

# CRS Report for Congress

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## **Federal Student Aid Need Analysis Simplification: Legislative Action**

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# Federal Student Aid Need Analysis Simplification: Legislative Action

## Summary

A federal need analysis system underlies the annual allocation of billions of dollars (over \$73 billion in FY2005) in student financial aid supported by Title IV of the Higher Education Act (HEA) (P.L. 89-329 as amended). Prior to 1992, many characterized the need analysis system as too complex, arguing that the system was a barrier to students seeking financial assistance, especially low-income students. In the 1992 amendments to the HEA, the Congress sought to create a “simplified” system consisting of a common application form and a single methodology for determining the expected family contribution (EFC) for students desiring to attend postsecondary school. The new system was intended to simplify the process not only for applying for federal student aid, but also for state and institutional aid as well. Today, many researchers and policymakers contend that the need analysis system remains too complex and can be further simplified, particularly for low-income students.

Several members of Congress have expressed interest in this issue. During the 108<sup>th</sup> Congress, the federal Advisory Committee on Student Financial Assistance was charged with conducting a study of need analysis and simplification (P.L. 108-199). On January 23, 2005, the Advisory Committee issued its final report regarding need analysis simplification entitled *The Student Aid Gauntlet: Making Access to College Simple and Certain*. The report offers ten recommendations pertaining to simplification of federal need analysis and improving access to higher education. According to the Advisory Committee, “Eight of the ten recommendations do not require an increase in program costs. Aspects of two of the recommendations require a small investment that, if necessary, can be phased in over several years (p. i).” Of the ten recommendations, two call for specific changes to the calculation of the EFC that in general would reduce the number of data items that some filers will have to supply or respond to eligibility issues identified in P.L. 108-199; five speak directly to the structure, form, and processing of the FAFSA; and three address the broader issues of how potential college students learn about available financial aid and when they file the FAFSA.

During both the 108<sup>th</sup> and 109<sup>th</sup> Congresses, there have been numerous bills proposed by Members regarding need analysis simplification. It is expected that the entire HEA, including need analysis simplification, will be considered for reauthorization during the 109<sup>th</sup> Congress. Debate over proposals to simplify need analysis will likely consider how to balance simplification-related changes with other possible concerns, such as gathering sufficient information to make reasonable distinctions among applicants; maintaining the applications’ utility not only for federal aid, but also for state and institutional aid; and minimizing adverse effects on applicants’ eligibility status and on program costs.

This report will be updated as warranted by significant legislation or other relevant developments.

# Contents

Introduction .....	1
Need Analysis .....	2
Expected Family Contribution .....	2
Free Application for Federal Student Aid .....	3
Advisory Committee's Recommendations .....	4
Legislative Charges .....	4
EFC Calculation Recommendations .....	5
Non-Financial Eligibility .....	7
Structure, Form, and Processing of the FAFSA .....	7
Early Awareness and Filing .....	8
Legislative Action .....	8
Legislation During the 108 <sup>th</sup> Congress .....	8
Current Legislation .....	9

# Federal Student Aid Need Analysis Simplification: Legislative Action

## Introduction<sup>1</sup>

In the 1992 Higher Education Act (HEA) amendments, the Congress overhauled the federal need analysis system to create a “simplified” system consisting of a common application form and a single methodology for determining the expected family contribution (EFC) for students desiring to attend postsecondary school. The new system was intended to simplify the process for applying for not only federal student aid, but also for state and institutional aid as well. More than 12 years later, simplification of need analysis remains a perennial issue.

A federal need analysis system underlies the annual allocation of billions of dollars (over \$73 billion in FY2005) in student financial aid supported by Title IV of the HEA (P.L. 89-329 as amended). Prior to the 1992 HEA amendments, the system was characterized by many as too complex, creating a barrier for students seeking financial assistance, especially low-income students. In spite of changes made in the 1992 amendments, many researchers and policymakers continue to debate the complexity of the federal need analysis system.

During the 108<sup>th</sup> Congress, the federal Advisory Committee on Student Financial Assistance (Advisory Committee)<sup>2</sup> was charged with undertaking a study of need analysis and simplification (P.L. 108-199). The final report, entitled *The Student Aid Gauntlet: Making Access to College Simple and Certain*, was released in January of 2004.<sup>3</sup> Congress also required the Secretary of Education to redesign the existing Free Application for Federal Student Aid (FAFSA) — the application used to apply for federal, state, and institutional financial assistance. It was specified that the redesign should include testing of simplified versions of the FAFSA. In addition to P.L. 108-199, a number of bills addressing need analysis simplification were introduced during the 108<sup>th</sup> Congress; need analysis simplification bills have also been introduced in the 109<sup>th</sup> Congress (see **Legislative Action**, below).

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<sup>1</sup> James Stedman, Specialist in Social Legislation, Domestic Social Policy Division, was a coauthor of prior versions of this report.

<sup>2</sup> Under the provisions of the Higher Education Act (Section 491(a)), the Advisory Committee is established as an independent entity in the U.S. Department of Education to “provide advice and counsel to the Congress and to the Secretary on student financial matters.”

<sup>3</sup> The full report is available at [<http://www.ed.gov/about/bdscomm/list/acsfa/edlite-simplification.html>]. The Advisory Committee also released interim recommendations in July 2004. These recommendations are available at [[http://www.ed.gov/about/bdscomm/list/acsfa/jgregg\\_SimplificationStudyRecs.pdf](http://www.ed.gov/about/bdscomm/list/acsfa/jgregg_SimplificationStudyRecs.pdf)].

It is expected that the entire HEA, including need analysis simplification, will be considered for reauthorization during the 109<sup>th</sup> Congress. Debate over proposals to simplify need analysis will likely consider how to balance simplification-related changes with other possible concerns, such as gathering sufficient information to make reasonable distinctions among applicants; maintaining the applications' utility for not only federal aid, but also state and institutional aid; and minimizing adverse effects on applicants' eligibility status and on program costs.

This report will provide a brief description of federal need analysis. It also reviews the final recommendations for need analysis simplification issued by the Advisory Committee, and concludes with an overview of legislative action relating to need analysis simplification during the 108<sup>th</sup> and 109<sup>th</sup> Congresses. This report will be updated as warranted by significant legislation or other relevant developments.<sup>4</sup>

## Need Analysis

Need analysis is a complex system that is used to allocate billions of dollars of federal student aid under Title IV of the HEA. It entails gathering financial data, which is provided by the student via the FAFSA,<sup>5</sup> calculating the expected family contribution (EFC), and packaging of the applicant's financial aid award by the postsecondary institution's financial aid administrator. This section provides a brief description of the EFC and how it is calculated and the role of the FAFSA. This description is very generic. For detailed information regarding the EFC calculation and the FAFSA, the U.S. Department of Education (ED) has posted descriptions for recent years.<sup>6</sup>

**Expected Family Contribution.** The EFC is the amount that the family is expected to contribute toward postsecondary education expenses. In calculating the EFC, consideration is given to available income, and for some families, available assets. In addition, living expenses, retirement needs and federal and state tax liability are factored in. Cost of attendance (COA) is determined by each higher education institution. The aid administrator determines the student's need for federal student aid and other sources of aid, based primarily upon the EFC and COA. This is true for all federal student aid programs except for the Pell Grant program. For nearly all Pell recipients, the award is calculated by subtracting the EFC from the maximum appropriated Pell Grant for the year (i.e., without regard to the COA).<sup>7</sup> The final outcome is the financial aid award or package, which consists of the

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<sup>4</sup> A separate companion report, CRS Report RL32083, *Federal Student Aid Need Analysis: Background and Selected Simplification Issues*, by Adam Stoll and James B. Stedman, discusses federal need analysis and simplification in more depth.

<sup>5</sup> The FAFSA can be submitted through the Internet using FAFSA at [<http://www.fafsa.ed.gov>], electronically through a higher education institution, or with a standard paper application.

<sup>6</sup> [<http://www.ifap.ed.gov/IFAPWebApp/currentEFCInformationPag.jsp>].

<sup>7</sup> For additional information regarding the Pell grant program, see CRS Report RL31668, *Federal Pell Grant Program of the Higher Education Act: Background and Reauthorization*, by Charmaine Mercer.

specific sources and amounts of student aid each applicant will receive to help pay for his/her education related expenses.

The calculation of the EFC varies depending upon the applicant's dependency status. This is important because parental financial information is *not* considered if the applicant meets the statutory definition of an *independent student*. There are three separate dependency classifications for individual applicants: dependent student, independent student without dependents, and independent student with dependents. To be classified as statutorily independent (Title IV, Section 480(d)), an applicant must meet one of the following conditions:

- 24 years of age or older;
- married;
- enrolled in a graduate or professional program;
- have a dependent other than a spouse;
- orphan or ward of the court (or was up until age 18); or
- a military veteran.

Students who do not meet any of the aforementioned conditions are considered to be dependent for the purposes of Title IV student aid.

In addition to creating a common application form and a single methodology for determining need, the Congress has also sought to further reduce the application burden for those applicants with family incomes at or below a specified threshold. Under the *simplified needs test* (SNT), the EFC calculation does not consider assets for the student (or spouse if married) or parent (if student is a dependent) if their adjusted gross income (AGI) is less than \$50,000, and certain conditions regarding federal tax returns are met.<sup>8</sup> The *automatic zero EFC* (hereinafter auto-zero EFC)<sup>9</sup> sets the expected family contribution to zero for a dependent student's parents and the dependent student, or an independent student who has dependents, and has an AGI that is not greater than \$15,000.<sup>10</sup> The auto-zero EFC is not provided to independent students without dependents.

**Free Application for Federal Student Aid.** The FAFSA is used to collect most of the information that is utilized to calculate the EFC. Applicants are required to report identifying information such as their name and social security number; information about the institutions where their information should be forwarded; and financial information pertaining to income and assets. As mentioned above, there are three ways to complete the FAFSA — via the web, electronically through a higher education institution, or using a paper form. The number of applicants completing

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<sup>8</sup> To be eligible for the simplified needs test, the student and his or her parents must not have to file an income tax return, or must file or be eligible to file a federal tax form 1040A or 1040EZ. This requirement is also met if the parents or student file a form 1040 if that form is filed only to claim the federal Hope or Lifetime Learning tax credit. The same requirement applies to independent students and their spouse, if any.

<sup>9</sup> The tax form/filing requirements specified for the simplified needs test must also be met.

<sup>10</sup> This amount is the current maximum amount of income rounded to the nearest \$1,000 that one can earn and still be able to claim the maximum federal earned income tax credit.

FAFSA on the web continues to increase annually, however, a substantial number of applicants continue to complete the paper form.

The paper and electronic (including the web) versions of the FAFSA differ in the way that submitted data are treated. As a result, the electronic versions of the FAFSA provide advantages that the paper form does not. For example, the electronic versions contain internal and end-of-entry data edits which require the applicant to resolve conflicts and complete all necessary fields prior to submission. In addition, the electronic versions contain “skip logic,” which enables applicants, if they choose, to skip over the sections of the FAFSA that do not pertain to them. As a result, applicants who apply via the electronic formats are able to take advantage of either the SNT or auto-zero EFC, because the technology allows sections to be skipped where applicable. At present there is no comparable approach available for paper form filers.

## **Advisory Committee’s Recommendations**

This section reviews the charges to the Advisory Committee on Student Financial Assistance concerning need analysis simplification, and its final recommendations released on January 23, 2005.

### **Legislative Charges**

In response to growing concern about need analysis complexity, the Congress mandated that the Advisory Committee study the feasibility of simplifying the methodology for determining financial need and the process of applying for federal student aid (Consolidated Appropriations Act for FY2004, P.L. 108-199). The Advisory Committee’s primary objectives in this effort are simplifying aid application forms and the aid application process, and substantially reducing the number of data items requested. The Committee is to pay particular attention to the needs of low-income and moderate-income families in the aid process. The legislation identifies specific topics to be addressed in this feasibility study:

- simplifying the calculation of the EFC without significant negative impact on such elements as program intent, cost, and distribution of aid;
- reducing the data used in calculating the EFC and reducing the number and complexity of questions asked of aid filers;
- considering whether the process of determining the data used in the EFC calculation, including the updating of offsets and allowances, is the fairest, most effective, and most efficient way to determine available income and assets;
- considering whether the treatment of income earned by dependent students and the impact of that treatment on Pell eligibility effectively and fairly determines available income and student need;
- identifying additional “streamlining” of, among other elements of the aid process, the nature and timing of the FAFSA, determination of eligibility and awards, and delivery of aid;

- permitting students to complete just the portions of the FAFSA considered necessary based on their financial circumstances and state of residence;
- estimating “approximate” eligibility for different forms of federal aid when the simplified application is completed and verified;
- qualifying students for the simplified needs test based on data provided on forms used to determine eligibility for other federal need-based aid programs (e.g., Supplemental Security Income, Food Stamps, and Earned Income Tax Credits); and
- considering whether proposed changes to data elements, the application form, or aid application process may have adverse consequences for program costs, integrity, award distribution, and application development or processing.

As part of its analysis, the Advisory Committee is to consult broadly with different interested parties, as well as with a “forms design expert” regarding a revised application form that is easily read and understood. The Advisory Committee is also to consult regularly with the education committees of the Congress — the House Committee on Education and the Workforce and the Senate Committee on Health, Education, Labor, and Pensions. ED is to provide requested assistance as practicable. Within six months of enactment of P.L. 108-199,<sup>11</sup> the Advisory Committee was required to issue an interim report to the education committees of the Congress, and the Secretary of Education. The final report was due within one year of enactment.

On January 23, 2005, the Advisory Committee issued its final report regarding need analysis simplification. The report offers ten recommendations pertaining to simplification of federal need analysis and improving access to higher education. According to the Advisory Committee, “Eight of the ten recommendations do not require an increase in program costs. Aspects of two of the recommendations require a small investment that, if necessary, can be phased in over several years (p. i).” Of the ten recommendations, two call for specific changes to the calculation of the EFC that in general would reduce the number of data items that some filers would have to supply or respond to eligibility issues identified in P.L. 108-199; five speak directly to the structure, form, and processing of the FAFSA; and three address the broader issues of how potential college students learn about available financial aid and when they file the FAFSA.

Most of the recommendations are not accompanied by an estimate of their potential impact on the costs of federal student aid programs or on the number of students receiving benefits. The two recommendations that the Advisory Committee states require an investment are accompanied by estimates, however, they are limited to the federal Pell Grant program. The estimates are included where available.

**EFC Calculation Recommendations.** In general, the Advisory Committee recommendations regarding the calculation of the EFC seek to expand the population for whom no EFC is expected, increase the eligibility of working students for aid,

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<sup>11</sup> The legislation was enacted on Jan. 23, 2004.



and reduce the amount of asset and untaxed income information collected. Specifically, the Advisory Committee recommends that:

- the automatic zero EFC apply to applicants with an AGI of \$25,000 or less (an increase from the current \$15,000 threshold);
- the AGI threshold for the automatic zero EFC be indexed to the Consumer Price Index (CPI);<sup>12</sup>
- eligibility for the simplified needs test be expanded to include applicants with an AGI of less than \$50,000, and who qualify for benefits from a federal means-tested program, such as Food Stamps;<sup>13</sup>
- the income protection allowances<sup>14</sup> for all students be raised by \$1,000;
- the assessment rate on available income for dependent students themselves and for independent students without dependents be lowered to 40% (from the current 50% rate);
- the state and other tax allowances<sup>15</sup> be eliminated and all income protection allowances be raised sufficiently to protect as many students as possible from any adverse consequence of its elimination;<sup>16</sup> and
- some questions on worksheets A and B<sup>17</sup> regarding nontaxable income be eliminated — specifically those involving nontaxable income primarily received by individuals with AGIs below \$25,000, or nontaxable income, which is received by few applicants or in

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<sup>12</sup> The CPI is a measure over time of changes in prices paid for various goods and services. For additional information, see [[http://www.bls.gov/cpi/cpifaq.htm#Question\\_1](http://www.bls.gov/cpi/cpifaq.htm#Question_1)].

<sup>13</sup> It is unclear whether this recommendation is in addition to, or replaces, the current simplified needs test eligibility criteria that involve a determination of the IRS tax returns filed by the applicant.

<sup>14</sup> The income protection allowance is an exclusion for the basic living expenses of the family. The amount varies according to the number of persons in the household and the number of students in college.

<sup>15</sup> The state and other tax allowance represents an exclusion of a percentage of the parent's total income and approximates the average amount paid in these taxes. The percentage varies depending upon the state of residence and if the parent's income is equal to or more than \$15,000, or is less than \$15,000.

<sup>16</sup> It would appear that the state and other tax allowance tables would still have to be produced in order to determine the size of the increases in the income protection allowances and whether they were adequate to hold harmless as many students as possible. The Committee recommends that, in the event sufficient funding to increase the income protection allowances as required is not appropriated, future updates of the state and other tax tables should be phased in to avoid loss of Pell Grant eligibility for large numbers of students.

<sup>17</sup> Worksheets A and B are forms that accompany the FAFSA, and assist the applicant with determining annual amounts received from sources such as tax credits, the earned income credit, untaxed social security benefits and child support. The forms are not submitted with the FAFSA.

small amounts (examples offered include the Earned Income Tax Credit, the child tax credit, and untaxed Social Security benefits).

**Estimated Impact.** According to the Advisory Committee, increasing the IPA by \$1,000 for all students would result in approximately 130,000 new students acquiring eligibility for Pell, and 1.9 million students receiving higher awards, for a total cost of approximately \$523 million. The report further states that reducing the income assessment rate from 50% to 40% for independent recipients without dependents and for dependent recipients themselves, would add an estimated 140,000 new Pell recipients, and increase the Pell awards for more than 930,000 recipients, for a cost of approximately \$292 million. Additionally, the Advisory Committee estimates that increasing the auto-zero EFC to \$25,000 would increase the number of new Pell recipients by approximately 29,000 for a total increase in program costs of \$319 million.

**Non-Financial Eligibility.** The Advisory Committee proposes that the FAFSA questions related to past drug convictions<sup>18</sup> and Selective Service registration be dropped from the application. The Committee further recommends that the underlying statutes be amended, presumably to eliminate Selective Service registration and prior drug convictions as conditions for aid eligibility.

**Structure, Form, and Processing of the FAFSA.** The Advisory Committee's recommendations concerning structure, form, and processing of the FAFSA center primarily on the role of technology in simplifying the process of filling out and submitting the FAFSA. To that end, it recommends that:

- a paper "FAFSA-EZ" be created for all students eligible for an automatic zero EFC and the full paper FAFSA be gradually eliminated;
- the use of the "FAFSA-EZ" be extended to independent recipients without dependents, who are also eligible for the SNT, and earn less than \$25,000 per year ;
- the FAFSA on the Web be modified to eliminate all questions for each applicant that are unnecessary to calculate his or her EFC, including tailoring the questions asked to each applicant's state of residence; and
- the application verification process that higher education institutions are required to conduct be simplified.<sup>19</sup>

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<sup>18</sup> For additional information regarding federal student aid eligibility and drug convictions, see CRS Report RS21824, *Student Eligibility: Drug Convictions and Federal Financial Aid*, by Charmaine Mercer and Laura Monagle.

<sup>19</sup> 34 CFR 668.54 states: "An institution shall require each applicant whose application is selected for verification on the basis of edits specified by the Secretary, to verify all of the applicable items specified in Sec. 668.56, except that no institution is required to verify the applications of more than 30 percent of its total number of applicants for assistance under the Federal Pell Grant, Federal Direct Stafford/Ford Loan, campus-based, and Federal Stafford Loan programs in an award year."

**Estimated Impact.** Assuming the recommendation to increase the auto-zero income threshold to \$25,000 is adopted, the Advisory Committee estimates that 2.3 million students would be eligible to use the paper FAFSA-EZ. In addition, extending the use of FAFSA-EZ to independent recipients without dependents who are eligible for the simplified needs test would allow an additional 1.7 million applicants to utilize the form. It is estimated that this would cost approximately \$64 million. The Advisory Committee estimates that the eventual phase-out of the full paper FAFSA will save approximately \$5 to \$9 million.

**Early Awareness and Filing.** Responding to its charge concerning the nature and timing of aid applications and the award process, the Advisory Committee recommends that:

- an early awareness system be implemented that will provide students with information about financial aid, including potential eligibility for Pell Grants and other aid, earlier in the middle and high school years;
- EFCs be calculated earlier in the college application process — at least in the fall of the year prior to enrollment (with a pilot program to identify the consequences of not requiring updating of the estimated income and asset data used in determining these early EFCs); and
- a national partnership be created to make access to college and financial aid simple and certain.

## Legislative Action

This section reviews major legislation in the 108<sup>th</sup> and 109<sup>th</sup> Congresses that addresses need analysis simplification. There have been several bills introduced that pertain to need analysis, however, this section is limited to those that specifically address simplification. These proposals are discussed below.

### Legislation During the 108<sup>th</sup> Congress

Two of the proposals introduced during the 108<sup>th</sup> Congress charged the Advisory Committee with undertaking a study relating to simplification of the FAFSA and the need analysis process (H.R. 2956 and H.R. 3039). In addition, the proposals would have required the Secretary of Education to undertake special outreach efforts targeted toward individual applicants who are eligible for the simplified needs test or the auto-zero EFC. Both H.R. 2956 and H.R. 3039 would have required the Secretary of Education to make special efforts to notify families participating in the School Lunch and Food Stamp programs, and other programs the Secretary identifies, of their potential eligibility for the maximum Pell award.

Some bills charged the Secretary to develop a FAFSA-EZ for applicants who are eligible for the simplified needs test and automatic zero EFC (H.R. 3180 and S. 2477). Similar to the Advisory Committee's recommendation, this new form would require filers to provide only the data needed to determine aid eligibility under either

of those conditions. In addition, the Secretary was to provide potential aid applicants with a way to determine whether they were eligible to file the FAFSA-EZ, as well as determine the approximate amount of grants, work-study earnings, and loans for which they might be eligible.

All of the bills proposed changes to the existing eligibility criteria for the simplified needs test and automatic zero EFC. Three of them (H.R. 3039, H.R. 2956 and H.R. 3180) proposed making recipients of “means-tested” federal benefits exempt from eligibility requirements regarding federal income tax forms and filing for either condition (H.R. 3039 would have limited this change to independent students, H.R. 2956 would have included dependent students). In addition to proposing that applicants who received benefits under a federal means-tested benefit program be automatically eligible for the SNT and auto-zero EFC, S. 2477 also would have extended eligibility when one parent is a dislocated worker (in the case of a dependent student), or the student (or student’s spouse where applicable) is a dislocated worker.

## Current Legislation

To date, there have been a limited number of bills introduced during the 109<sup>th</sup> Congress that deal with need analysis simplification. Two bills have been introduced that would preclude implementation of the revised state and other tax allowance tables for any student, to the extent such revision would reduce their level of federal aid (S. 187 and H.R. 114).<sup>20</sup> Both bills have identical titles — “Ensuring College Access for all Americans Act” — and both state that the updated state and other tax tables “shall not apply to a student to the extent the updates will reduce the amount of federal student aid for which the student is eligible.” In addition, the two bills would preclude the application of the revised tables to the calculation of student aid awards for the 2005-2006 Pell Grant award year.<sup>21</sup> H.R. 1277 proposes that the state other tax allowance tables be eliminated from federal need analysis.<sup>22</sup> Thus far, no action has been taken on any of these bills.

The Veterans Education Affordability Act of 2005 (H.R. 1206)<sup>23</sup> was introduced on March 9, 2005 and referred to the House Committee on Education and the Workforce. It proposes that education benefits received under the Montgomery GI bill be excluded from determining need.

Similar to two bills introduced during the 108<sup>th</sup> Congress, H.R. 1277 would require the Secretary to create a simplified, paper financial aid form, known as the

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<sup>20</sup> S. 187 was introduced by Sen. Corzine (and 30 cosponsors) on Jan. 26, 2005, and was referred to the Senate Committee on Health, Education, Labor and Pensions on the same day. H.R. 114 was introduced by Rep. Holt (and 16 cosponsors) on Jan. 4, 2005, and referred to the House Subcommittee on 21<sup>st</sup> Century Competitiveness on Feb. 9, 2005.

<sup>21</sup> The 2005-2006 Pell Grant award year starts on July 1, 2005 and ends June 30, 2006.

<sup>22</sup> H.R. 1277 was introduced by Rep. Rahm (and 33 cosponsors) on Mar. 14, 2005 and referred to the House Committee on Education and the Workforce on the same day.

<sup>23</sup> H.R. 1206 was introduced by Rep. M. Simpson.

“EZ FAFSA,” for applicants who are eligible for SNT and auto-zero EFC. This is also one of the Advisory Committee’s recommendations. Among other things, H.R. 1277 would provide that applicants who are eligible for SNT and auto-zero EFC only be required to complete the data elements necessary to determine their eligibility for SNT or auto-zero EFC. H.R. 1277 also would require the Secretary to report to the Congress the impact of the digital divide (the difference between individuals with access to technology and those without) on students who apply for Title IV student aid, and what steps are being taken to eliminate the digital divide.

H.R. 609 and H.R. 151<sup>24</sup> both propose changes in the way that college savings plans are treated in federal need analysis.<sup>25</sup> H.R. 151 states that qualified education benefits shall be treated as assets, as defined in section 480(f) of the HEA, but they should not be considered an asset of the student. Similarly, H.R. 609 also proposes to treat college savings plans as an asset of the parent of a dependent student. It further defines the value of such plans as follows:

- the refund value of any tuition credits or certificates purchased under section 529 of the Internal Revenue Code of 1986 on behalf of a beneficiary; or
- the current balance of any account which is established under such section for the purpose of meeting the qualified higher education expenses of the designated beneficiary of the account.

Any distribution from a qualified tuition plan established under section 529 of the Internal Revenue Code of 1986 that is not included in gross income under such section 529 would be excluded under section 480(e) of the HEA.

In addition, H.R. 609 and H.R. 1277 propose changes to the eligibility requirements for SNT and auto-zero EFC eligibility. Comparable to the three bills introduced during the 108<sup>th</sup> Congress (H.R. 3039, H.R. 2956, and H.R. 3180), H.R. 609 and H.R. 1277 would require that applicants who receive benefits under a federal means-tested benefit program (e.g., social security, food stamps, free and reduced lunch or other programs determined by the Secretary) be automatically eligible for the simplified needs test and automatic zero EFC.

Finally, H.R. 609 also proposes to increase the income protection allowance for dependent students from \$2,200 to \$3,000, and designate active duty members of the armed services as having independent status for the purposes of federal financial aid. H.R. 1277 proposes that all of the existing dollar figures in the income protection allowance tables, for all dependency groups, be increased.

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<sup>24</sup> H.R. 609 was introduced on Feb. 8, 2005, by Rep. Boehner and referred to the House Committee on Education and the Workforce on the same day. H.R. 151 was introduced by Rep. Menendez, on Jan. 4, 2005, and referred to the House Subcommittee on 21<sup>st</sup> Century Competitiveness on Feb. 9, 2005.

<sup>25</sup> For additional information regarding college savings plans, see CR S Report RL31214, *Saving for College Through Qualified Tuition (Section 529) Plans*, by Linda Levine; and CRS Report RL32155, *Tax-Favored Higher Education Savings Benefits and Their Relationship to Traditional Federal Student Aid*, by Linda Levine and James B. Stedman.