

Office for Financial Success – Financial Tip of the Week
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Educating our way to a better economy

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“We have to educate our way to a better economy”
- Arne Duncan, United States Secretary of Education

Mr. Duncan’s quote comes from a statement he made in reference to imminent changes with how students complete the information on the Department of Education’s Free Application for Federal Student Aid (FAFSA). The goal is to increase the number of students from low- and middle-income households that attend college by making the FAFSA more “user friendly”. In the process, it is likely that some criteria, that limited families’ eligibility, might be relaxed.

The key elements of the changes:

- Available summer 2009, a shortened and streamlined application. (Enhanced skip-logic is used, if that means anything to you). This new, web-based FAFSA will reduce user navigation for many applicants by about two-thirds.
- Starting in January 2010, students applying for financial aid for the spring semester will be able to seamlessly retrieve their relevant tax information from the IRS for easy completion of the online FAFSA. The Department of Education and the IRS will be working together to examine the possibility of expanding this option to all students in the future. This will make it much easier to complete the FAFSA and should increase applications. The American Council on Education estimates that close to twice as many Pell grants will be awarded if the process is easier.
- The Administration will also introduce legislation seeking statutory authority from Congress to eliminate financial information from the aid calculation formula that is not available from the Internal Revenue Service (IRS). (Note: This is only proposed. It is not yet the law.) This may have implications for those with assets, as twenty-six financial questions will be removed from the FAFSA form that have little impact on aid awards but that make the form difficult to complete. Only questions that rely upon information that applicants must already provide to the IRS would remain. The answer to these questions are often difficult to verify and they add very little to the rest of the aid formulas. The six questions related to assets, for example, only have an effect on the awards of 3 percent of Pell grant recipients. In the process the questions penalize families who have saved for college, while opening up loopholes for sophisticated applicants to attempt to game the formula.

These changes join the rest of the Obama-Biden agenda for making education more affordable for Americans. Their agenda includes:

- The goal of America being the nation with the largest proportion of the population with a college education.
- Expanding Pell grants and college tax credits.

- Expanding the Perkins loan program, to an additional 2,600 schools and an estimated 2.7 million students.
- Asking the Treasury Department to look for ways to make 529 savings plans more efficient and effective.
- Provide incentives to increase college enrollment and graduation rates.

We have previously written about the importance of education, as a means to achieve *financial success*. It appears that the current administration is acting on the same premise and, for that, we are grateful. (Why shouldn't we be, education is our industry!) One word of speculative caution, however, is in order. If the education industry has more money headed its way, the demand for education will increase. As the demand for education increases, institutions will admit more and more students and, perhaps, admission and performance standards will be lowered. This, combined with the fact that a larger numbers of college graduates could create a situation where a college degree may cease to be an effective signal of the productivity of potential employees. Could it be that the jobs that now require a bachelor's degree will soon require a master's degree, in order to support an efficient labor market? The answer to this question will be known soon enough but, for today, we agree with Secretary Duncan. Education continues to be the best equalizer and means to achieve *financial success*, as well as a better economy. (Bottom line: If you are a college student and have not completed a FAFSA, do so. Many institutions require a FAFSA prior the receipt of a scholarship or fellowship, particularly if the donor even so much as hinted that financial need was to be a criteria.)

The Department of Education news release is located at:

<http://www.ed.gov/news/pressreleases/2009/06/06242009.html> and more information may be found at: <http://www.ed.gov/finaid/info/apply/simplification.html> .

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