

# **The Student Aid Improvement Act of 2019 (S.2557)**

## **Overview**

The Student Aid Improvement Act (SAIA) of 2019 was introduced in the Senate on September 26, 2019, by Lamar Alexander (R-TN), chair of the Health, Education Labor and Pensions Committee, without cosponsors. The bill has nine sections dealing with a range of changes to federal student aid eligibility and awards. It would also establish federal standards for institutional student aid award letters. The bill raises approximately \$10 billion in savings to offset new costs in the legislation by changing the terms of certain income-based repayment plans. Finally, the bill provides permanent funding for programs under Title III, Part F of the Higher Education Act (HEA). This funding expired on September 30, 2019.

## **Summary**

### **Section 1 – Title and References**

### **Section 2 – Permanently Extending Funding for Title III, Part F Programs**

This section would permanently extend funding for programs authorized under Title III, Part F of the HEA at their current level of \$255 million annually.

### **Section 3 – Need Analysis and FAFSA Simplification**

SAIA would change the way student eligibility for financial aid is calculated, as well as simplify the Free Application for Federal Student Aid (FAFSA) by strictly reducing the scope of the application to information necessary to determining a student's financial standing and eligibility for student aid.

#### **Need Analysis**

The bill would create a Student Aid Index (SAI), which replaces the current Expected Family Contribution (EFC) calculation and is used to calculate a student's financial need for an award year. Financial need would be determined by taking the cost of attendance (COA), minus the SAI, minus any other non-federal financial assistance.

To calculate the SAI under the legislation, a student would:

- Automatically have an SAI equal to zero if they are eligible for a maximum Pell Award, unless they are eligible for a lower calculated SAI (and then the SAI will be a negative number);
- Have an SAI equal to -\$1,500 if an applicant is not required to file a federal income tax;
- Have an SAI equal to zero if they receive means-tested federal benefits, unless they are eligible for a lower calculated SAI.

Students not meeting these criteria would have their SAI determined based on their dependency status. For dependent students, the SAI would be computed by calculating the parents' "adjusted available income" (AAI), which is a combination of parents' "available income" and "available assets."

Available income is calculated by taking parents' total income less:

- federal income taxes;
- an allowance for payroll taxes;
- an income protection allowance (which increases with family size); and
- an employment expense allowance, equal to the lesser of \$4,000 or 35 percent of the parent(s) earned income.

Available assets are calculated by taking the difference between parents' net assets and the asset protection allowance (set by a table that establishes amounts that increase with the age of the oldest parent and distinguishes between one or two parent households) and multiplying that number by 12. This amount cannot be less than zero.

The AAI thus calculated would be used to determine the parents' contributions from their AAI, which would comprise (for all but the lowest income levels) a specific amount plus a percentage of AAI above certain income levels. These would range from AAIs between -\$6,820 or less equaling a parental contribution of -\$1,500 at the lowest range up to an AAI of \$34,501 or more equaling a parental contribution of \$9,343 plus 47 percent of AAI over \$34,500 at the higher end.

***For independent students without dependents (other than a spouse)***, the SAI would be computed by calculating the family's AAI, which is a combination of the available income and parents' available assets.

Available income is calculated by taking total income less:

- federal income taxes;
- an allowance for payroll taxes;
- an income protection allowance, equal to \$14,190 for independent students and \$22,750 for independent students with spouses; and
- an employment expense allowance, which for married independent students is the lesser of \$4,000 or 35 percent of the couple's combined earned income, and for single independent students is zero.
- Multiplied by 50 percent.

***For independent students with dependents***, the SAI would be computed by calculating the family's AAI, which is a combination of the available income and parents' available assets.

Available income is calculated by taking total income less the following and multiplied by 50 percent:

- federal income taxes;
- an allowance for payroll taxes;
- an income-protection allowance (equal to:

- a range based on family size between \$44,470 for a married family of three and \$76,230 for a married family of six, with \$8,610 for each additional dependent;
- a range based on family size between \$43,128 for a single parent family of two and \$91,476 for a single parent family of six, with \$10,332 for each additional dependent);
- an employment expense allowance, which for married independent students is the lesser of \$4,000 or 35 percent of the family's earned income.

Available assets are calculated by taking the difference between the student's net assets and the asset protection allowance (outlined in a table that establishes amounts that increase with the age of the student and distinguishes between single and married households), and multiplying that number by 7 percent. This amount cannot be less than zero.

The AAI thus calculated would be used to determine the family's contributions towards educational costs, which would comprise (for all but the lowest income levels) a specific amount plus a percentage of AAI above certain income levels. These would range from AAIs between -\$6,820 or less equaling a family contribution of -\$1,500 at the lowest range up to an AAI of \$34,501 or more equaling a family contribution of \$9,343 plus 47 percent of AAI over \$34,500 at the higher end.

The bill also provides for adjustments to the Income Protection Allowance (IPA) based on the Consumer Price Index (CPI) as well as an adjustment of the education savings and asset protection allowance by calculating a percentage equivalent to the present value cost of a supplemental income annuity that would cover the difference between Social Security benefits and moderate family income (as determined by the Bureau of Labor Statistics).

The legislation would exempt individuals from report assets if they:

- qualify for an automatic zero or negative on their SAI;
- are a dependent student and the parents have an adjusted gross income (AGI) less than \$75,000 and either do not file a Schedule C or file a Schedule C with a net business income of not more than a \$10,000 gain or loss with their federal income tax return; or
- are an independent student and have an AGI less than \$75,000 and either do not file a Schedule C or file a Schedule C with a net business income of not more than a \$10,000 gain or loss with their federal income tax return.

### **FAFSA Simplification**

The legislation would reconfigure the current FAFSA form, in consultation with key stakeholders and subject to consumer testing, to reduce the overall form to 16 questions (not including relevant sub-parts). Those questions are:

1. Name.
2. Contact information, including address, phone number, email address, or other electronic address.
3. Social security number.

4. Date of birth.
5. Marital status.
6. Citizenship status.
7. State of legal residence and date of residency.
8. Name and location of high school (or equivalent information).
9. Name of each institution where the applicant intends to apply for enrollment or continue enrollment.
10. Year in school for period of enrollment for which aid is sought, including whether applicant will have finished a first bachelor's degree prior to the period of enrollment for which aid is sought.
11. Whether one or both of an applicant's parents attended college.
12. Any required asset information.
13. The number of members of the applicant's family who will also be enrolled in an eligible institution of higher education on at least a half-time basis during the same enrollment period as the applicant.
14. If the applicant meets any designations such as homeless or in foster care, veteran status, or unusual circumstances.
15. If the applicant receives or has received any means-tested federal benefits within the previous two years.
16. If the applicant, the parents or spouse of the applicant, receive tax exempt payments from an IRA distribution or from pensions or annuities.

The legislation would require the Secretary of Education to notify applicants (or the parents or spouses of applicants, as necessary) of her or his authority to request that the Internal Revenue Service (IRS) disclose an applicant's tax return information, as described in section 484(q) of the HEA (which appears to be erroneously listed as sec. 494 in the current SAIA text).

Applicants would also be given the option to provide the secretary with authorization to transmit their information to their state of residence and any institution they designate to determine their possible eligibility for other, non-federal financial assistance.

When a FAFSA is completed, the Department of Education would provide to an applicant (and their parents or spouse, as applicable):

- the Pell Grant award they may be eligible for;
- information on other types of federal financial aid;
- information on the institutions they have designated for the release of their financial aid eligibility information, including the institution's:
  - net price by income quintile;
  - median debt of students upon completion;
  - graduation rate;
  - retention rate;
  - transfer rate, if available;
  - institutional default rate;
- the student's SAI if it is equal to or less than zero AND they have not indicated that receive federal means-tested benefits;
- information on education tax credits; and

- the student’s current outstanding loan balance.

Under this legislation, any states that require students to submit information beyond that which is provided under the FAFSA would be required to provide the Department with a list of that information. The Department would then publish on its website separate lists of states that accept FAFSA information as sufficient for state-based aid programs, which states do not, and which states require additional asset information.

Similarly, under the legislation, the Department would conduct outreach to institutions on the benefits of requiring only the information provided under the revised FAFSA. The Department also would publish on its website separate lists of which institutions accept FAFSA information as sufficient for institutional aid programs, which institutions do not, and which institutions require additional asset information.

To assist with predicting eligibility, the Secretary would be required to produce a consumer-tested method for estimating Pell Grant eligibility. In addition, the Secretary would be required to develop an electronic estimator to calculate a non-binding estimate of the applicant’s federal financial aid award and need, easily accessible on the FAFSA application site. The Department also would be required to promote early awareness of federal financial aid eligibility.

## **Sections 4 through 7 – Changes to Pell Grant Eligibility and Award**

**Eligibility for prisoners (Sec. 4):** This legislation would extend Pell Grant eligibility to incarcerated individuals enrolled in “eligible prison education programs” through an institution of higher education. Incarcerated individuals who have a sentence of life without the possibility of parole are not eligible to participate. Incarcerated individuals would not be eligible to receive any other form of student aid (federal or otherwise) under this provision.

There are no restrictions on what type of institution or type of program is eligible to participate, beyond the requirements that they are Title IV eligible programs and have been approved to operate by the appropriate state or federal agency overseeing the correctional facility.

The legislation also directs the Secretary to produce an annual report to Congress on the impact of these provisions.

**Expansion of Pell Grants for short-term programs (Sec. 5):** This legislation would extend eligibility for Pell Grants to job-training programs, which are often known as short-term programs. The award amount would not be pro-rated to the length of the program, allowing for a generous award level for students enrolled in such programs.

The legislation defines job-training programs as programs “of not less than 150, and not more than 600, clock hours of instruction offered by an institution of higher education during a period of not less than 8 weeks and not more than 15 weeks.”

To be eligible for Pell Grants, job-training/short-term programs would need to:

- provide training aligned with industry- or occupation-specific requirements;

- provide a recognized credential that meets the needs of potential employers and meets the requirements for any relevant licensure or certification;
- not exceed by more than 50 percent the minimum number of clock hours that may be required for relevant state requirements for an occupation.

The legislation also establishes price controls on tuition and fees as part of the criteria for both initial and ongoing program eligibility. Programs need to have published tuition and fees that have not increased in excess of CPI for each of the previous three years to be eligible. This language would appear to exclude from eligibility programs that are less than four years. To remain eligible, participating programs would need to limit increases in published tuition and fees to no more than CPI for each year going forward.

**Mandatory increases to maximum Pell Grants (Sec. 6):** The legislation would increase the maximum federal Pell Grant award by \$20 through a funding increase in the mandatory portion of the program.

**Amount and determinations for Pell Grants (Sec. 7):** The legislation would make changes to how eligibility and award levels for Pell Grants are calculated. It does so by decoupling the determination of award level from the needs analysis formula currently used, allowing for greater predictability of the overall award amount an individual may be eligible for.

Dependent students would be eligible for the maximum grant award if:

- the student or their parent(s) are not required to file a federal income tax return;
- the student or their single parent has an adjusted gross income equal to or less than 210 percent of the federal poverty line
- the student, or their parent who is not single, has an adjusted gross income equal to or less than 160 percent of the federal poverty line.

Dependent students or their single parent who have an adjusted gross income greater than 210 percent of the federal poverty line, and less than 360 percent of the federal poverty line, are awarded a grant that is greater than the minimum award and equivalent to the maximum award minus:

- the AGI, less an amount equal to 210 percent of the federal poverty line; and
- the total maximum award divided by an amount equal to 100 percent of the federal poverty line.

Dependent students, or their parent who is not single, have an AGI greater than 160 percent and less than 260 percent of the federal poverty line, are awarded a grant that is greater than the minimum award and equivalent to the maximum award minus:

- the AGI, less an amount equal to 160 percent of the federal poverty line; and
- the total maximum award divided by an amount equal to 100 percent of the federal poverty line.

Pell Grants cannot exceed the cost of attendance. They can be applied to study abroad programs when the cost of the study abroad program exceeds the costs of the student's home institution. The legislation also allows Pell Grants to be used for remedial and noncredit courses, though use

of Pell for these purposes counts towards the 12-semester limit on a student's overall Pell eligibility. The legislation provides maximum Pell Grants to students under 33 years of age whose parent or guardian was killed on active duty in the armed forces on or after September 11, 2001. or was killed in the line of duty as a public safety officer.

## **Section 8 – Financial Aid Award Letters**

The legislation includes language mandating a standardized federal uniform title, terminology, and format for institutional student aid award letters. It requires the Secretary to develop these in coordination with relevant federal agencies based on the recommendations of “students, veterans, servicemembers, students’ families, institutions of higher education (including community colleges, for-profit institutions, 4-year public institutions, and 4-year private non-profit institutions), financial aid experts, secondary school and postsecondary counselors, nonprofit organizations, and consumer groups.”

The legislation would allow institution to use four forms for the following types of students:

- New undergraduate students
- Returning undergraduate students
- New graduate and professional students
- Returning graduate and professional students

Institutions would be prohibited from developing any forms beyond the four identified in the legislation, though institutions can provide additional information beyond what is mandated in the form.

The form would have seven required components:

- Cost information
- Grant and scholarship aid
- Annual net price
- Work-study (this appears to apply regardless of whether an institution participates in the Federal Work Study Program)
- Loans
- Process for accepting or declining aid and next steps
- Additional information, which includes:
  - the institution’s recent Cohort Default Rates
  - the percentage of students borrowing at the institution and the median loan debt at the institution,
  - an estimate of monthly loan repayment based on the institution’s median loan debt upon graduation, calculated under the Revised Pay As You Earn income-contingent repayment plan using a range of “example salaries.”

The form would also require additional information to be disclosed depending on a student or family’s use of PLUS loans, as well as information for graduate students and those with unmet need. The form mandates additional disclosures related to private student loans and degree or certificate program cost of attendance.

The Department would draft model forms, subject to revision based upon feedback provided through consumer testing, which would be made publicly available.

## **Section 9 – Changes to Income-Based Loan Repayment**

This section would modify the terms of the standard Income-Based Repayment plan and the Pay As You Earn repayment plan (but not the Revised Pay as You Earn repayment plan or other income-contingent repayment plans) to eliminate a provision that caps borrowers monthly payments at a level equal to what they would have paid had they chosen to repay through the standard 10-year repayment plan. This change is estimated to increase the cost to borrowers in those plans by \$10 billion.