

Financial Need and Aid Volatility among Students with Zero Expected Family Contribution

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April 6, 2014

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Motivation

- Students from high-income families are six times more likely to complete a bachelor's degree by age 25 than those from low-income families (Bailey & Dynarski, 2011)
- Number of students with financial need has exploded in recent years
- This has far outstripped growth in financial aid programs
- Need to consider how to targeted aid to the neediest students

Calculating EFCs

- Based on FAFSA data
- **Dependents:** Considers student and parent income and assets
- **Independents:** Considers student and spouse (if married) income and assets
 - EFCs calculated differently based on whether an independent student has any dependents
- EFCs often used for aid eligibility, including Pell Grant

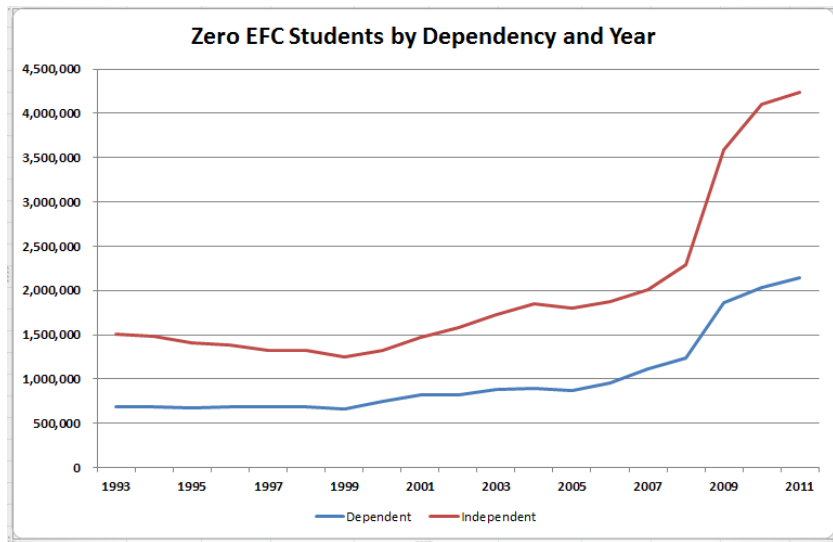
- Students with zero EFC considered to have the greatest need
- Three ways to get zero EFC:
 - 1 **Automatic zero EFC:** Household income below \$24,000 and meet federal benefit criteria
 - 2 **Simplified FAFSA—assets not considered:** Household income below \$50,000 and meet federal benefit criteria
 - 3 **Full FAFSA:** Receive zero EFC by a result of the full formula

Concerns with zero EFC

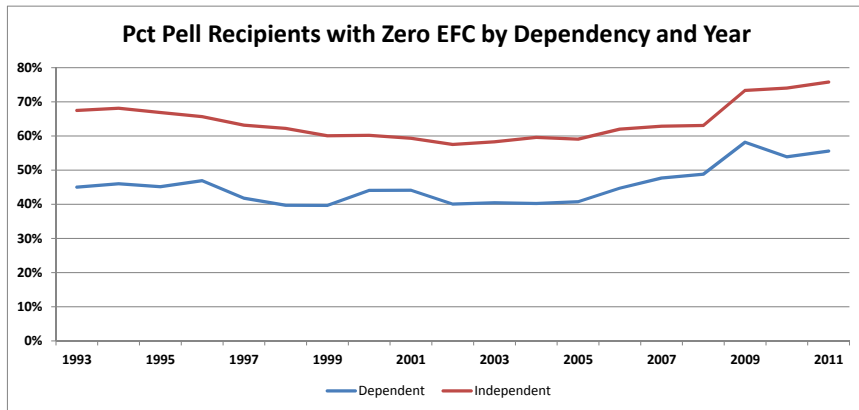
- Values artificially truncated at zero
- Calls for negative EFC (e.g. Center for Law and Social Policy, 2013; Goldrick-Rab, 2014; McSwain, 2008)
- Could mask a great deal of heterogeneity
- Inability to target the most limited resources (SEOG) to students who need them the most

- I used nationally-representative data and student-level FAFSA data to explore the following questions:
 - 1 What are the characteristics of zero EFC students?
 - 2 How often do zero EFC students have a zero EFC in the following years? Do they continue to be Pell-eligible?
 - 3 How do the above two questions vary based on how the EFC was assigned (automatic zero EFC, simplified FAFSA, or full FAFSA)?
- I also explored the feasibility of calculating negative EFCs

Trends in zero EFC receipt



Trends in zero EFC receipt



Research on income volatility

- Jacobs (2007): Nearly 10% of working-age households saw incomes fall by more than half in a two-year period
- Growing volatility in household incomes over time, particularly toward the bottom of the income distribution (e.g. Dynan et al., 2007; Gottschalk & Moffitt, 2009; Wagmiller & Smith, 2012)
- But how does this affect students' financial aid awards?

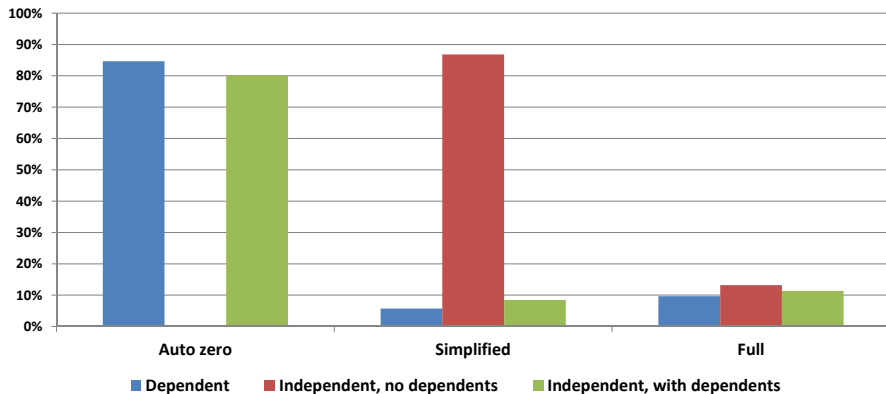
Research on financial aid volatility

- Most research has been on prior prior year (PPY) income data
 - Allows for look at year-over-year changes
- Large changes in income for aid filers (ASCFA, 1997; Madzellan, 1998)
- But changes in Pell awards would be smaller and less frequent (Dynarski & Wiederspan, 2012; Kelchen & Jones, 2013)
- Heller (2006) found that 80% of FRL-eligible 11th graders got the Pell Grant two years later

- National comparisons using NPSAS waves from 1996-2012 and 2004 BPS cohort
- Other analyses conducted using nine-institution dataset of FAFSA filers from NASFAA
 - 2 community colleges, 5 public research universities, and 2 private four-year colleges
 - Data for FAFSA filers from 2007-08 through 2011-12
 - 152,874 students: 68% dependent, 18% independent without dependents, 13% independent with dependents

Summary statistics

Zero EFC by FAFSA Type and Dependency, 9-Campus Sample



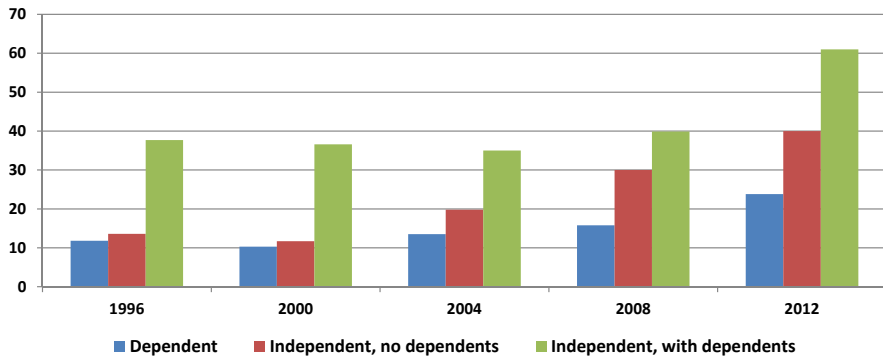
- Examined trends over time in zero EFC receipt using NPSAS
- Examined trends in continued zero EFC/Pell receipt in BPS and institutional data
- Calculated negative EFCs by allowing the following FAFSA elements to remain negative:
 - Student and parent/spouse income: Taxable/untaxed income and wages, contribution from adjusted available income
 - Assets: Parent/student business and investment assets (full FAFSA only)
 - Did not truncate negative asset contributions

Limitations

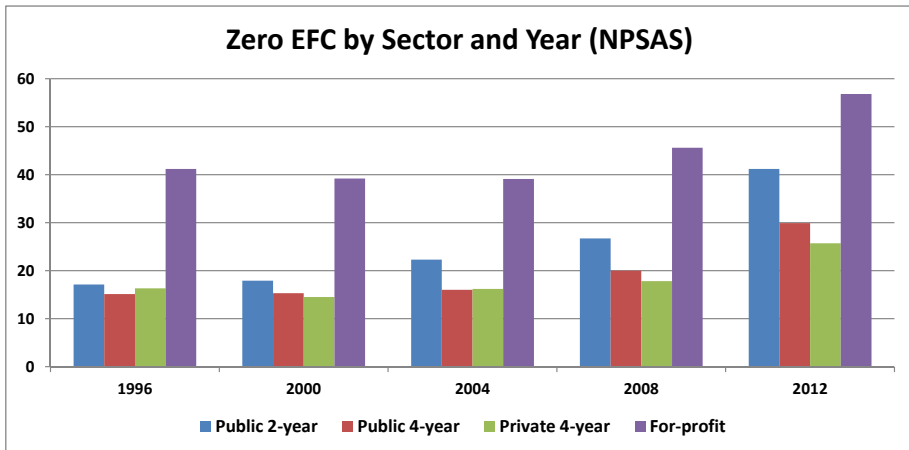
- Institutional sample is only nine colleges and has no for-profits
- Students only observed when they refiled the FAFSA at the same college
- No information on academic outcomes in my data
- Also missing low-income students who didn't file the FAFSA

Trends in zero EFC rates

Zero EFC Receipt by Dependency Status and Year (NPSAS)

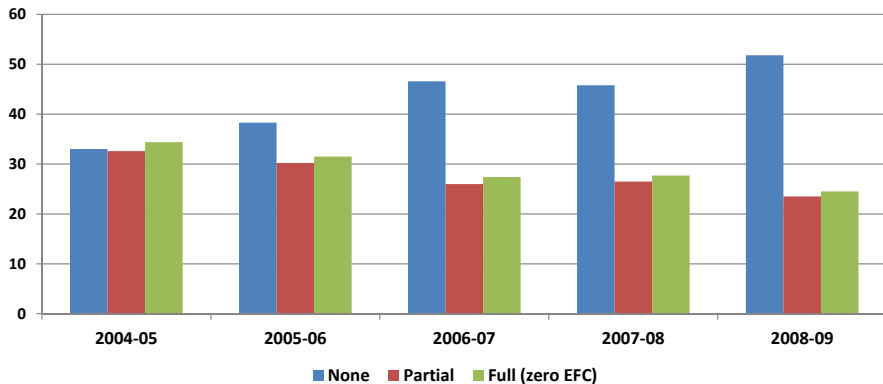


Trends in zero EFC rates



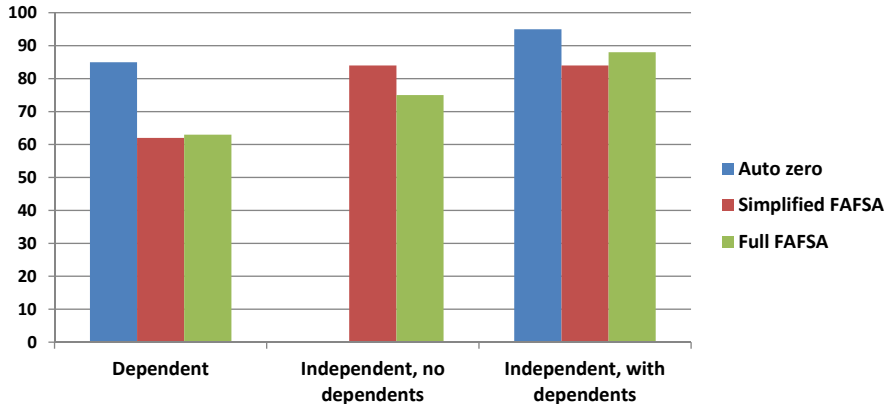
Zero EFC and Pell renewal rates

Pell Renewal Rates by Year, Zero EFC in 2003-04 (BPS)



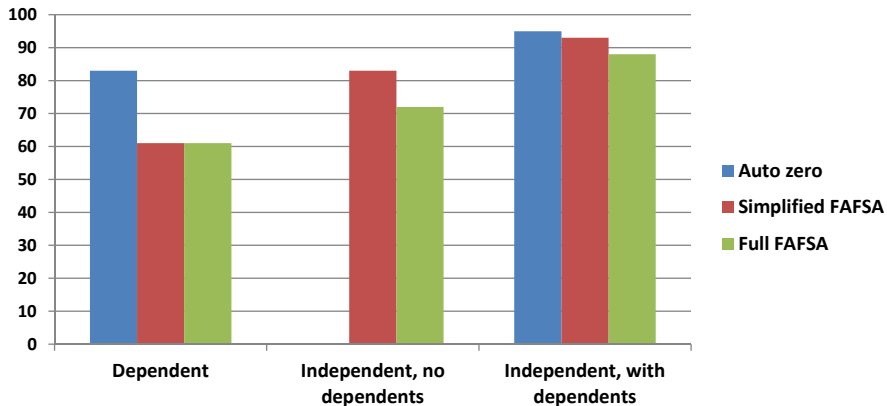
Zero EFC renewal rates

Zero EFC Renewal Rates (9-college sample)



Continued zero EFC renewal rates

Zero EFC Rates Two Years Later (9-college sample)



Estimating negative EFCs

- About 80% of students with an automatic zero EFC would qualify for a negative EFC, if possible
- Their typical negative EFC would be around \$7,000 for dependents and \$2,000 for independents with dependents
- Nearly everyone with a zero EFC from a simplified for full FAFSA would get a negative EFC
- Negative EFCs larger (more negative) for full FAFSA due to more chances for negative values

Conclusion and future work

- Zero EFC students are a heterogeneous group
- May want to look at FAFSA filing status as a guide for allocating aid (more to auto zero)
- Consider the possibility of negative EFCs
- I'll keep working on my calculations and the policy implications