2,851	-$2,535
D. Lost Eligibility	157	-$7,853	-$1,233
E. Negative SAI	472	$1,422	$671
Two Siblings in College (228,000)			
Pell Grant Eligibility			
A. Continuously Eligible	101	$521	$53
B. Lost Eligibility	14	-$1,190	-$17
Institutional Grant Aid Eligibility			
C. Continuously Eligible	131	-$3,828	-$501
D. Lost Eligibility	44	-$11,031	-$485
E. Negative SAI	81	$1,446	$117

Source: Previously unpublished tabulations based on the U.S. Department of Education, National Center for Education Statistics, 2015–2016 National Postsecondary Student Aid Study (NPSAS:16). Notes: SAI values are based on forecasts using the authors' analysis of NASFAA data that simulates SAI values based on observed EFC values and the number of siblings enrolled in college. See Figure 1. Rows labeled A through E match the regions labeled A through E in Figure A.1 in Appendix 1.

Table 3: Overall Impact of FAFSA Simplification on National Eligibility for Financial Aid
(Dependent Students enrolled Full-Time)

	Number of Students Eligible (in 1,000s)	Average Eligibility	Total Eligibility (in $1m)
	Eligible for Pell		
Based on EFC	2,527	$5,799	$14,654
Based on SAI	2,651	$6,498	$17,226
Impact (SAI − EFC)	124	$699	$2,572
	Eligible for Negative SAI		
Based on EFC	0	0	0
Based on SAI	1,787	$1,406	$2,512
Impact (SAI − EFC)	1,787	$1,406	$2,512
	Eligible for Other Aid		
Based on EFC	3,267	$20,745	$67,774
Based on SAI	3,237	$20,567	$66,575
Impact (SAI − EFC)	-30	-$178	-$1,199

Source: Previously unpublished tabulations based on the U.S. Department of Education, National Center for Education Statistics, 2015–2016 National Postsecondary Student Aid Study (NPSAS:16). Notes: SAI values are based on forecasts using the authors' analysis of NASFAA data that simulates SAI values based on observed EFC values and the number of siblings enrolled in college. See Figure 1.

Figure 1: Comparison of the Expected Family Contribution (EFC) and Student Aid Index (SAI)
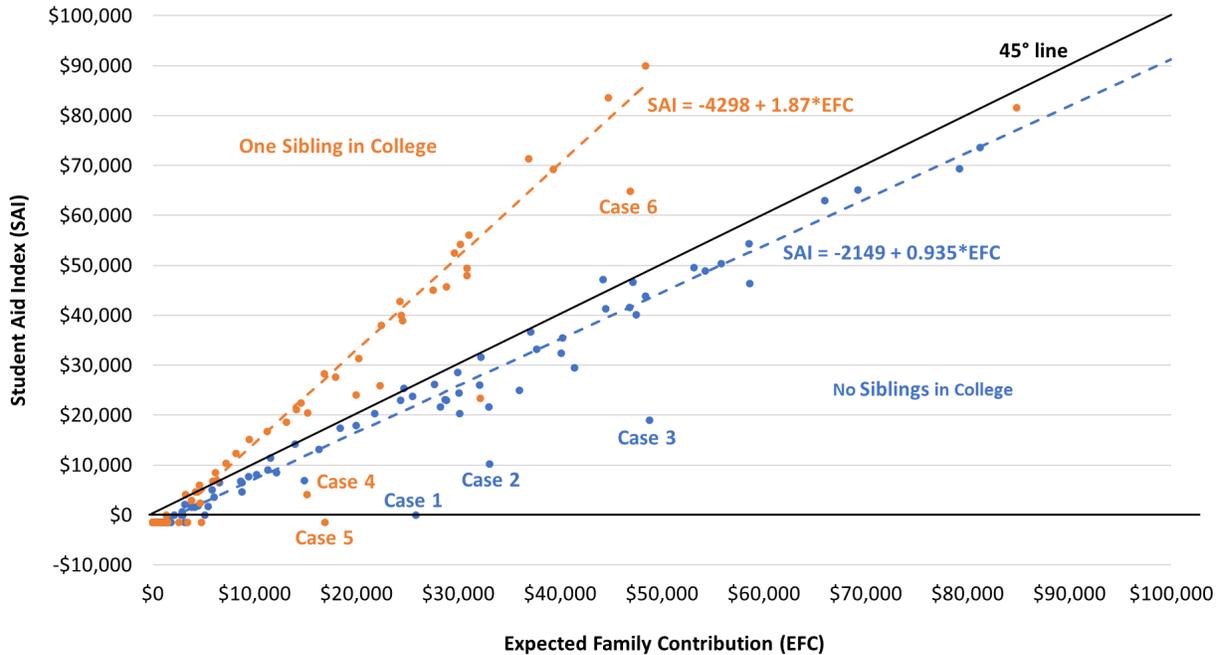
Source: Authors' calculations based on NASFAA's simulation of sample cases.
Notes: The analysis is restricted to dependent students. Regression lines are generated excluding the extreme cases and students with an SAI above the minimum of -$1,500.

Explanations for Extreme Cases
Case 1: Newly eligible for simplified needs test (omits large asset holdings)
Case 2: Untaxed income no longer counted (payroll pension contributions)
Case 3: Untaxed income no longer counted (payroll pension contributions)
Case 4: Newly eligible for simplified needs test (omits large asset holdings)
Case 5: Newly eligible for automatic -$1,500 SAI (below poverty multiple, but high assets)
Case 6: Untaxed income no longer counted (payroll pension contributions)

APPENDIX

Appendix 1: A Conceptual Framework for Evaluating the Effects of FAFSA Simplification

As we documented in Figure 1, the changes in the FAFSA formula generate an SAI that is lower than EFC for students with no siblings in college. For students with siblings in college, SAI starts out lower, but then is steeper and surpasses EFC at relatively low levels. How those patterns translate into changes in financial aid eligibility is complicated. The purpose of this appendix is to provide a stylized framework to help evaluate that impact.

First, it is useful to review some financial aid concepts that are also provided in the paper. Pell Grant eligibility is currently determined by subtracting the student's EFC/SAI from the maximum Pell Grant (currently $6,895, but it is increasing to $7,395 in 2023-2024). Eligibility for institutional grant aid is based on "remaining need," which reflect the difference between the COA and the sum of EFC and all forms of federal aid, including Pell Grants, federal loans, and work-study funding. In the subsequent discussion, we ignore loans and work-study funding for simplicity, focusing exclusively on grant-based aid. In this framework, institutional grant aid eligibility = COA − EFC − Pell.

Figure A.1 provides a way to conceptualize the impact of FAFSA simplification on eligibility for Pell Grants and institutional grant aid separately for students with no siblings in college and one sibling in college. The two figures on the left characterize the same general relationship between EFC and SAI as displayed in the text in Figure 1. The figures on the right demonstrate the impact on grant aid eligibility. The blue regions highlight areas where grant eligibility (Pell or institutional) is higher using SAI rather than Pell.

We first consider the impact of transitioning from EFC to SAI for a student with no siblings in college. At an EFC of $0, SAI and EFC generate the same (maximum)

Pell Grant eligibility. Initially as EFC rises, "EFC Pell" falls, but "SAI Pell" remains at the maximum because the SAI is still less than or equal to $0 or because income falls below the poverty threshold. That generates a gap in Pell Grant eligibility. When EFC reaches the level of the maximum Pell Grant, students exhaust Pell Grant eligibility, but they are still eligible for Pell Grants using SAI, which would be below EFC. That region is labeled with the point A. It indicates the increase in Pell Grant eligibility among continuously eligible beneficiaries.

As EFC rises further, SAI would also rise and eventually hit the maximum Pell value as well. At that point, SAI Pell would fall to $0 (ignoring the automatic minimum Pell Grant for simplicity). This region is reflected by the region labeled with the point B in the right figure. It reflects Pell Grants using SAI going to students who otherwise would have an EFC beyond the Pell Grant threshold. These are new Pell Grant recipients.

The remainder of this discussion focuses on institutional grant aid. For Pell-eligible students, note that EFC/SAI and Pell Grants always sum to the maximum Pell Grant level. That means that any Pell-eligible student is eligible for institutional grant aid equal to COA less the Pell Grant maximum. The relationship between EFC and SAI has no bearing on institutional grant aid for these students.

Once EFC rises to the point, though, where the student is no longer eligible for Pell Grants, institutional grant aid eligibility starts to fall dollar for dollar with EFC. In the range where EFC is above the maximum Pell Grant level, but SAI is not, institutional grant aid will be greater higher using SAI. Eventually, SAI rises to the point where it passes the Pell Grant maximum and then every additional dollar of SAI also leads to one less

dollar in institutional grant aid eligibility. Still, that aid eligibility is greater than it would be under the higher EFC value. That continues until EFC crosses over the COA threshold, at which point the student is no longer eligible for institutional grant aid. SAI would be below that EFC value, so that aid would continue using SAI. Region C represents this gap in institutional grant aid between SAI and EFC for continuously eligible students.

As EFC continues to rise, SAI eventually also crosses over the COA threshold and all aid eligibility is exhausted. This represents aid received by students newly eligible for institutional grant aid when SAI is used rather than EFC. The gap in the amount of aid these students receive is represented in region D.

The one remaining blue highlighted section is the area labeled E. It represents the total value of SAI for those who hold negative SAI values. EFC is bound from below at $0, so any negative SAI value reflects possible additional institutional grant aid that institutions may provide to students from low-income families. Each area labeled A through E reflects a statistic reported in Table 2 in the text.

The bottom panel conducts exactly the same exercise for students with one sibling in college. The main difference is that it reflects the relevant relationship between EFC and SAI characterized in the bottom left panel, which also reflects the empirical evidence reported in Figure 1. The exact same logic regarding gaps in aid eligibility just described for students with no siblings in college applies here. The fact that the SAI line is steeper and crosses over the EFC line, though, changes many of the results. Gaps that captured greater grant eligibility under SAI now represent reduced grant eligibility under SAI. Those regions are reflected in red. These red regions match exactly the red values reported in Table 2 that also reflect negative values.
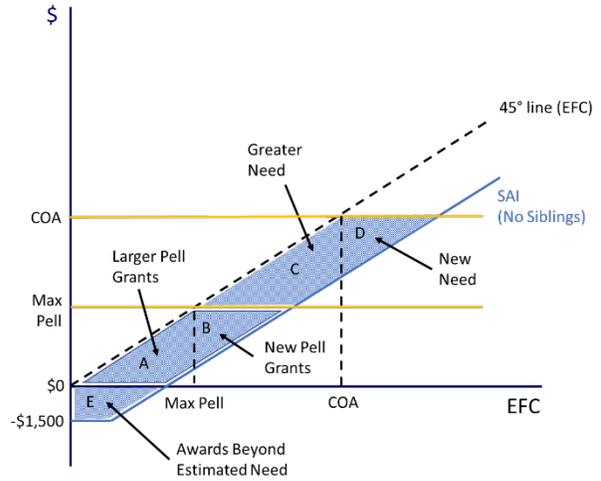
Figure A.1: Impact of FAFSA Simplification on Needs Analysis

Panel A: Students with No Siblings in College
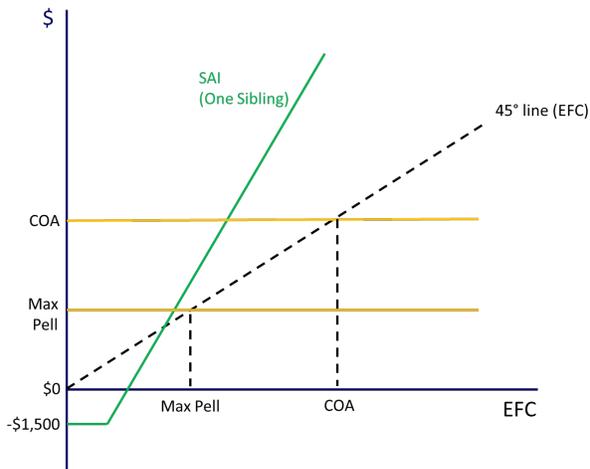
Relationship between EFC and SAI
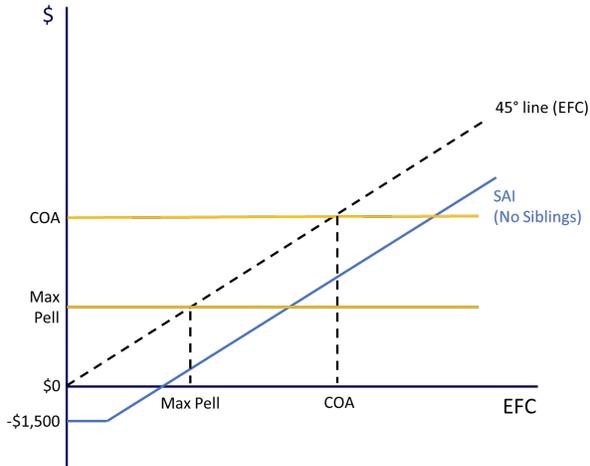
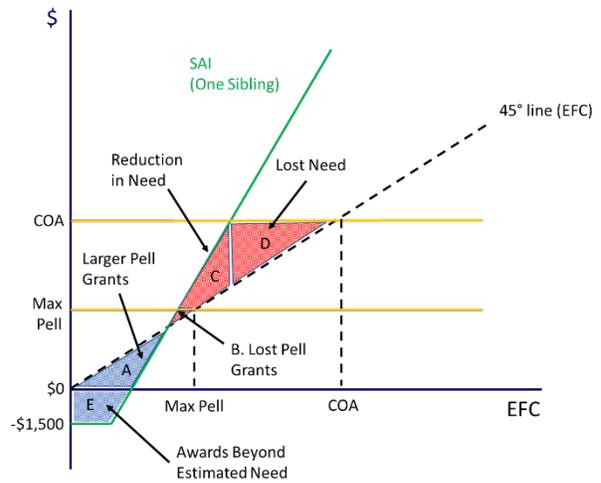### Potential Impact on Financial Aid Eligibility

Panel B: Students with One Sibling in College

Relationship between EFC and SAI

Potential Impact on Financial Aid Eligibility

BROOKINGS