



Exploring Ways to Enhance FAFSA Efficiency: Exploring the Relationship Between FAFSA Verification and Pell Grant Award Change

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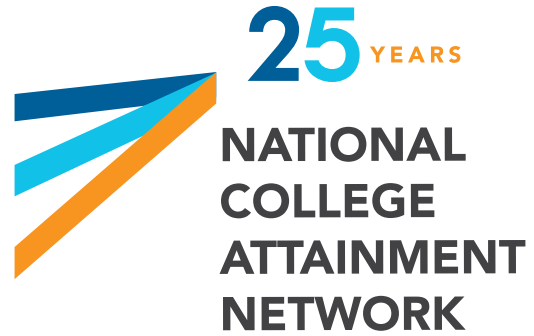


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Our mission is build, strengthen, and empower communities and stakeholders to close equity gaps in postsecondary attainment for all students.



The National Association of Student Financial Aid Administrators (NASFAA) is a nonprofit membership organization representing more than 20,000 financial aid professionals at nearly 3,000 colleges, universities, and career schools across the country. NASFAA member institutions serve nine out of every 10 undergraduates in the United States. Based in Washington, D.C., NASFAA is the only national association with a primary focus on student aid legislation, regulatory analysis, and training for financial aid administrators. For more information, visit <https://www.nasfaa.org>.

Overview

Millions of students complete the Free Application for Federal Student Aid (FAFSA) annually. This process is a key step for accessing a postsecondary pathway, especially for low-income students, because it opens access to federal grants and loans and, in many cases, state and institutional financial aid. K-12 school districts and college access programs invest significant time each year guiding students and families through FAFSA completion because the process is often daunting, despite policy changes that have improved the experience in recent years.

For some filers, the FAFSA process includes a step called verification, an audit-like experience intended to reduce improper payments (both underpayments and overpayments) to students. In the experience of the National College Attainment Network (NCAN) and its members, verification represents a significant burden on selected students, and institutions spend millions of person-hours each year verifying students' financial and demographic data. These costs are balanced against the interest of policymakers and taxpayers in reducing improper financial aid payments.

Although nearly six million students experienced FAFSA verification in 2017-18, the most recent year for which data are available,¹ little publicly available data exist about the outcomes of those selected or the effects of the process on the financial aid those students receive. The sources known to NCAN appear in Appendix A. For the first time to NCAN's knowledge, the office of Federal Student Aid (FSA) of the U.S. Department of Education (ED) has released a data extract on changes to the Federal Pell Grant amounts received by students selected for FAFSA verification. These data not only shed light on an area in which policymakers and researchers are generally in the dark, but also raise questions about both the costs and benefits of verification and how upcoming policy implementations (specifically of the FUTURE Act [PL 116-91])² can affect FAFSA applicants and the verification process.

Verification requires selected students to prove that the information they provided on the FAFSA is accurate. This may include providing additional documentation about the student's and/or their parents' demographic or financial information, such as financial documents (e.g., tax transcripts), birth or death certificates, or college enrollment forms from family members. Any changes to the student's information as a result of verification may alter the student's Title IV aid eligibility, including the expected family contribution (EFC), which determines an applicant's Pell Grant award.

FSA's stated goal for verification is to prevent improper payments, in other words, the inaccurate awarding of Pell Grant dollars to recipients, which includes both underpayments and overpayments.³ Because recipients do not need to repay Pell Grants, taxpayers and policymakers take particular interest in Pell disbursement. FSA aims to prevent improper payments at a rate in balance with the burden placed on students, their families, and the institutions that partake in the process.⁴

¹ U.S. Department of Education, "Federal Pell Grant Program 2017-2018 End of Year Report, Table 001." Federal Pell Grant Program Annual Data Reports, September 30, 2019, <https://www2.ed.gov/finaid/prof/resources/data/pell-data.html>.

² *Fostering Undergraduate Talent by Unlocking Resources for Education Act*, Public Law 116-91, <https://www.congress.gov/116/plaws/publ91/PLAW-116publ91.pdf>.

³ Craig Munier, Ed Pacchetti, and Aaron Washington, "General Session #4: Verification (2019-20 and 2020-21)," (PowerPoint Presentation, Reno, NV, December 4, 2019): <https://fsaconferences.ed.gov/conferences/library/2019/2019FSAConfSessionGS4.pdf>.

⁴ Ibid.

Understanding the burden verification can cause on students and institutions, FSA has worked in recent years to improve the process. Some of the improvements made by FSA include changes to the way students are selected and the number of students selected annually (more on these changes appears in Appendix A). According to FSA, since October 1, 2018, approximately 22% of FAFSA filers are selected for verification each award year.⁵ This percentage is a decrease from previous years: From 2011-12 to 2017-18 the percentage of FAFSA filers selected for verification ranged from 30% to 38%.⁶ FSA develops verification selection criteria annually and, as of award year 2019-20, employs a model of machine learning to best target the applications deemed most likely to have inaccurate information. The proprietary algorithm identifies students whose profiles are misaligned with expected values.⁷ Despite these changes, advocates, policymakers, and the public have little insight into the utility of FAFSA verification on Pell Grant awards themselves.

Still, FAFSA verification strikes some advocates, NCAN included, as too aggressive compared to similar processes. For example, the Internal Revenue Service only audits a fraction of a percent of all tax returns—approximately 0.5% of all returns filed in 2017.⁸ There is some variation in IRS audits: Taxpayers earning less than \$25,000 annually have slightly higher audit rates (0.69%), and higher-income taxpayers (annual income of \$500,000 or more) can have an audit rate that exceeds 6%.⁹ Both figures pale in comparison to the approximately 50% selection rate for Pell Grant-eligible FAFSA filers.

This paper addresses the following questions:

- How do Pell Grant awards change for FAFSA filers who complete verification?
- Verification’s purpose is preventing improper payments. How well does it do that, and how often are Pell Grant awards increased or decreased through the process?
- What have been the effects of FSA’s recent changes to the FAFSA verification process?

NCAN’s examination of verification and the Pell Grant program shows the following:

- In the two most recent award years, slightly more than 70% of students who completed verification prior to November 1¹⁰ experienced no change in their Pell Grant award.
- Among students whose Pell Grant award did change, Pell Grants were twice as likely to decrease rather than increase after verification.
- Applicants with an auto-zero EFC, i.e., applicants from low-income households who met the tax filing and income requirements to complete a shorter FAFSA and receive a maximum Pell Grant Award, overwhelmingly retained that award after verification.

⁵ Craig Munier, Ed Pacchetti, and Aaron Washington, “General Session #4: Verification (2019-20 and 2020-21),” (PowerPoint Presentation, Reno, NV, December 4, 2019): <https://fsaconferences.ed.gov/conferences/library/2019/2019FSAConfSessionGS4.pdf>.

⁶ U.S. Department of Education, “Federal Pell Grant Program 2017-2018 End of Year Report, Table 001.”

⁷ Craig Munier, Ed Pacchetti, and Aaron Washington, “General Session #4: Verification (2019-20 and 2020-21);” U.S. Department of Education, Office of the Chief Financial Officer, *U.S. Department of Education FY 2019 Agency Financial Report (AFR): Payment Integrity*, Washington, DC, November 15, 2019, <https://www2.ed.gov/about/reports/annual/2019report/4c-otherinfo-payment-integrity.pdf>.

⁸ U.S. Internal Revenue Service. *Internal Revenue Service Data Book, 2018: Section 2, Enforcement: Examinations*. Washington, DC, May 2019. <https://www.irs.gov/statistics/enforcement-examinations>.

⁹ Aimee Picchi, “Taxes 2020: These two groups of taxpayers face the highest audit rates,” *USA Today*, February 3, 2020, <https://amp.usatoday.com/amp/4552393002>.

¹⁰ Each FAFSA cycle opens on October 1. This data set represents filers who completed verification by November 1 of the following year, or 13 months of the 21-month cycle.

- Taxpayers experienced net savings of \$404 million and \$428 million in award years 2018-19 and 2019-20, respectively, from prevented improper payments on Pell Grant disbursements made prior to November 1.
- Comparing students who completed verification prior to November 1 of the most recent award year to their 2018-19 counterparts, FSA selected fewer students for verification but prevented a higher dollar amount of improper overpayments compared to the same time period the previous year. The change in savings represents a 6% increase.

This paper builds on the work of FAFSA Verification: Good Government or Red Tape?, NCAN's 2018 report that outlines what verification is, who is selected for verification, and the consequences selected students may face.¹¹ The 2018 report also details policy recommendations to mitigate the negative effects of verification and describes how more students can access the financial aid for which they qualify. For additional background information on FAFSA verification, consult the issue brief on the subject by the National Association of Student Financial Aid Administrators (NASFAA).¹²

Verification is a necessary evil of the federal government's investment in higher education through need-based financial aid. The process is necessary to prevent fraud and abuse in the system and to prevent egregious mistakes, but the cost to the taxpayer must be balanced with the burden placed on students and institutions. The improvements between these two cycles—fewer students selected with a higher number of dollars recovered—is a step in the right direction for both taxpayers and students. Because verification can never be completely eliminated, it is vital that FSA continue striving to further reduce the burden while maintaining their fiduciary responsibility to taxpayers. With the recent passage of the FUTURE Act by Congress, FSA has just the opportunity to continue moving in this direction.

Data and Methodology

Using data from two award cycles, 2018-19 and 2019-20, this paper examines the impact of verification on FAFSA filers—specifically how Pell Grant awards were affected and the amount received after verification was completed.¹³ The data document Pell Grant disbursements before November 1 of each award year made to students who completed FAFSA verification. This window is necessary to compare verification data within these specific award years. Using Pell Grant disbursements before November 1 not only ensures that the data capture students who completed the FAFSA verification process, whose Pell Grant award outcomes are this paper's focus, but also that this data set includes only a subset of all verifications in the award year. It is not ideal to use earlier award years as they would not reflect any impacts resulting from the aforementioned methodological changes that the FSA made for the 2019-20 FAFSA filing cycle. Comparing AY 2018-19 and AY 2019-20 should reveal changes to Pell Grant awards resulting from the move to a machine learning model during the latter cycle.

Because these data only included students who completed the FAFSA verification process and received a Pell Grant award, the results do not reflect any impact verification has on students who do not complete the process and thus do not receive a Pell Grant. (We discuss "verification melt," the phenomenon whereby students fail to complete verification and receive their Pell Grant, later in this paper.)

¹¹ Carrie Warick and Danielle Lowry, "FAFSA Verification: Good Government or Red Tape?" National College Attainment Network, November 2018, <https://cdn.ymaws.com/www.ncan.org/resource/resmgr/publications/verificationwp2018.pdf>.

¹² National Association of Student Financial Aid Administrators (NASFAA), "Issue Brief: Verification," NASFAA, October 29, 2018, http://www.nasfaa.org/issue_brief_verification

¹³ NCAN is grateful to Federal Student Aid for providing the data extract.

These data are entirely descriptive. We binned changes to Pell Grant awards according to the size of their increase or decrease, if any, or into a “no change” bin if no changes occurred to the size of the Pell Grant post verification. We divided the data into two categories: students who had an “auto-zero” EFC and those who did not. A status of auto-zero EFC means the student met certain tax filing and income requirements, which allows them to skip questions on the FAFSA and automatically grants them the full Pell award for which they are eligible (in most cases, the maximum award). Those FAFSA filers without an auto-zero EFC either had a calculated EFC of \$0, which qualified them for a maximum Pell Grant, or an EFC greater than \$0 but below the maximum threshold, thus qualifying them for a partial Pell Grant.

The general scarcity of data on FAFSA verification makes this report’s data unique and useful. NCAN is unaware of another report or data source that shows verification’s impact on Pell Grant award amounts or numbers or percentages of verification-selected students whose awards changed.

Verification’s Impact on Pell Grant Awards

The key question this paper examines is the impact of FAFSA verification on eligible filers’ Pell Grant awards. If verification’s purpose is preventing improper payments, how well does it do that and how often are Pell Grant awards increased or decreased through the process? With data on those who complete the verification process, this section answers several questions related to verification’s impact on students.

How Many Students Complete Verification?

From AY 2018-19 to AY 2019-20, the number of verifications decreased for filers with both auto-zero and non-auto-zero EFCs, as well as for high school seniors (see Table 1). Overall, 400,000 fewer filers were selected for verification in AY 2019-20 than in the previous year; this represents a 15% decrease. For auto-zero EFC filers, this decrease was steeper; the 200,000 fewer auto-zero EFC filers selected for verification in AY 2019-20 represent a 39% decrease.

High school senior filers who received an auto-zero EFC saw the sharpest decline in FAFSA verification. In AY 2019-20, about 68,000 high school seniors with an auto-zero EFC were selected for verification, down from about 180,000 the previous year and representing a 62% decrease. This decrease is important because it represents a move away from making students from the lowest-income families prove repeatedly that their families have a low-income. As the next section documents, these students’ EFCs rarely change after the verification process, so reducing the burden verification poses for this group of students by selecting fewer of them for the process is encouraging.

Table 1. Number of Filers Completing Verification and Year-to-Year Change, AY 2018-19 and 2019-20

	AY 2018-19	AY 2019-20	Change from AY 2018-19 to 2019-20
All applicants	2,645,863	2,245,575	-15%
Auto-zero EFC	525,070	322,205	-39%
Non-auto-zero EFC	2,120,793	1,923,370	-9%
High school seniors	643,832	430,702	-33%
Auto-zero EFC	179,573	68,004	-62%
Non-auto-zero EFC	464,259	362,698	-22%

What Percentage of Verifications Result in No Change to Students' Pell Grant Awards?

Overall, 72.2% of all applicants selected for verification in AY 2019-20 experienced no Pell Grant award change after verification. In AY 2018-19, the percentage of applicants who experienced no change to their award was 71.2%. Notably, this is a lower estimate than that advanced by an analysis of a 2018 NASFAA survey, which showed "84% of verified applications resulted in either no EFC change or a change so small that it did not result in a change to the student's Pell Grant award."¹⁴

This large percentage of FAFSA filers represents a group of applicants who were selected by the system and persisted through the process but neither gained nor lost in terms of their Pell Grant award. This suggests that the algorithm selecting students for verification was not targeted well enough in these award years, resulting in students needlessly enduring the burden of verification.

Auto-zero EFC filers come from the lowest-income families, and applicants with an auto-zero EFC overwhelmingly retain that award after verification. For AY 2019-20, 93.4% of auto-zero EFC applicants experienced no change through verification; for AY 2018-19, 96.1% saw no change (see Table 2). From AY 2018-19 to AY 2019-20, the percentage of all filers selected for verification who had an auto-zero EFC decreased from 20% to 14%, which seems to reflect an acknowledgment from FSA that its time is better spent seeking improper payments among other filers—a decision that NCAN supports.

By comparison, FAFSA filers who did not receive an auto-zero EFC more frequently have a change to their award after verification. About two-thirds (68.6%) of the approximately 1.9 million non-auto-zero FAFSA completers in AY 19-20 did not experience a change in their Pell Grant award after verification; in the previous year, 65.1% saw no change. Applicants who were high school seniors at the time of filing a FAFSA, a subgroup of all applicants selected for verification, experienced similar rates of post-verification award change.

¹⁴ National Association of Student Financial Aid Administrators (NASFAA), "NASFAA Data Show Verification Does Not Impact Most Financial Aid Awards," NASFAA, November 2018, https://www.nasfaa.org/uploads/documents/verification_one_pager.pdf.

Table 2: Percent of Applicants with Unchanged Awards Post Verification, AY 2018-19 and 2019-20

	AY 2018-19	AY 2019-20
All applicants	71.3%	72.2%
Auto-zero EFC	96.1%	93.4%
Non-auto-zero EFC	65.1%	68.6%
High school seniors	73.8%	68.0%
Auto-zero EFC	96.9%	93.1%
Non-auto-zero EFC	64.9%	63.3%

How Does Verification Affect the Distribution of Pell Grant Award Changes?

Although 72% of verified applicants experienced no award change after verification in AY 2019-20, and 71% saw no change in AY 2018-19, more than a quarter of all filers experienced a change in their Pell Grant award after verification (see Figure 1).

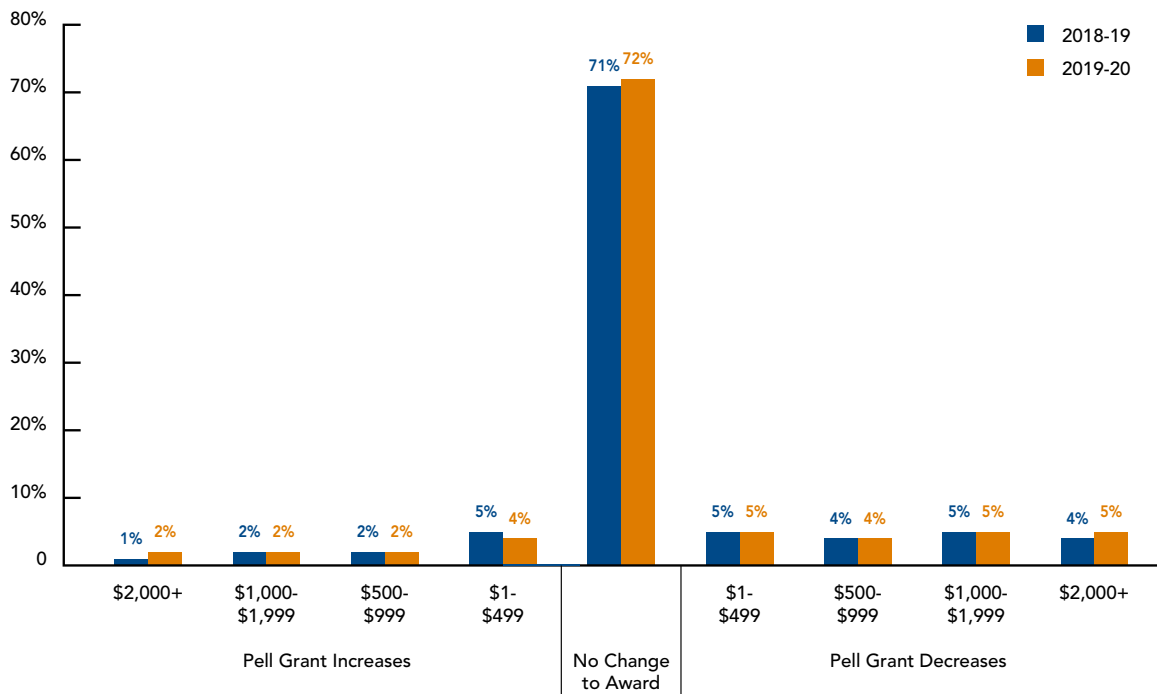


Figure 1. Percent distribution of applicants' award changes after verification, AY 2018-19 and 2019-20.

Of all AY 2019-20 applicants in this dataset, 18.6% (418,281 applicants) saw a decrease in their award amount after verification. Figures 2 and 3, respectively, show the distribution of those applicants who saw their Pell Grant awards decrease or increase through verification. When verification changed awards, it resulted in twice as many decreases than increases in Pell Grant amounts. Both the increases and decreases in awards are the improper payments to which FSA refers. Correcting underpayment (increasing Pell Grant awards) benefits students, and correcting overpayment (decreasing Pell Grant awards) benefits taxpayers.

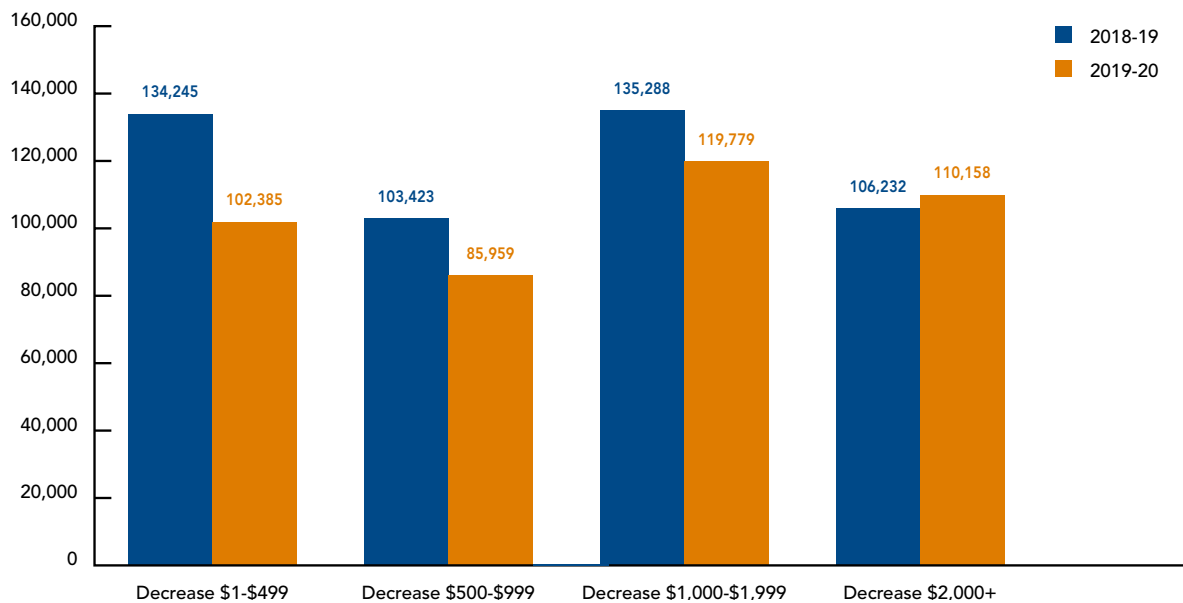


Figure 2: Distribution of post-verification Pell Grant award decreases, AY 2018-19 and 2019-20.

Of all AY 2019-20 applicants in this data set, 9.2% (206,643 applicants) saw an increase in their Pell Grant amount after verification. The distribution of those applicants, shown in Figure 3, represents cases of improper payments that, when corrected, resulted in a higher Pell Grant award post verification.

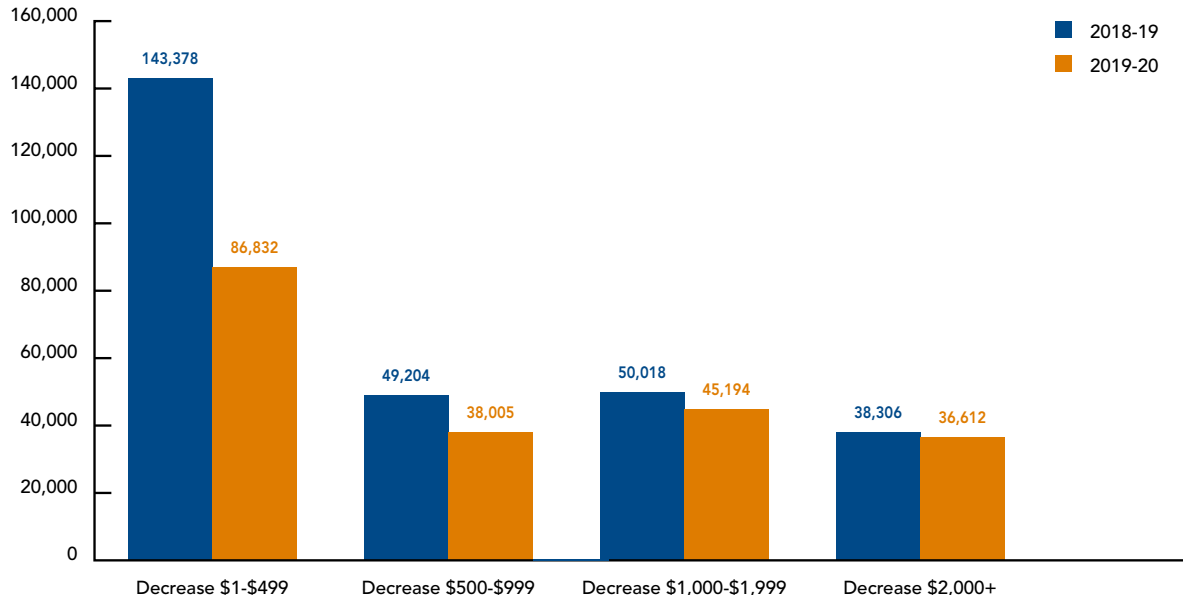


Figure 3. Distribution of post-verification Pell Grant award increases, AY 2018-19 and 2019-20.

Since auto-zero EFC applicants are expected to receive a maximum Pell Grant, they can either experience no change or an award decrease post verification—and, as shown previously in Table 1, the vast majority of auto-zero EFC applicants did not experience a change (93.4% in AY 2019-20). But of the auto-zero EFC applicants who experienced decreases in their awards post-verification, more than half saw decreases of \$2,000 or more (see Figure 4, which compares the percentage distribution of the Pell Grant award decreases by auto-zero EFC filing status). These results are similar for the preceding award year, AY 2018-19 (Appendix B, Table B1). By contrast, non-auto-zero EFC applicants who experience decreases are approximately evenly distributed in the amount by which their award decreases. It stands to reason that auto-zero EFC filers have more to lose, which this data set confirms.

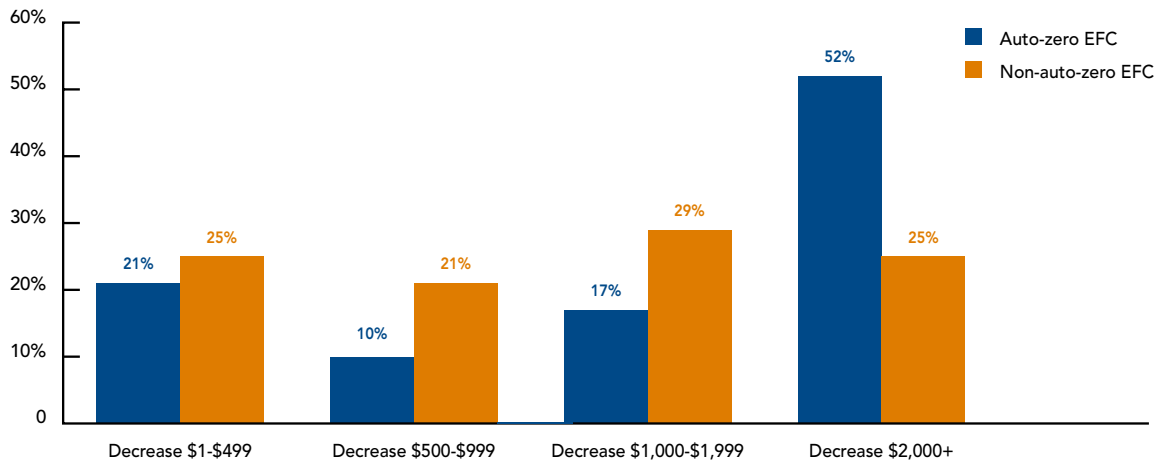


Figure 4. Percentage distribution of post-verification Pell Grant award decreases by auto-zero EFC status, AY 2019-20.

How Many Students Lose Their Entire Pell Grant After Verification?

A filer's complete loss of eligibility for a Pell Grant through verification is the clearest example of the process preventing an improper overpayment. Table 3 shows the number of applicants (overall and high school seniors only) who became ineligible to receive a Pell Grant after verification. Roughly 75,000 applicants (approximately 3% of all applicants in this data set) became ineligible for a Pell Grant award post verification in the award years these data cover.

Table 3: Count of Students Who Became Ineligible for a Pell Grant Award Post Verification, AY 2018-19 and 2019-20

	AY 2018-19	AY 2019-20
All applicants	76,174	74,881
Auto-zero EFC	2,834	3,374
Non-auto-zero EFC	73,340	71,507
High school seniors only	15,674	14,868
Auto-zero EFC	937	907
Non-auto-zero EFC	14,737	13,961

Note. "All applicants" includes the subgroup "high school seniors only."

This section revealed important descriptive data about the impact of FAFSA verification on filers' Pell Grants. The next section explores how these improper payments compare to the burden placed on individuals and the institutions that must facilitate verification.

Benefits and Costs of FAFSA Verification

Like most policies and processes, FAFSA verification has costs and benefits to a variety of stakeholders. FSA balances the benefits of reducing improper payments (which are a cost to taxpayers or students) against the burden of verification on students, families, advocates who help to guide the previous two groups through the process, and colleges and universities.

How Does Verification Benefit Taxpayers?

Given that one of the stated purposes for FAFSA verification is fulfilling FSA's fiduciary responsibility toward taxpayer funds, a key question is whether verification saves the public money by preventing or reducing improper payments.

Figure 1 shows the percentage of filers who experienced no change in their Pell Grant as a result of verification. In AY 2019-20 27.8% of filers who completed verification saw an increase or decrease in their Pell Grant; in AY 2018-19 that percentage was 28.7%. Table 4 shows the net value of Pell Grant award changes for applicants who completed verification in these two award years. In AY 2019-20, taxpayers saved (and applicants lost) nearly \$428 million in Pell Grants due to verification. This value is the difference between the award decreases of about \$655 million and increases totaling about \$227 million. In AY 2018-19, verification reclaimed about \$404 million based on \$259 million in Pell Grant increases and \$663 million in Pell Grant decreases (Figure 5).

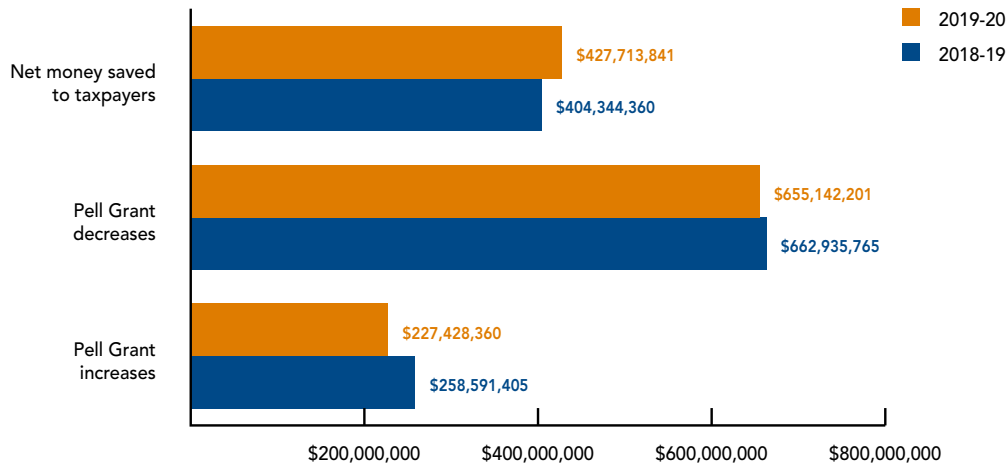


Figure 5. Net gain/loss to taxpayers based on post-verification Pell Grant award changes, AY 2018-19 and AY 2019-20.

Notably, the net savings to taxpayers increased in AY 2019-20 by more than \$23 million over the previous year despite 400,000 fewer filers being selected for verification (see Table 1). This suggests that FSA’s machine learning model, implemented for the first time in the AY 2019-20 cycle, is more efficient in terms of reclaiming dollars and is better targeting filers more likely to receive an improper payment. However, Figure 1 shows that the percentage of filers who experienced no change to their EFC was about the same in AY 2018-19 and AY 2019-20. Reconciling these two findings, a seeming increase in efficiency in terms of dollars reclaimed, but static performance in terms of those who see their EFC stay the same through the process, merits future exploration.

The Pell Grant Program End-of-Year Reports for these award years were not available at the time of this writing. Despite this, some back-of-the-envelope math can estimate the reclaimed dollars as a percentage of total Pell Grant expenditures. Based on total Pell Grant expenditures during AY 2017-18 (approximately \$28.67 billion), the recovered dollars from AY 2018-19 and AY 2019-20 represent slightly over 1.5% of Pell Grant total expenditures. This paper’s data from these two award years are just a segment of all students selected for verification, so over the full award year that percentage of reclaimed dollars as a portion of total expenditures would rise.

Table 4: Total Monetary Value of Changes to Post-Verification Pell Grant Awards, AY 2018-19 and AY 2019-20

	AY 2018-19	AY 2019-20
All applicants	-\$308,753,211	-\$329,871,724
Auto-zero EFC	-\$33,435,744	-\$43,555,651
Non-auto-zero EFC	-\$275,317,467	-\$286,316,073
High school seniors only	-\$95,591,149	-\$97,842,117
Auto-zero EFC	-\$13,274,183	-\$12,119,957
Non-auto-zero EFC	-\$82,316,966	-\$85,722,160

Note. Auto-zero EFC applicants can either experience no change or lose from verification. All numbers shown reflect negative change in Pell Grant awards accounting for awards that increased. "All applicants" includes the subgroup "high school seniors only."

What Is the Cost of Verification to Students and Institutions?

Although these data give a sense of the taxpayer savings derived from verification, information about verification's costs must come from other sources. As mentioned earlier, since October 1, 2018, FSA has selected around 22% of filers for verification. This is a reduction relative to previous award years when the rate of selection hovered around 30%. FSA now uses a machine learning model, which it calls "a smarter model," for choosing filers. Compared to AY 2018-19, the system selected about 900,000 fewer FAFSA filers for verification in AY 2019-20.¹⁵

Unfortunately, some students selected for verification are unable to provide the documentation necessary to complete the process. When this occurs, the student loses access to federal financial aid and may also lose state and institutional aid. If this loss of aid prevents matriculation, verification becomes an enrollment barrier. The process of verification-selected students not completing the process is known as "verification melt." Both NCAN and FSA have estimates of the size of this effect. Notably, those students who experience verification melt and do not receive their Pell Grant are different from those who complete verification and have their award adjusted.

NCAN's verification melt estimates come from data in the Federal Pell Grant Program End-of-Year Report.¹⁶ NCAN's most recent estimates of verification melt come from AY 2017-18 when the verification melt rate was 28%, up from 25% in AY 2016-17, 22% in AY 2015-16, and 9% in AY 2014-15.¹⁷

FSA has its own estimate of verification melt. At the FSA Training Conference in December 2019, agency staff reported their estimate of verification melt as 11%. The staff acknowledged that "other estimates put verification melt higher" and noted "when fewer filers are selected for verification, verification melt decreases as well."¹⁸

¹⁵ Craig Munier, Ed Pacchetti, and Aaron Washington, "General Session #4: Verification (2019-20 and 2020-21)." The discrepancy between the FSA's reported 900,000 difference between AY 2018-19 and AY 2019-20 and the 400,000 difference in this paper is that the data in this report are for those with a Pell Grant disbursed before November 1, which is 13 months into the award cycle. Each FAFSA cycle opens on October 1. This data set represents filers who completed verification by November 1 of the following year, or 13 months of the 21-month cycle.

¹⁶ U.S. Department of Education, "Federal Pell Grant Program 2017-18 End of Year Report, Table 001."

¹⁷ Data from AY 2017-18 from unpublished NCAN calculations. Other figures from Bill DeBaun, "Verification Melt Rate Ticks Up to 25 Percent," NCAN, November 12, 2018, <https://www.ncan.org/news/news.asp?id=456084>.

¹⁸ Craig Munier, Ed Pacchetti, and Aaron Washington, "General Session #4: Verification (2019-20 and 2020-21)."

Whether using NCAN or FSA’s estimate, double-digit percentages of those selected for verification end up not receiving their Pell Grant. This represents a significant obstacle for students that keeps them from getting federal grant aid that could make a postsecondary pathway more accessible.

The costs associated with verification also fall on institutions. The *Federal Register* publishes burden estimates associated with verification for postsecondary institutions and the public. Those estimates, based on the number of students selected for verification in AY 2017-18, appear in Table 5. Overall, FSA estimates that across all affected parties FAFSA verification caused more than 4.1 million burden hours. Individuals completing the FAFSA verification process incurred about 41% of this burden (more than 1.7 million burden hours), and public institutions via their staff time had the next largest segment at 30% (more than 1.2 million burden hours).

Table 5: Estimated Burden of FAFSA Verification on Various Parties Based on Students Selected for Verification in AY 2017-18

Affected party (AY 2017-18)	Respondents	Responses	Burden hours
Private institutions	1,728	7,131,728	890,056
Proprietary institutions	1,776	2,410,026	304,892
Public institutions	1,860	9,820,110	1,232,260
Public/individuals	4,750,000	6,650,000	1,719,500
Total	4,755,364	26,011,864	4,146,708

Source. 34 CFR 668, Student Assistance General Provisions, Subpart E – Verification and Updating of Student Aid Application Information, Forms and Instructions, <https://www.regulations.gov/document?D=ED-2019-ICCD-0146-0003>.

As large as these burden estimates are, they may actually undercount the number of hours affected parties spend tracking down, submitting, and inputting necessary documentation. For example, the Federal Register Notice for burden on individuals estimates an average of 20 minutes to fulfill the demands of verification.¹⁹ College access programs across the country would assert that this estimate is optimistic given students and families’ general unfamiliarity with the process. In particular, high school seniors selected for verification must complete the process for every institution to which they apply, and each institution has its own paperwork procedures. The burden on institutions is estimated at about 25 minutes per verification response, which includes requesting and taking in acceptable documentation, reviewing and updating information, and dealing with the consequences of a change in application information.

It is important for policymakers to understand the purpose, burden, and benefit of the verification process. The data above outline the most recent available award-year numbers, but policy changes introduced by the December 2019 passage of the FUTURE Act will significantly impact verification. It is important that advocates monitor the implementation of that policy to ensure that it meets the purpose of verification while imposing minimal burden on stakeholders.

¹⁹ “Part 668 – Student Assistance General Provisions, Subpart E – Verification and Updating of Student Aid Application Information, Forms and Instructions (60D FRN),” *Code of Regulations*, title 34 (2020), <https://www.regulations.gov/document?D=ED-2019-ICCD-0146-0003>.

Discussion and Conclusion

Verification is a necessary evil of the federal government's investment in higher education through need-based financial aid. The process is essential to prevent fraud and abuse in the system and to prevent egregious mistakes, but the cost to taxpayers must be balanced with the burden placed on students and institutions. The improvements between these two cycles—fewer students selected with a higher number of dollars recovered—is a step in the right direction for both taxpayers and students. Because verification can never be completely eliminated, it is vital that FSA continue striving to further reduce the burden while maintaining their fiduciary responsibility to taxpayers.

With the passage of the FUTURE Act, FSA has just the opportunity to continue moving in this direction. The bill amends Section 6103 of the Internal Revenue Code to allow the IRS to share Federal Taxpayer Information (FTI) directly with ED via FSA. This change will make the FAFSA verification process easier by pulling students' and parents' (if needed) FTI from the IRS, where it will already be considered verified data. This change in the FAFSA process should lead to a significant reduction in applications selected for verification of income-related fields and a corresponding reduction in the associated burden experienced by students and institutions. In the FY 2019 Agency Financial Report, ED writes, "FSA expects this [amendment to Section 6103] to have a meaningful impact on improper payments, reduce burden on applicants and schools, and reduce burden on borrowers, helping them avoid delinquency and default."²⁰

NCAN anticipates that the FUTURE Act will not affect verification for students who need to provide documentation around the number of household members, number of household members in college, high school completion status, or identity/statement of educational purpose, but it should virtually eliminate verification on the basis of IRS-held financial information. The policy change will also allow for streamlined verification of students and families' non-filing status.

Implementation of the FUTURE Act offers immense potential to greatly reduce the burden of FAFSA verification while preserving FSA's fiduciary responsibility to taxpayers. Because of this, it is important that this policy's implementation go smoothly. Amending IRS Section 6103 is a significant change because it will give more applicants access to their own tax records when completing the FAFSA. The financial information directly transferred from the IRS to FSA is already considered verified, whereas information manually entered by the FAFSA filer is not. NCAN will eagerly monitor this implementation and encourages other advocates and stakeholders in the field to do the same. In the interim, NCAN recommends that FSA:

- Explain why verifying 22% of all FAFSA filers is the most appropriate percentage. Considering the relatively low IRS audit rate in comparison to the large numbers of students selected annually for verification without resulting in a change to their Pell Grant award, FSA should publicly inform the higher education community why this high percentage is necessary. Providing that information without sharing proprietary information about the specific factors included in selection for verification is possible and appropriate.

²⁰ U.S. Department of Education, Office of the Chief Financial Officer. *U.S. Department of Education FY 2019 Agency Financial Report (AFR): Payment Integrity*.

- Consider substantial changes to verification of financial information based on the implementation of the FUTURE Act. Post implementation, a much higher percentage of FAFSA filers will have information directly reported from the IRS. FSA must consider closely whether any of these individuals' applications warrant financial information verification. This may require a change in the categories for which FSA selects students for verification.
- Select an even smaller proportion of auto-zero EFC applicants for verification, given this group's very low rate of post-verification changes to Pell Grant award size demonstrated in the evidence from award years 2018-19 and 2019-20. FSA should instead focus on other applicants whose characteristics better align with groups more likely to have award changes.

The future of FAFSA verification has reached a critical point of inflection. The available evidence shows considerable costs balanced against benefits that measure in the hundreds of millions of dollars. Beyond those considerations lay postsecondary pathways for millions of students, which they could more easily access with the support of federal financial aid, especially Pell Grants. Although the verification process does not change the Pell Grant amount for the vast majority of eligible FAFSA filers, some do see a change while others drop out of the process entirely. Policymakers and financial aid practitioners should continue to actively find ways to reduce obstacles that impede students' ability to improve themselves through postsecondary pursuits.

Appendix A

For a process with potentially significant consequences on students' financial aid, there is little publicly available information about verification's effects. The following are some of the sources available on this topic:

- **The Federal Pell Grant Program End-of-Year Report.** This report includes information on the number of verified FAFSA applicants and the distribution of verified Pell Grants by recipients' family income. During the 2017-18 award year, approximately 5.9 million students were selected for verification, about 30% of all FAFSA completers and 55% of all Pell Grant-eligible FAFSA completers.²¹ From 2011-12 to 2017-18 that percentage ranged from 49% to 55%.
- **Federal Student Aid Training Conference presentations.**²² This annual conference is FSA's opportunity to communicate directly with financial aid administrators. Data are regularly shared during these presentations that are not publicly available elsewhere. For example, from data released in FSA presentations, it is known that Pell Grant eligible FAFSA completers are disproportionately selected for verification. In 2014-15, approximately 98% of those selected for FAFSA verification were Pell Grant eligible²³ (in recent years the percentage of Pell Grant eligible FAFSA completers selected for verification has hovered around 50%).²⁴ Because verification is intended to reduce improper payments, the targeting of Pell Grant-eligible students is unsurprising. FSA claims this level of verification is ideal, as determined by an internal cost-benefit analysis which shows this percentage results in the highest return in improper payments.²⁵ According to a public presentation by FSA, "Verifying the riskiest filers means the return in improper payments is greater than the cost [of conducting the verification]."²⁶
- **ED's Agency Financial Report—specifically the Payment Integrity section.** This report estimates the percentage and dollar amount of improper payments from a number of federal programs, including the Pell Grant and Direct Loan Programs.²⁷ In FY 2019, ED estimated about \$646 million in improper Pell Grant payments, amounting to 2.23% of total outlays, a significant drop from the prior three years.²⁸ The Direct Loan Program saw \$483 million in improper payments representing 0.52% of total outlays.

²¹ U.S. Department of Education, "Federal Pell Grant Program 2017-2018 End of Year Report, Table 001."

²² U.S. Department of Education, Federal Student Aid, "2019 Session Descriptions," (videos, PDFs, and PowerPoint presentations, Reno, NV, December 2019), <https://fsaconferences.ed.gov/2019sessionlist.html>.

²³ In a conference session at the 2015 FSA Training Conference, FSA staff shared that approximately 5.3 million students were selected for verification for the 2014-15 FAFSA cycle. See slide 62 of Maria Marella et al, "General Session 2: FAFSA Application Processing and Verification Update," (PowerPoint presentation, Las Vegas, NV, December 2015), <https://fsaconferences.ed.gov/conferences/library/2015/2015FSAConfSessionGS2.ppt>. The 2014-15 Pell End-of-Year report shows that about 5.2 million Pell Grant-eligible applicants were selected for verification. See U.S. Department of Education, "Federal Pell Grant Program 2014-15 End of Year Report, Table 001," Federal Pell Grant Program Annual Data Reports, June 17, 2016. Dividing the two figures yields the 98% figure.

²⁴ Bill DeBaun, "Verification Melt Rate Ticks Up to 25 Percent."

²⁵ Craig Munier, Ed Pacchetti, and Aaron Washington, "General Session #4: Verification (2019-20 and 2020-21)."

²⁶ Ibid.

²⁷ See most recently, U.S. Department of Education, Office of the Chief Financial Officer, *U.S. Department of Education FY 2019 Agency Financial Report (AFR)*, <https://www2.ed.gov/about/reports/annual/2019report/index.html>.

²⁸ PaymentAccuracy.gov, "Payment Accuracy 2019 Dataset," Annual Improper Payments Datasets, <http://paymentaccuracy.gov/wp-content/uploads/2020/01/2019-Payment-Accuracy-Dataset-FINAL-unfiltered-.xlsx>.

- NASFAA’s “Verification One-Pager.” Released in November 2018, this summary describes results from a survey of 45 NASFAA-member institutions representing over 700,000 students. Although this survey sample was not nationally representative, NASFAA noted, “it appears that current verification efforts are not well targeted and grossly imbalanced.”²⁹ The survey found “84% of verified applications resulted in either no EFC change or a change so small that it did not result in a change to the student’s Pell Grant award”; at community colleges that percentage was 91%.
- The April 2019 audit report from ED’s Office of Inspector General. This report outlines FSA’s process for selecting data elements and students for FAFSA verification. The report criticized FSA’s process and concluded in part, “There is no reasonable assurance that the verification processes effectively identified FAFSAs with errors that would result in improper payments.” FSA noted in its response, “The draft report did not acknowledge that FSA had made significant improvements to its evaluation and monitoring of the verification processes.”³⁰

Appendix B

Table B1: Percentage Distribution of Applicants Who Experienced Decreases in Awards Post Verification

All applicants	AY 2018-19		AY 2019-20	
	Auto-zero EFC	Non-auto-zero EFC	Auto-zero EFC	Non-auto-zero EFC
Decrease \$1 - \$499	27.0%	28.1%	21.0%	24.7%
Decrease \$500 - \$999	11.4%	22.0%	10.0%	21.1%
Decrease \$1,000 - \$1,999	16.4%	28.8%	17.0%	29.3%
Decrease \$2,000+	45.2%	21.2%	52.0%	25.0%

Table B2 : Percentage Distribution of High School Senior Applicants Who Experienced Decreases in Awards Post Verification

High school seniors	AY 2018-19		AY 2019-20	
	Auto-zero EFC	Non-auto-zero EFC	Auto-zero EFC	Non-auto-zero EFC
Decrease \$1 - \$499	26.6%	28.7%	23.3%	24.5%
Decrease \$500 - \$999	11.1%	21.7%	10.6%	20.9%
Decrease \$1,000 - \$1,999	16.9%	29.6%	17.0%	30.5%
Decrease \$2,000+	45.5%	20.0%	49.1%	24.2%

²⁹ National Association of Student Financial Aid Administrators (NASFAA), “NASFAA Data Show Verification Does Not Impact Most Financial Aid Awards.”

³⁰ U.S. Department of Education Office of Inspector General, *Federal Student Aid’s Process to Select Free Application for Federal Student Aid Data Elements and Students for Verification*. ED-OIG/A02Q0007, April 26, 2019, <https://www2.ed.gov/about/offices/list/oig/auditreports/fy2019/a02q0007.pdf>.

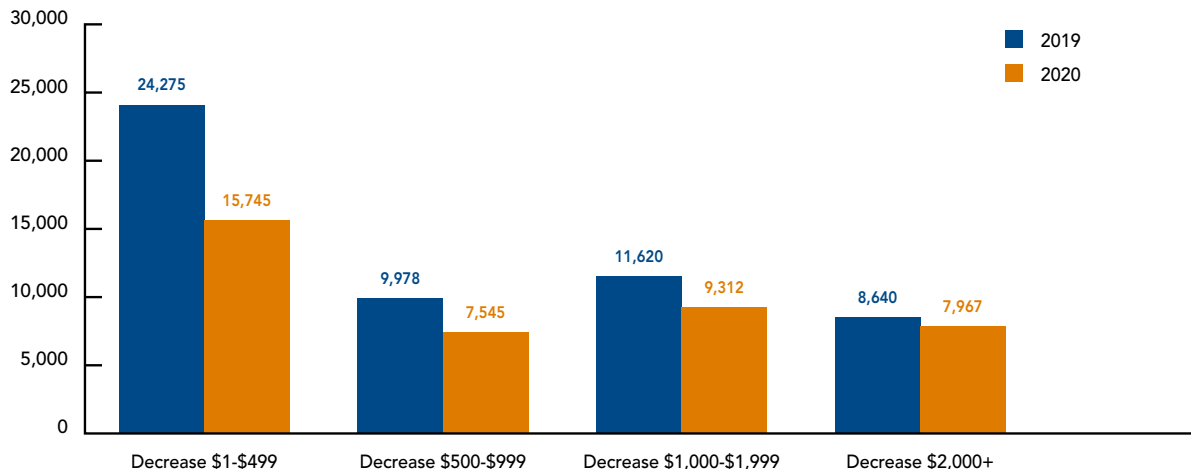


Figure B1: Distribution of post-verification Pell Grant award increases for high school senior applicants, AY 2018-19 and 2019-20.

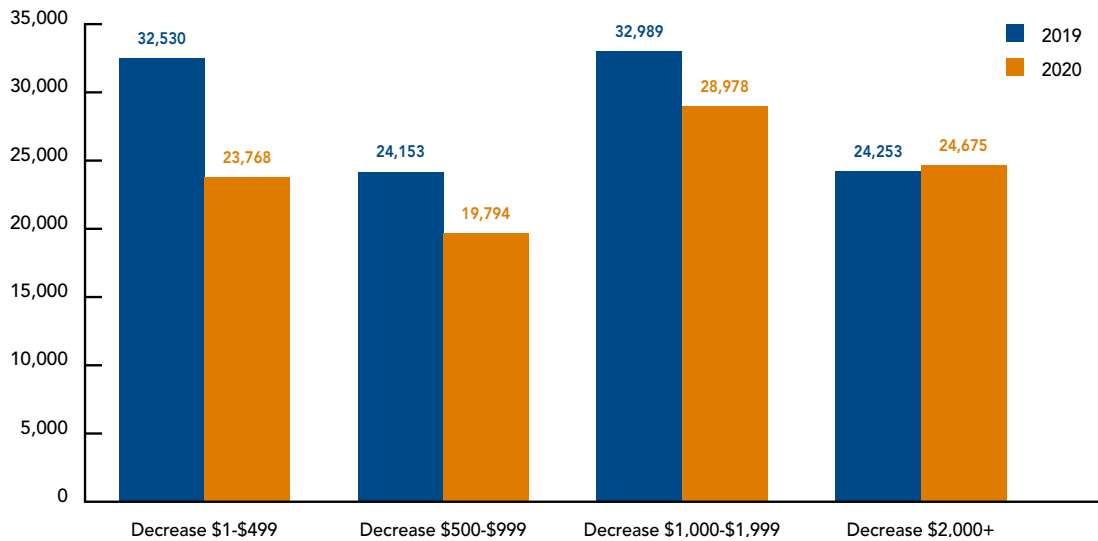



Figure B2: Distribution of post-verification Pell Grant award decreases for high school senior applicants, AY 2018-19 and 2019-20.



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