



Disproportionate Burden: Estimating the Cost of FAFSA Verification for Public Colleges and Universities

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Abstract

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Keywords: FAFSA Verification, Postsecondary Education, Financial Aid

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Introduction

Every year approximately six million of the 20 million students who apply for federal financial aid through the Free Application for Federal Student Aid (FAFSA) undergo further scrutiny of their application (Cochrane et al., 2010; Dynarski & Scott-Clayton, 2006; Page et al., 2020). This process, termed verification, may impede students' access to the nearly \$120 billion in aid the U.S. Department of Education (ED) awards every year (Federal Student Aid, 2018). Verification is a federally mandated process that requires students to further attest that the information reported on their FAFSA is accurate. ED selects students to be verified through an unpublished risk model (AlQaisi et al., 2020; Hoover, 2017). Some students selected must attest to relatively straightforward inputs like family size. For others, however, the verification process requires that they provide their college or university with official financial documentation (e.g., a W-2 to verify parental income) or even have their parents file an amended tax return (AlQaisi et al., 2020; Evans et al., 2017). Then, the student's institution—not ED—is responsible for reviewing and approving the documentation.

The more complex a student's financial situation, the longer the verification process may take (Friedmann & Martorell, 2018). Students who complete the application process later may receive less aid than they otherwise could have qualified for (McKinney & Novak, 2015) or no aid at all if they fail to complete verification (Cochrane et al., 2010).

The stated purpose of the verification process is to assure federal financial aid is distributed to students who are “rightly” entitled to it. ED's primary concern is the Pell grant, given that it is the most extensive need-based aid program and comprises the majority of non-

repayment federal aid (Bettinger et al., 2012). Pell-eligible FAFSA filers are flagged for verification at six times the rate of non-Pell eligible filers (Wiederspan, 2019), with over one-quarter of FAFSA filers being selected for verification in total (National College Attainment Network [NCAN], 2018b). Nevertheless, the vast majority of students selected experience no change in the federal aid for which they were eligible (Evans & Nguyen, 2017; NCAN, 2018a). With little apparent effect on the aid for which students ultimately qualify, verification serves as a potentially unnecessary hurdle to college matriculation and success, especially for lower-income and historically marginalized students (Campbell et al., 2015; Davidson, 2014; Evans et al., 2017; Page et al., 2020; Wiederspan, 2019).

Given this disproportionate burden on low-income students, FAFSA verification may also create a disproportionate burden on institutions these students are likely to attend. The verification requirement is an unfunded mandate that suffers from the general weakness of such policy instruments. Namely, the mandate's enforcement is costly to the entity responsible for complying with it (McDonnell & Elmore, 1987). Since colleges and universities are responsible for administering verification, policymakers should be concerned with the compliance burdens that the requirement creates, especially as financial aid offices often have limited resources and have experienced budget declines in recent years (AlQaisi et al., 2020; Cochrane et al., 2010; Davidson, 2014; National Association of Student Financial Aid Administrators [NASFAA], 2015, 2020).

In this brief, we estimate the institutional costs of complying with and administering the federal FAFSA verification mandate. We consider variation in costs by institution type and sector (e.g., two-year publics, four-year publics, and four-year privates) and contextualize these costs by comparing them with institutional student services expenditures. Using data from 2014,

we estimate annual compliance costs to institutions of nearly \$500 million overall, with the burden falling disproportionately on public institutions and community colleges, in particular. Specifically, we estimate that the average community college devotes 22% of its financial aid office operating budget to verification procedures, compared to 15% for public four-years and 1% for private four-year institutions. Our analysis is timely, given that rates of FAFSA verification have increased recently (Douglas-Gabriel, 2017; Smith, 2018)

Analysis and Results

Our analysis employs data from the Integrated Postsecondary Education Data System (IPEDS). Published annually by the National Center for Education Statistics, IPEDS is a database including all U.S. postsecondary institutions that participate in federal student financial aid programs. For each institution, we obtain undergraduate counts, the proportion of full-time, first-time (FT-FT) students receiving any financial aid (federal, state, and/or institutional aid), and the proportion of FT-FT students receiving Pell funds specifically. We assume that students who receive state and/or institutional aid also completed the FAFSA, and therefore fall under the verification requirement.

Ideally, for each institution, we would observe the share of *all* undergraduates who received any financial aid, however, this is surprisingly not reported in IPEDS. Therefore, we assume that aid receipt rates for FT-FT students provide a reasonable estimate for students overall. We acknowledge that this assumption is not ideal but reason that the direction of any bias in our estimates resulting from this and other analytic decisions is ambiguous (as discussed further in the Appendix). For each institution, we estimate the number of undergraduates receiving Pell grant funding and the number receiving non-Pell aid by multiplying each

institution's FT-FT Pell and non-Pell aid receipt percentages by their total undergraduate enrollment. We calculate these counts separately by Pell status since rates with which students are selected for verification vary by Pell eligibility (Oster et al., 2020; Wiederspan, 2019).

We focus on 2014 IPEDS data to align with other information sources on which we rely (discussed below). Our analytical sample includes 2,837 not-for-profit institutions that serve students who receive Title IV funds and, as such, fall under the verification mandate. On average, institutions in our sample have enrollments of about 4,500 undergraduates who received some form of aid. Average enrollments are largest among four-year publics (approximately 9,000 students) compared to two-year publics (4,700) and four-year privates (2,000). Of students receiving aid, 57% received Pell funding specifically, with higher rates of Pell reliance at two-year publics (72%), compared to four-year publics (51%) and privates (45%).

Next, we estimate the number of financial aid recipients each institution would have had to verify by Pell status. We know of no national source for verification rates for non-Pell eligible students. Therefore, we rely on verification rates in the state of Iowa, which, as reported by Wiederspan (2019), differ substantially by Pell status. From Wiederspan (2019), we impose a 60% verification rate for Pell students and a 10% rate for non-Pell students. Imposing these rates, we estimate that institutions, on average, verified 39% of undergraduates who received aid. We estimate that two-year publics verified nearly half (46%) of aid recipients compared to lower rates at four-year publics (35%) and privates (38%). These estimates align with previously reported verification rates (Cochrane et al., 2010; NCAN, 2018a; Oster et al., 2020; U.S. Department of Education, 2019). To note is that in IPEDS, we only observe students who receive aid once enrolled. Therefore, our estimates provide a lower bound for the number of students

each institution verified since counts do not include students who applied to but did not enroll in a particular institution.

Next, we consider costs that verification imposes on each institution. Doing so requires an estimate of the process's per-student cost. To inform this estimate, we draw on a 1999 U.S. Inspector General report, which provides the last major audit of the verification process. At that time, the federal government estimated that the institutional cost to verify one student was \$81 (1999\$). Using the Higher Education Price Index (Commonfund Institute, 2017), we adjust this to \$134 in 2014\$. To account for possible increases in efficiency of verifying students between 1999 and 2014, we round this \$134 cost down and conservatively assume an institutional cost of \$100 per student verified. The report provides little information regarding how the cost calculation was constructed beyond indicating that it includes salary "plus other costs" (U.S. Department of Education, 2002). We reason that these other costs likely include staff fringe benefits as well as facility and other transaction costs of the verification process. In short, costs that would still be present today.

Based on a \$100 per-student cost, we estimate that in 2014 the average institution spent \$170,000 processing verifications and that total cost across institutions was \$481 million. In Figure 1, panel A, we present estimated total cost by institutional sector, and in panel B, average cost by sector. Verification costs fall more to public institutions, with two-year publics spending \$225 million and four-year publics spending \$189 million. The four-year private sector faces a considerably lower compliance cost burden (\$67 million).

Of course, one might expect public institutions to face higher costs, given that they serve more students overall and a higher proportion of Pell students. Rather than by size, we scale our estimates by institutional resources. To do so, we first draw on information from the NASFAA

Administrative Burden Survey for estimates of average financial aid office operating budget by postsecondary sector (NASFAA, 2015). NASFAA is a U.S. advocacy group for financial aid administrators. NASFAA conducts its burden survey on a several-year cycle with the last administration occurring in 2014. NASFAA administered this survey to its entire membership of 2,700 postsecondary institutions, with about one-quarter responding. Recognizing that non-response bias may influence results, we introduce a second approach to scaling below.

On average, responding institutions reported an annual financial aid office operating budget of \$3.4 million, with levels ranging substantially from an average of nearly \$1 million at two-year publics to \$6.3 million for four-year privates. Using these estimates, we scale average institutional verification costs as a function of average financial aid office operating budget. In Figure 2, panel A, we present results. Four-year and two-year public institutions devote a sizable share of their financial aid operating budget to administering verification. The average four-year public devotes 15% of its financial aid office operating budget to conducting verification, compared to 1% at the typical four-year private institution. The average community college spends \$224,000 annually, or 22% of its aid office budget on verification. This equates to approximately three full-time staff dedicated to processing verifications. Our estimates align with a recent NASFAA (2020) report in which financial aid offices commonly reported spending 20% or more of their operating budget processing verifications.

Non-response bias may render the NASFAA survey an imperfect source of information. Therefore, we also scale institution-level verification expenditures by total student services expenditures (as reported in IPEDS). This variable includes *all* operating expenses associated with student services, inclusive of financial aid administration. Although IPEDS does not report financial aid administration costs more narrowly, a benefit of this measure is that we observe it

for all schools in our sample. In Figure 2, panel B, we present average verification cost as a share of student services expenditures by sector. These results tell a similar story. The average four-year public devotes 1.5% of its student services budget to the verification process, compared to 0.5% at the typical four-year private. This rate is again higher for community colleges, which, on average, spend 4% of student services budgets on verification, a rate eight times higher than for private, four-year institutions.

Discussion and Implications

In 2014, administrating verification processes cost US higher education nearly \$500 million, the equivalent of over 130,000 additional Pell grants in that year (in 2014, the average Pell grant was \$3,768) (US Department of Education, 2006). These costs are borne disproportionately by public institutions and community colleges, in particular. Community colleges devote a larger percentage of their financial aid operating and student services budgets to managing FAFSA verification. This is concerning, given that community colleges enroll nearly 42% of all undergraduates (Ma & Baum, 2016), and they disproportionately serve the least well-resourced students who, as a result, most need financial aid to support their access to higher education (Campbell et al., 2015; Davidson, 2014; McKinney & Novak, 2015). In short, it is costlier for community colleges to meet the verification mandate to facilitate their students' access to financial aid.

More broadly, financial aid offices can be “characterized by limiting operating resources,” and financial aid administrators have experienced an increase in administrative burden due to increases in the rate with which students are selected for verification (NASFAA, 2015). This increase in verification prevalence has, according to NASFAA, crowded out other

supports that financial aid offices might provide, and that might be especially important for lower-income and historically marginalized students, as they strive to access and succeed in higher education. In addition, increased rates of verification add stress to the college-going process for these very students (Campbell et al., 2015; Cochrane et al., 2010).

Of course, a key question is whether current verification processes are preventing the misappropriation of federal aid. Recent evidence suggests the answer is no. A 2019 federal audit report on verification concluded that the agency tasked with administering financial aid failed to monitor its process for selecting students for verification, and there was “no reasonable assurance that the verification processes effectively identified FAFSAs with errors that would result in improper payments” (U.S. Department of Education, 2019). This is consistent with evidence noted above that most students required to navigate verification had little to no change in their aid eligibility (AlQaisi et al., 2020; Evans & Nguyen, 2017; NCAN, 2018a). As a point of comparison, it is notable that the federal government flags low-income FAFSA filers for further scrutiny at nearly 60 times the rate with which federal tax returns are selected for audit (Dynarski & Scott-Clayton, 2006). Such comparisons lead financial aid administrators to question why students are repeatedly required to “prove they are poor” (Megahed, 2019).

With the recent passage of the FUTURE Act, Congress has signaled *potential* improvements to FAFSA verification. The FUTURE Act will further enhance the direct data-sharing agreement between the Department of the Treasury and ED, allowing for automatic data transfer from the Internal Revenue Service (IRS) to ED without the use of the current, multi-step IRS Data Retrieval Tool. This, in theory, should reduce the rate with which income fields are flagged for verification, as income would be “pre-verified.” However, such changes may not lessen the burden on students with more complex household financial situations.

Further, goals outlined in the FUTURE Act will require careful coordination among federal bureaucratic agencies; these changes are expected to take several years (AlQaisi et al., 2020; Oster et al., 2020; The Institute for College Access & Success, 2019). In addition, the process for how ED selects students for verification remains unclear. In the short run, we call for greater transparency in how ED selects students for verification; a broader scale evaluation of the costs and benefits – perceived and actual – of the current processes; and careful consideration of how compliance expenditures could be re-purposed to address other pressing needs within the financial aid system. The verification mandate deserves further scrutiny given that it places a disproportionate burden on institutions serving the neediest students and especially as more students with financially precarious circumstances may seek postsecondary education during a period of global recession (U.S. Census Bureau, 2018).

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Figure 1. Estimated cost of verification, by sector (2014)

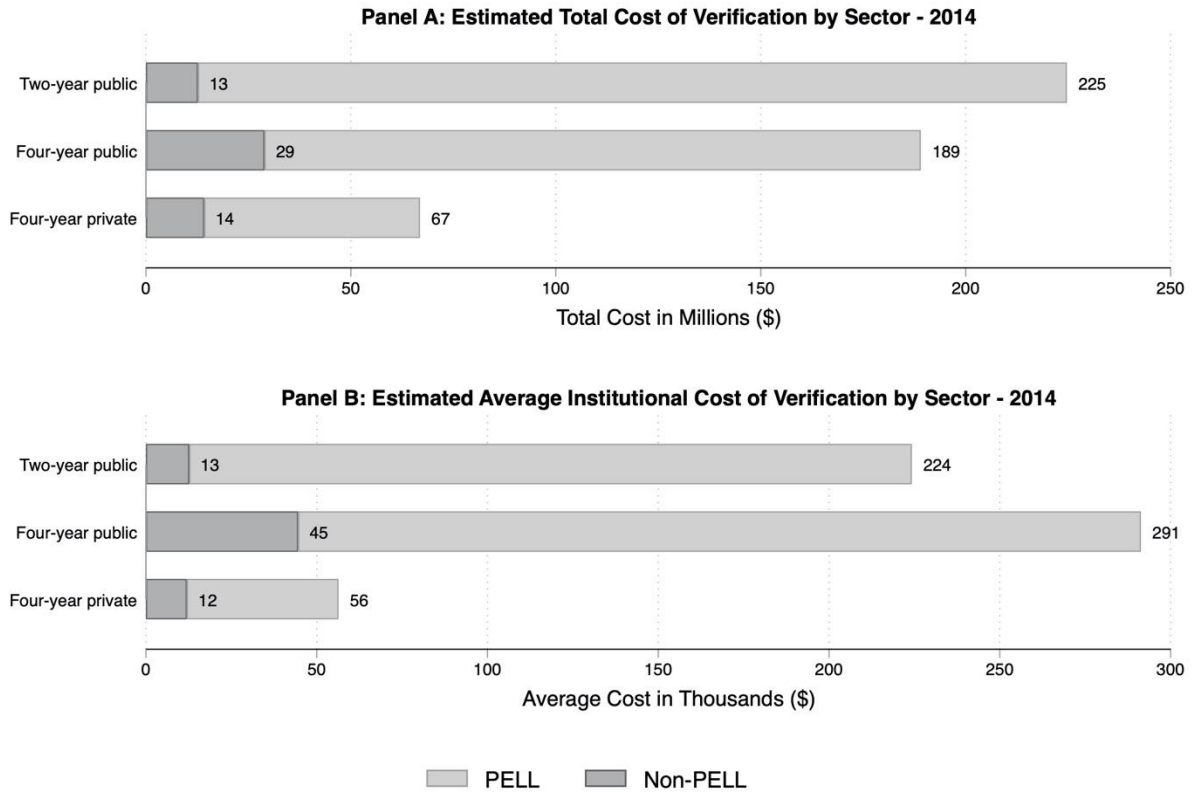
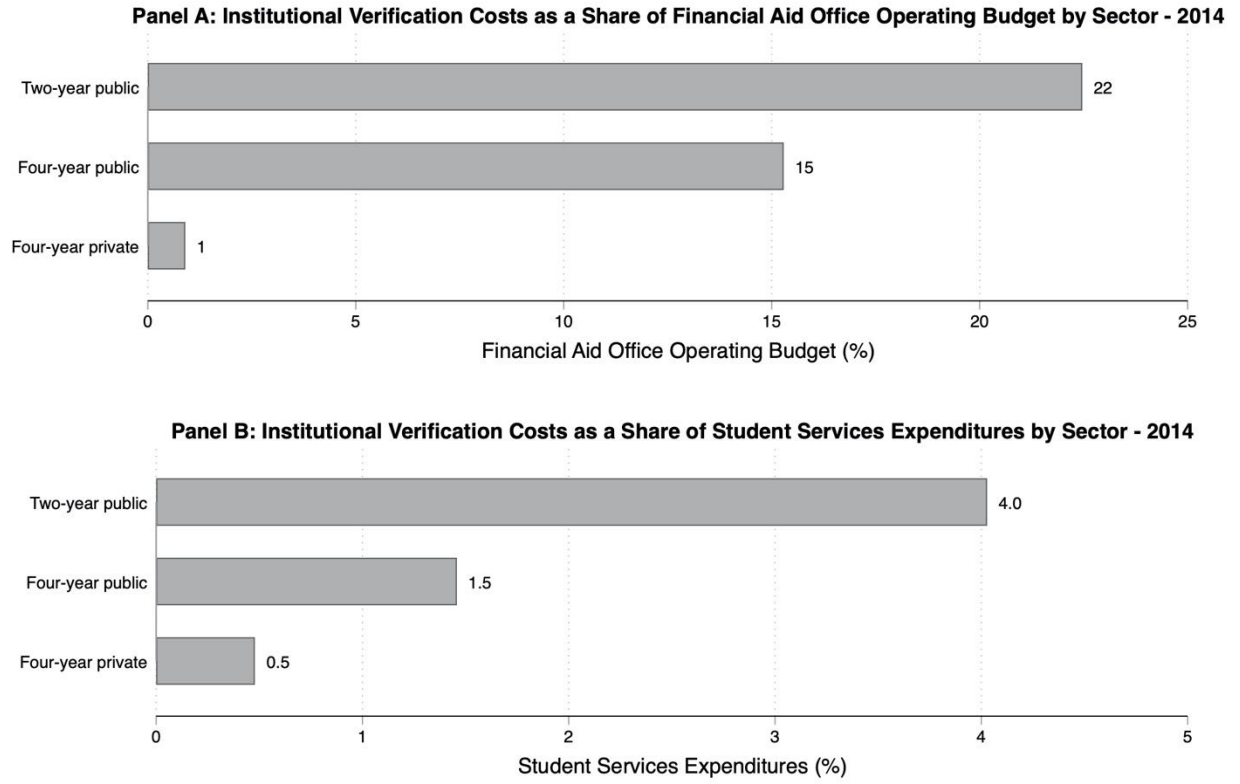


Figure 2. Estimated average institutional verification costs as a share of financial aid office operating budget and total student services expenditures, by sector (2014)



Appendix

In this appendix, we lay out the assumptions underlying our analysis. We highlight the assumptions that we make together with our reasoning regarding how each assumption may influence our estimates. At several steps in our analysis, we aimed to be conservative when making our key analytic decisions so as not to overestimate the compliance costs from the verification mandate. In fact, for several reasons discussed below, it is likely that the figures we report underestimate the true compliance costs that institutions face.

Assumption 1: *Financial aid receipt rates for full-time, first-time (FT-FT) undergraduates provide a reasonable estimate of aid receipt rates for undergraduates overall.*

IPEDS does not report financial aid receipt rates for all undergraduates. Therefore, we must rely on aid receipt data for first-time, full-time (FT-FT) students to estimate rates of financial aid receipt for undergraduates overall. Of course, it is possible that the share of FT-FT students who receive aid may not be reflective of receipt rates for part-time college-goers. Part-time or otherwise non-traditional college-goers disproportionately attend public, two-year institutions. For example, more than half of community college students attend part-time, compared to 23% of students attending public, four-year institutions, and an even lower 18% of students attending private, four-year institutions (Authors' calculations from NPSAS:16 using NCES QuickStats). Our counts will be biased upwards if part-time students do not apply for and receive aid as frequently as FT-FT students. For example, almost 80% of FT-FT students apply for some form of financial aid compared to slightly more than half of part-time students (Authors' calculations from NPSAS:16 using NCES QuickStats).

Nevertheless, this potential upward bias in our counts is countered by a potential downward bias since we use data on students who have *enrolled* in a given institution as opposed to all students who have *applied*. Students who apply to more than one institution and who are federally flagged for income verification will be required to complete verification processes for each institution to which they have applied in order to receive finalized aid packages from each. That is, we may be undercounting the number of students verified by each school, as our counts do not include students who applied to but did not enroll in a particular institution (or enroll at all). Indeed, rates of summer melt are particularly high among community college-goers from low-income backgrounds (Castleman & Page, 2014). Taken together, we reason that the direction of the bias in our estimates from relying on IPEDS-reported financial aid receipt rates for full-time, first-time enrolled college students is ambiguous overall.

Assumption 2: *Pell receipt rates are similar for part-time students compared to their full-time counterparts, as well as by institutional type.*

Another implication of our use of FT-FT financial aid receipt rates available through IPEDS is that we assume that Pell receipt rates are similar for exclusively full-time (FT) and part-time students (PT). Overall, the rate of Pell grant receipt is higher for full-time students compared to part-time students (46%, 33%, respectively) (U.S. Department of Education, 2019). This difference overall is driven primarily by Pell receipt rates in community colleges (45% FT, 29% PT) (U.S. Department of Education, 2019). At 4-year the differential in Pell receipt rates by student enrollment status is smaller (42% FT, 32% PT) (U.S. Department of Education, 2019), and there is no differential at 4-year privates (36% FT, 37% PT) (U.S. Department of Education, 2019). In sum, relying on Pell receipt rates for full-time students in our calculations may lead to

an upward bias in our estimate of the number of students verified, particularly for public institutions.

Assumption 3: *Verification rates for Pell and non-Pell students in the state of Iowa are a reasonable indication of verification rates nationally.*

To our knowledge, there is no national-level source of information on FAFSA verification rates by Pell status. Therefore, we rely on rates for the state of Iowa, as reported by Wiederspan (2019). A question that follows is whether the verification rates in Iowa are representative of verification rates nationwide. The risk model used to flag students for verification is universal and unrelated to the state of residence. That is, the risk model used to select students for verification in Iowa is the same risk model used to select students in California, for instance. Therefore, we reason that the verification rates by Pell-eligibility status in Iowa provide a reasonable estimate for students across the US.

Based on this assumption, we estimate that institutions in our sample verified approximately 39% of their undergraduate students, on average. This estimate is in line with previously reported verification rates (Cochrane et al., 2010; Oster et al., 2020; U.S. Department of Education, 2017), giving us confidence that the application of the Iowa-specific rates to the US overall is a reasonable analytic step.

Assumption 4: *Per-student cost of verification in 1999 is a reasonable estimate for the per-student cost in 2014 (once adjusted for inflation).*

Our analysis necessitates an estimate of the average per-student cost that a college or university faces to support a given student through the verification process. As noted in the main

body of the brief, we know of no recent estimate of this per-student cost. Rather, the last major federal audit of the verification mandate occurred in 1999. To translate this 1999 estimate to 2014 (the year on which our analysis focuses), we used the Higher Education Price Index (HEPI) (Commonfund Institute, 2017) to adjust the per-student cost of 1999 to 2014\$. HEPI is an inflation adjustment metric that provides a more accurate estimate of cost changes in the higher education sector than the Consumer Price Index (Commonfund Institute, 2017). The inflation adjustment process yielded a per-student cost estimate of \$134 (in 2014\$). We then rounded this figure down to a conservative \$100 to account for potential increases in efficiency in verification procedures and to guard against overestimating the actual per-student cost.