Does College Pay Off?

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How do economists think about education?

- Education is an investment
  - Incur costs now
  - Earn returns in the future

- College pays off if benefits exceed costs
  - Costs: tuition, fees, lost earnings while in school, studying
  - Benefits: higher earnings and improved quality of life throughout lifetime

Outline of Talk

I. Benefits of College

II. Costs of College

III. Does College Pay Off? Policy Implications

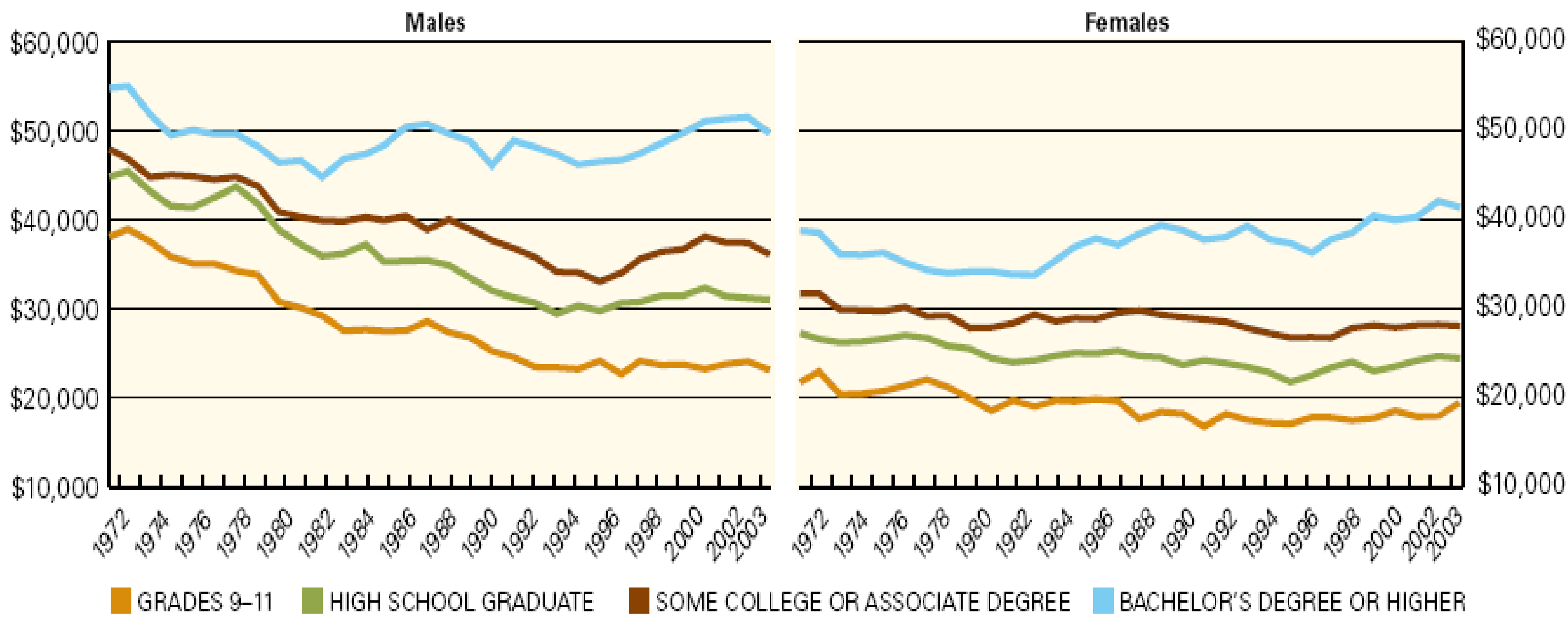
I. Benefits of College

Median Income, 2001

	Median Income, Year-Round, Full-Time Working Men	Income, Relative to HS Grad
HS Grad	$35,000	100%
AA	$43,000	123%
BA	$56,000	160%
Professional Degree	$100,000	286%

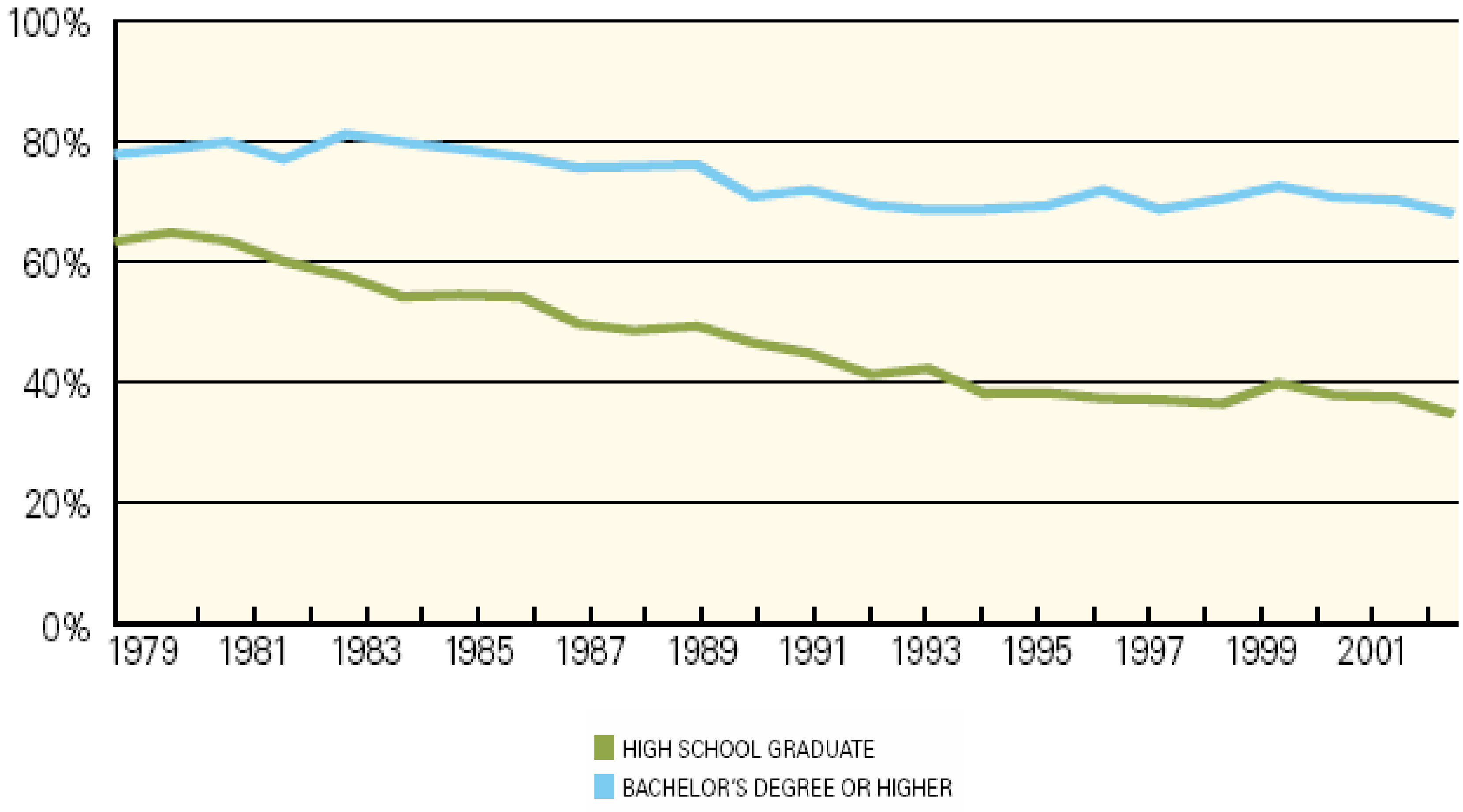
Source: Condition of Education, 2005 Table 388.

Median Annual Earnings, Ages 25–34, 1972–2003 (Constant 2003 Dollars)



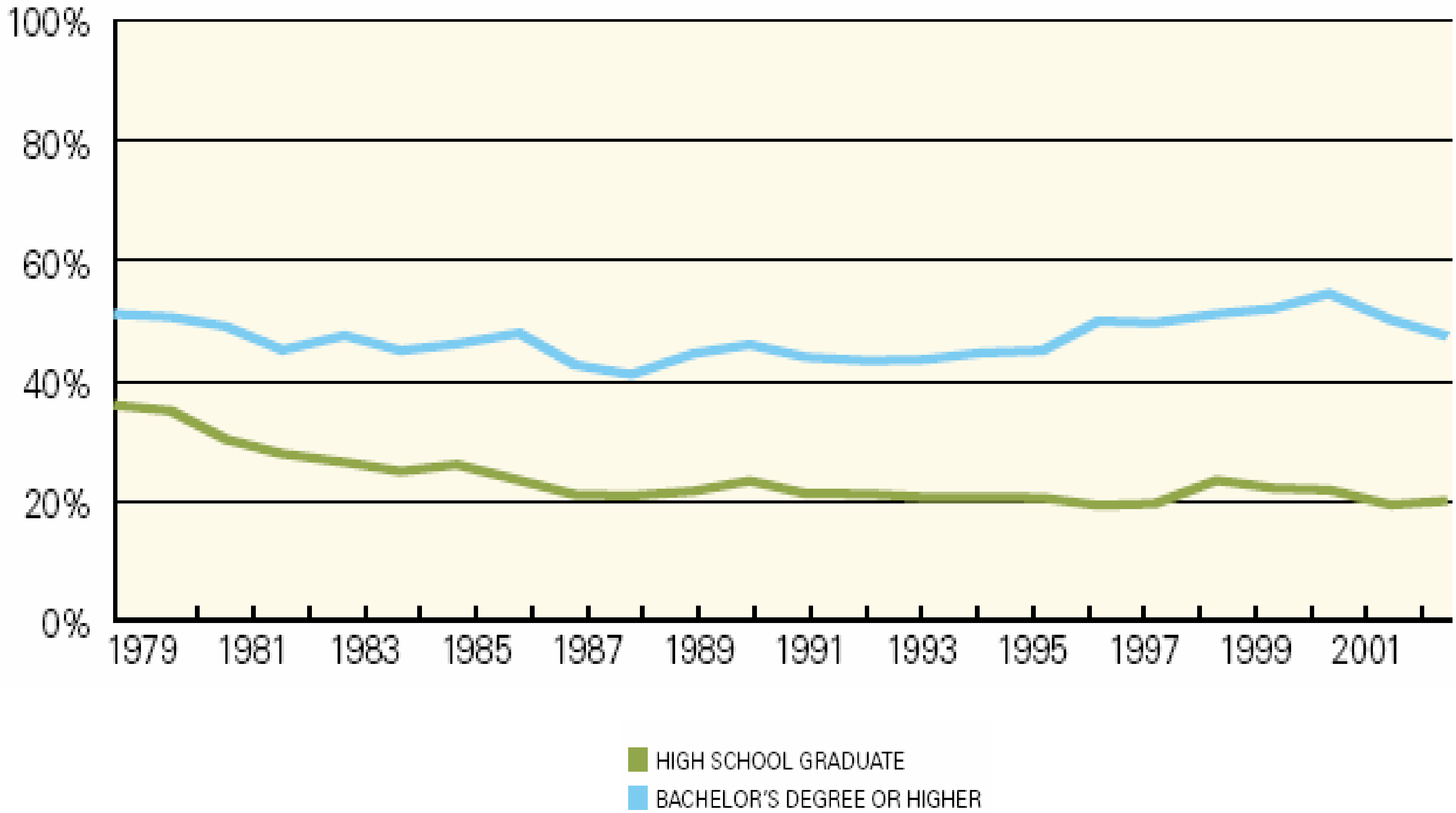
- Source: College Board

Percentage of Private Sector Entry-Level Workers Covered by Employer-Provided Health Insurance, 1979–2002



- Source: College Board

Percentage of Private Sector Entry-Level Workers Covered by Employer-Provided Pension Benefits, 1979–2002



- Source: College Board

II. Costs of College

Tuition prices are lower than you think.

- UMass Boston: $8000
- Bunker Hill Community College: $3200
- ...except for Harvard: $30,000

Harvard prices are not typical

	Average Tuition & Fees	*Share of Students*
2-year public	$2,191	37.6%
4-year public	$5,491	39.2%
4-year private	$21,235	21.6%

Source: Trends in College Pricing 2005

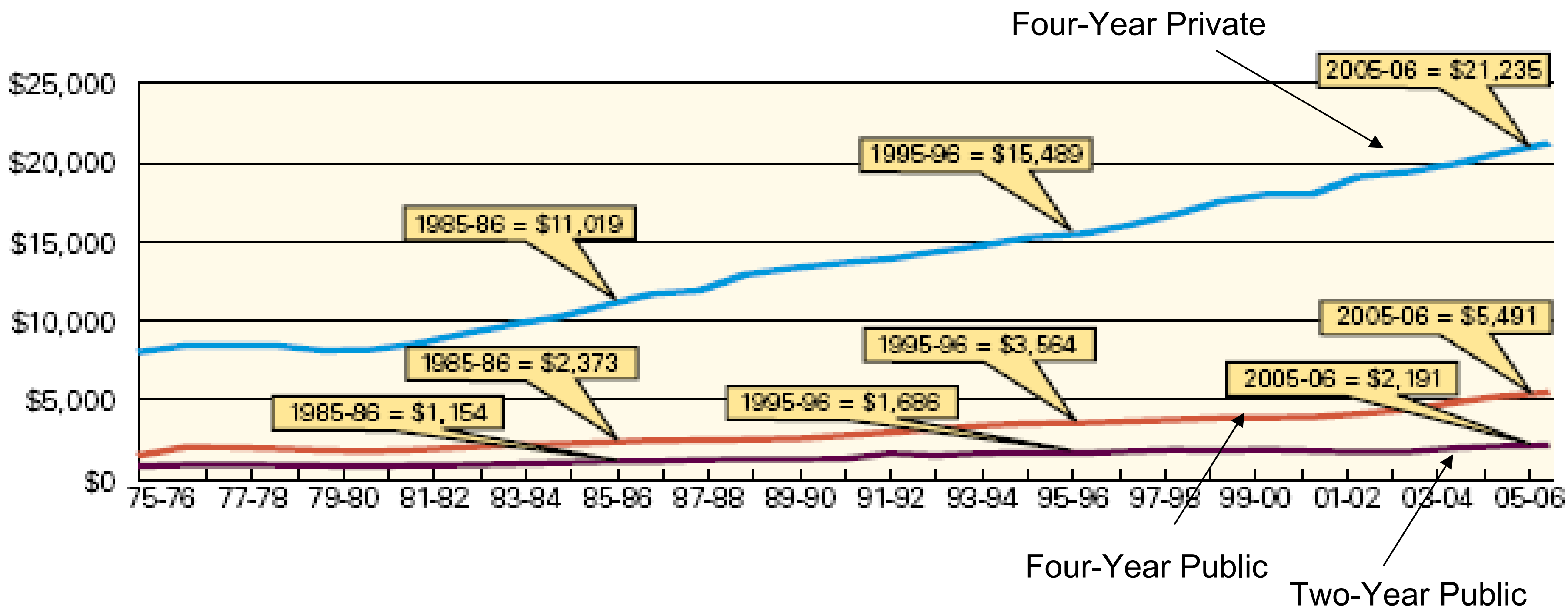
Most Students Attend Public Colleges

2001 Fall Enrollment

	Full-Time	*All*
Public	**71%**	**77%**
2-year	23%	38%
4-year	48%	39%
Private	**29%**	**23%**
2-year	2%	1%
4-year	27%	22%

Source: Digest of Education Statistics 2003, Table 178

College Costs:
Very High for the Few at Private Schools, Moderate for the Many at Public Schools



- Source: College Board

Sticker Price ≠ Net Price

- Grant aid
  - State & federal governments
  - Schools
- Tax Credits & Deductions

Net of grant aid, US average tuition and fees:

- $1000 at community college
- $3000 at a state university
- $8000 at a private university

Figures are for a middle-income family (~$50,000)

Student Loan Debt & Projected Payments

Undergraduate Degree Recipients, 2003-04

	Median Debt, Borrowers	Monthly Loan Payment (10 years)	Monthly Loan Payment / Max Term
Private BA	$19,400	$209	$157 / 15 years
Public BA	$15,500	$167	$125 / 15 years
Public AA	$6,100	$66	$66 / 10 years

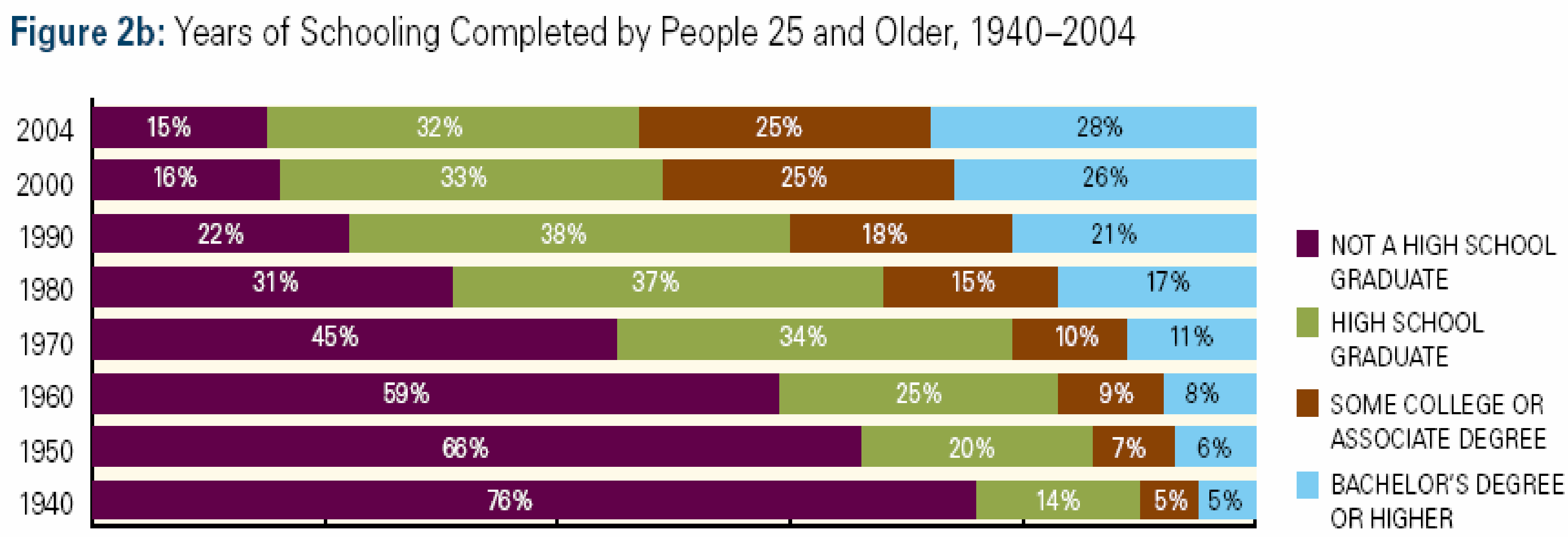
Average car loan: $23,801 Monthly payment: $447

III. Does College Pay? Policy Implications

Does college pay?

- College grads typically earn $1 million more than high school grads over their work lives.
- This payoff dwarfs the sticker price of even the most expensive college.

Result: College-going is rising



- Source: College Board

Yet…there are large gaps in college going

White, non-Hispanic	63%
Black, non-Hispanic	50%
Hispanic	30%

Source: Share of 24-25-year-olds that has gone to college, 1998-2000 October CPS

There are even larger gaps in college completion

White, non-Hispanic	32%
Black, non-Hispanic	13%
Hispanic	8%

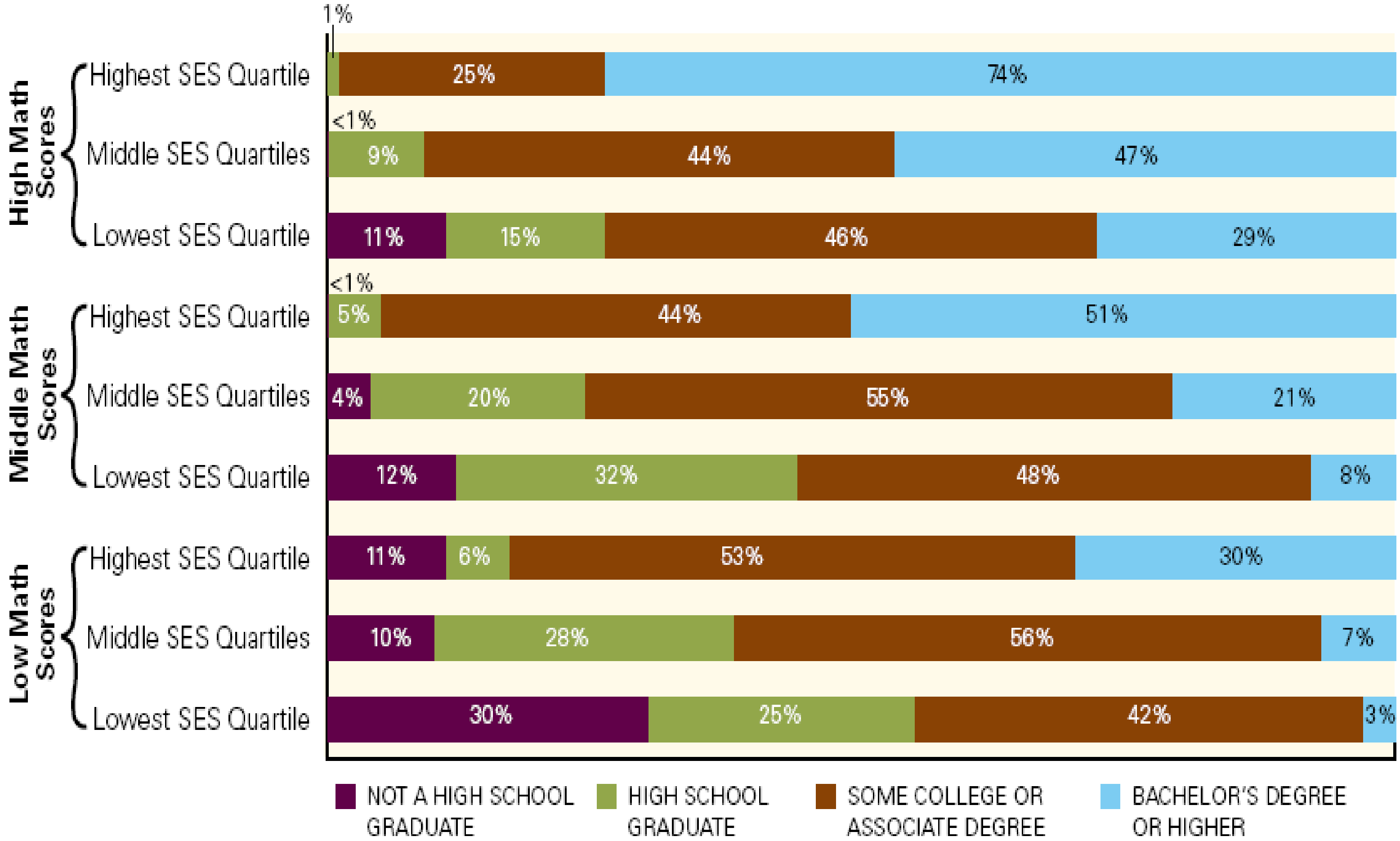
- Source: Share of 24-25-year-olds with BA, 1998-2000, October CPS

These gaps trace back to high school

White, non-Hispanic	11%
Black, non-Hispanic	20%
Hispanic	41%

- Source: Share of 20-25-year-olds without a high school diploma, October CPS

Gaps Exist Even Among Academically Proficient (Completed Schooling in 2000 of High School Class of 1992, by High School SES and Math Score)



- Source: College Board

Our system for funding college may be the culprit

- Student aid is ill-designed for those who need it most
- The aid system is complex and unwieldy
- A gauntlet for anyone, but especially for
  - First generation college students
  - Non-English speakers

Consider the FAFSA

FAFSA

July 1, 2006 — June 30, 2007

FREE APPLICATION FOR FEDERAL STUDENT AID

OMB # 1845-0001

Use this form to apply free for federal and state student grants, work-study and loans.

Or apply free online at www.fafsa.ed.gov.

Applying by the Deadlines

For federal aid, submit your application as early as possible, but no earlier than January 1, 2006. We must receive your application no later than July 2, 2007. Your college must have your correct, complete information by your last day of enrollment in the 2006-2007 school year.

For state or college aid, the deadline may be as early as January 2006. See the table to the right for state deadlines. You may also need to complete additional forms. Check with your high school guidance counselor or a financial aid administrator at your college about state and college sources of student aid and deadlines.

If you are filing close to one of these deadlines, we recommend you file online at **www.fafsa.ed.gov**. This is the fastest and easiest way to apply for aid.

Using Your Tax Return

If you are supposed to file a 2005 federal income tax return, we recommend that you complete it before filling out this form. If you have not yet filed your return, you can still submit your FAFSA, but you must provide income and tax information. Once you file your tax return, correct any income or tax information that is different from what you initially submitted on your FAFSA.

Filling Out the FAFSA

Your answers on this form will be read electronically. Therefore:

- use black ink and fill in ovals completely:
- print clearly in CAPITAL letters and skip a box between words:
- report dollar amounts (such as $12,356.41) like this:

Correct ● Incorrect ✗ ✓

| 1 | 5 | | E | L | M | | S | T |

$ | | 1 | 2 | , | 3 | 5 | 6 | no cents

Blue is for student information and purple is for parent information.

If you or your family has unusual circumstances (such as loss of employment), complete this form to the extent you can, then submit it as instructed and consult with the financial aid office at the college you plan to attend.

For more information or help in filling out the FAFSA, call 1-800-4-FED-AID (1-800-433-3243). TTY users may call 1-800-730-8913. Or visit our Web site at **www.studentaid.ed.gov**.

Mailing Your FAFSA

After you complete this application, make a copy of pages 3 through 6 for your records. Then mail the original of only pages 3 through 6 in the attached envelope or send it to: Federal Student Aid Programs, P.O. Box 4691, Mt. Vernon, IL 62864-0059. Do not send the worksheets on page 8; keep them for your records.

If you do not receive the results of your application—a *Student Aid Report* (SAR)—within three weeks, please check online at **www.fafsa.ed.gov** or call 1-800-433-3243. If you provided your e-mail address in question 13, you will receive information about your application within a few days after we process it.

Let's Get Started!

Now go to page 3, detach the application form and begin filling it out. Refer to the notes as instructed.

STATE AID DEADLINES

File Online and File On Time
www.fafsa.ed.gov

AK	April 15, 2006 *(date received)*
AR	For Academic Challenge - June 1, 2006 *(date received)* For Workforce Grant - Contact your financial aid administrator.
AZ	June 30, 2007 *(date received)*
*^ CA	For initial awards - March 2, 2006 For additional community college awards - September 2, 2006 *(date postmarked)*
* DC	June 30, 2006 *(date received by state)*
DE	April 15, 2006 *(date received)*
FL	May 15, 2006 *(date processed)*
^ IA	July 1, 2006 *(date received)*
# IL	First-time applicants - September 30, 2006 Continuing applicants - August 15, 2006 *(date received)*
IN	March 10, 2006 *(date received)*
#* KS	April 1, 2006 *(date received)*
# KY	March 15, 2006 *(date received)*
#^ LA	May 1, 2006 Final deadline - July 1, 2006 *(date received)*
#^ MA	May 1, 2006 *(date received)*
MD	March 1, 2006 *(date received)*
ME	May 1, 2006 *(date received)*
MI	March 1, 2006 *(date received)*
MN	30 days after term starts *(date received)*
MO	April 1, 2006 *(date received)*
# MT	March 1, 2006 *(date received)*
NC	March 15, 2006 *(date received)*
ND	March 15, 2006 *(date received)*
NH	May 1, 2006 *(date received)*
^ NJ	June 1, 2006, if you received a Tuition Aid Grant in 2005-2006 All other applicants - October 1, 2006, fall & spring terms - March 1, 2007, spring term only *(date received)*
*^ NY	May 1, 2007 *(date received)*
OH	October 1, 2006 *(date received)*
# OK	April 15, 2006 Final deadline - June 30, 2006 *(date received)*
# OR	March 1, 2006 *(date received)* Final deadline - Contact your financial aid administrator.
* PA	All 2005-2006 State Grant recipients & all non-2005-2006 State Grant recipients in degree programs - May 1, 2006 All other applicants - August 1, 2006 *(date received)*
# RI	March 1, 2006 *(date received)*
SC	June 30, 2006 *(date received)*
TN	For State Grant - May 1, 2006 For State Lottery - September 1, 2006 *(date received)*
*^ WV	March 1, 2006 *(date received)*

Check with your financial aid administrator for these states and territories:
AL, *AS, CO, *CT, *FM, GA, *GU, *HI, ID, *MH, *MP, MS, *NE, *NM, *NV, PR, *PW, *SD, *TX, UT, *VA, *VI, *VT, WA, WI and *WY.

 # For priority consideration, submit application by date specified.
^ Applicants encouraged to obtain proof of mailing.
** Additional form may be required.*

U06472

STATE AID DEADLINES

Notes for questions 14 – 15 (page 3)

If you are an eligible noncitizen, write in your eight- or nine-digit Alien Registration Number. Generally, you are an eligible noncitizen if you are (1) a U.S. permanent resident with a Permanent Resident Card (I-551); (2) a conditional permanent resident (I-551C); or (3) the holder of an Arrival-Departure Record (I-94) from the Department of Homeland Security showing any one of the following designations: "Refugee," "Asylum Granted," "Parolee" (I-94 confirms paroled for a minimum of one year and status has not expired) or "Cuban-Haitian Entrant." If you are in the U.S. on an F1 or F2 student visa, a J1 or J2 exchange visitor visa, or a G series visa (pertaining to international organizations), you must fill in oval c. If you are neither a citizen nor an eligible noncitizen, you are not eligible for federal student aid. However, you may be eligible for state or college aid.

Notes for question 23 (page 3) — Enter the correct number in the box in question 23.

Enter 1 for 1st bachelor's degree.
Enter 2 for 2nd bachelor's degree.
Enter 3 for associate degree (occupational or technical program).
Enter 4 for associate degree (general education or transfer program).
Enter 5 for certificate or diploma for completing an occupational, technical, or educational program of less than two years.
Enter 6 for certificate or diploma for completing an occupational, technical, or educational program of at least two years.
Enter 7 for teaching credential program (nondegree program).
Enter 8 for graduate or professional degree.
Enter 9 for other/undecided.

Notes for question 24 (page 3) — Enter the correct number in the box in question 24.

Enter 0 for never attended college & 1st year undergraduate.
Enter 1 for attended college before & 1st year undergraduate.
Enter 2 for 2nd year undergraduate/sophomore.
Enter 3 for 3rd year undergraduate/junior.
Enter 4 for 4th year undergraduate/senior.
Enter 5 for 5th year/other undergraduate.
Enter 6 for 1st year graduate/professional.
Enter 7 for continuing graduate/professional or beyond.

Notes for questions 29 – 30 (page 3)

Some states and colleges offer aid based on the level of schooling your parents completed.

Notes for questions 33 c. and d. (page 4) and 71 c. and d. (page 5)

If you filed or will file a foreign tax return, or a tax return with Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Marshall Islands, the Federated States of Micronesia, or Palau, use the information from that return to fill out this form. If you filed a foreign return, convert all figures to U.S. dollars, using the exchange rate that is in effect today. To view the daily exchange rate, go to **www.federalreserve.gov/releases/h10/update.**

Notes for questions 34 (page 4) and 72 (page 5)

In general, a person is eligible to file a 1040A or 1040EZ if he or she makes less than $100,000, does not itemize deductions, does not receive income from his or her own business or farm, and does not receive alimony. A person is not eligible if he or she itemizes deductions, receives self-employment income or alimony, or is required to file Schedule D for capital gains. If you filed a 1040 only to claim Hope or Lifetime Learning credits, and you would have otherwise been eligible for a 1040A or 1040EZ, you should answer "Yes" to this question.

Notes for questions 37 (page 4) and 75 (page 5) — Notes for those who filed a 1040EZ

On the 1040EZ, if a person answered "Yes" on line 5, use EZ worksheet line F to determine the number of exemptions ($3,200 equals one exemption). If a person answered "No" on line 5, enter 01 if he or she is single, or 02 if he or she is married.

Notes for questions 43 – 45 (page 4) and 81 – 83 (page 5)

By applying online at **www.fafsa.ed.gov**, you may be eligible to skip some questions. If you do not apply online, you will not be penalized for completing questions 43-45 and 81-83 on the paper FAFSA.

Net worth means current value minus debt. If net worth is one million dollars or more, enter $999,999. If net worth is negative, enter 0.

Investments include real estate (do not include the home you live in), trust funds, money market funds, mutual funds, certificates of deposit, stocks, stock options, bonds, other securities, Coverdell savings accounts, college savings plans, installment and land sale contracts (including mortgages held), commodities, etc. For more information about reporting education savings plans, call 1-800-433-3243. *Investment value* includes the market value of these investments as of today. *Investment debt* means only those debts that are related to the investments.

Investments do not include the home you live in, the value of life insurance, retirement plans (pension funds, annuities, noneducation IRAs, Keogh plans, etc.), and prepaid tuition plans, or cash, savings, and checking accounts already reported in 43 and 81.

Business and/or investment farm value includes the market value of land, buildings, machinery, equipment, inventory, etc. Business and/or investment farm debt means only those debts for which the business or investment farm was used as collateral.

Notes for question 54 (page 4)

Answer "No" (you are not a veteran) if you (1) have never engaged in active duty in the U.S. Armed Forces, (2) are currently an ROTC student or a cadet or midshipman at a service academy, or (3) are a National Guard or Reserves enlistee activated only for training. Also answer "No" if you are currently serving in the U.S. Armed Forces and will continue to serve through June 30, 2007.

Answer "Yes" (you are a veteran) if you (1) have engaged in active duty in the U.S. Armed Forces (Army, Navy, Air Force, Marines or Coast Guard) or are a National Guard or Reserve enlistee who was called to active duty for purposes other than training, or were a cadet or midshipman at one of the service academies, and (2) were released under a condition other than dishonorable. Also answer "Yes" if you are not a veteran now but will be one by June 30, 2007.

Notes continued on page 7.

More FAFSA

FAFSA

July 1, 2006 — June 30, 2007
FREE APPLICATION FOR FEDERAL STUDENT AID

OMB # 1845-0001

Step One: **For questions 1–30, leave blank any questions that do not apply to you (the student).**

1-3. Your full name (as it appears on your Social Security card)

1. LAST NAME FOR INFORMATION ONLY 2. FIRST NAME DO NOT SUBMIT 3. MIDDLE INITIAL

4-7. Your permanent mailing address

4. NUMBER AND STREET (INCLUDE APT. NUMBER)

5. CITY (AND COUNTRY IF NOT U.S.) 6. STATE 7. ZIP CODE

8. Your Social Security Number XXX–XX–XXXX

9. Your date of birth MMDD19YY

10. Your permanent telephone number ( ) -

11-12. Your driver's license number and state (if any)

11. LICENSE NUMBER 12. STATE

13. Your e-mail address WE WILL USE THIS E-MAIL ADDRESS TO CORRESPOND WITH YOU. YOU WILL RECEIVE YOUR FAFSA INFORMATION THROUGH A SECURE LINK ON THE INTERNET SENT TO THE E-MAIL ADDRESS YOU PROVIDE. LEAVE BLANK TO RECEIVE INFORMATION THROUGH REGULAR MAIL. WE WILL ONLY SHARE THIS ADDRESS WITH THE SCHOOLS YOU LIST ON THE FORM AND YOUR STATE. THEY MAY USE THE E-MAIL ADDRESS TO COMMUNICATE WITH YOU.

@

14. Are you a U.S. citizen? Pick one. See page 2.
- a. Yes, I am a U.S. citizen. Skip to question 16. ○ 1
- b. No, but I am an eligible noncitizen. Fill in question 15. ○ 2
- c. No, I am not a citizen or eligible noncitizen. ○ 3

15. ALIEN REGISTRATION NUMBER A

16. What is your marital status as of today?
- I am single, divorced or widowed ○ 1
- I am married/remarried ○ 2
- I am separated ○ 3

17. Month and year you were married, separated, divorced or widowed MONTH YEAR MMYYYY

18. What is your state of legal residence? STATE

19. Did you become a legal resident of this state before January 1, 2001? Yes ○ 1 No ○

20. If the answer to question 19 is "No," give month and year you became a legal resident. MONTH YEAR MMYYYY

21. Are you male? (Most male students must register with Selective Service to get federal aid.) Yes ○ 1 No ○

22. If you are male (age 18–25) and not registered, answer "Yes" and Selective Service will register you. Yes ○ 1 No ○

23. What degree or certificate will you be working on during 2006–2007 school year? See page 2 and enter the correct number in the box.

24. What will be your grade level when you begin the 2006–2007 school year? See page 2 and enter the correct number in the box.

25. Will you have a high school diploma or GED before you begin the 2006–2007 school year? Yes ○ 1 No ○

26. Will you have your first bachelor's degree before July 1, 2006? Yes ○ 1 No ○

27. In addition to grants, are you interested in student loans (which you must pay back)? Yes ○ 1 No ○

28. In addition to grants, are you interested in "work-study" (which you earn through work)? Yes ○ 1 No ○

29. Highest school your father completed — Middle school/Jr. High ○ 1 High School ○ 2 College or beyond ○ 3 Other/unknown ○

30. Highest school your mother completed — Middle school/Jr. High ○ 1 High School ○ 2 College or beyond ○ 3 Other/unknown ○

31. **Do not leave this question blank.** Have you ever been convicted of possessing or selling illegal drugs? If you have, answer "Yes," complete and submit this application, and we will send you a worksheet in the mail for you to determine if your conviction affects your eligibility for aid. No ○ 1 Yes ○ 3 DO NOT LEA[VE] QUESTION [31] BLANK

For Help – www.studentaid.ed.gov/completefa[fsa]

Step Two: **For questions 32–45, report your (the student's) income and assets. If you are married as of today, report your and your spouse's income and assets, even if you were not married in 2005. Ignore references to "spouse" if you are currently single, separated, divorced or widowed.**

32. For 2005, have you (the student) completed your IRS income tax return or another tax return listed in question 33?
- a. I have already completed my return. ○ 1
- b. I will file, but I have not yet completed my return. ○ 2
- c. I'm not going to file. (Skip to question 38.) ○ 3

33. What income tax return did you file or will you file for 2005?
- a. IRS 1040 ○ 1
- b. IRS 1040A or 1040EZ ○ 2
- c. A foreign tax return. See page 2. ○ 3
- d. A tax return with Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Marshall Islands, the Federated States of Micronesia, or Palau. See page 2. ○ 4

34. If you have filed or will file a 1040, were you eligible to file a 1040A or 1040EZ? See page 2. Yes ○ 1 No ○ 2 Don't Know ○ 3

For questions 35–47, if the answer is zero or the question does not apply to you, enter 0.

35. What was your (and spouse's) adjusted gross income for 2005? Adjusted gross income is on IRS Form 1040—line 37; 1040A—line 21; or 1040EZ—line 4. $,

36. Enter your (and spouse's) income tax for 2005. Income tax amount is on IRS Form 1040—line 57; 1040A—line 36; or 1040EZ—line 10. $,

37. Enter your (and spouse's) exemptions for 2005. Exemptions are on IRS Form 1040—line 6d or on Form 1040A—line 6d. For Form 1040EZ, see page 2.

38-39. How much did you (and spouse) earn from working (wages, salaries, tips, combat pay, etc.) in 2005? Answer this question whether or not you filed a tax return. This information may be on your W-2 forms, or on IRS Form 1040—lines 7 + 12 + 18; 1040A—line 7; or 1040EZ—line 1.
You (38) $,
Your Spouse (39) $,

Student (and Spouse) Worksheets (40–42)

40-42. Go to page 8 and complete the columns on the left of Worksheets A, B, and C. Enter the student (and spouse) totals in questions 40, 41 and 42, respectively. Even though you may have few of the Worksheet items, check each line carefully.
Worksheet A (40) $,
Worksheet B (41) $,
Worksheet C (42) $,

43. As of today, what is your (and spouse's) total current balance of **cash, savings, and checking accounts**? Do not include student financial aid. $,

44. As of today, what is the net worth of your (and spouse's) **investments**, including real estate (not your home)? *Net worth* means current value minus debt. See page 2. $,

45. As of today, what is the net worth of your (and spouse's) current **businesses and/or investment farms**? Do not include a farm that you live on and operate. See page 2. $,

46-47. If you receive veterans' education benefits, for how many months from July 1, 2006, through June 30, 2007, will you receive these benefits, and what amount will you receive per month? Do not include your spouse's veterans' education benefits.
Months (46)
Monthly Amount (47) $,

Step Three: **Answer all seven questions in this step.**

48. Were you born before January 1, 1983? Yes ○ 1 No ○ 2

49. At the beginning of the 2006-2007 school year, will you be working on a master's or doctorate program (such as an MA, MBA, MD, JD, PhD, EdD, or graduate certificate, etc.)? Yes ○ 1 No ○ 2

50. As of today, are you married? (Answer "Yes" if you are separated but not divorced.) Yes ○ 1 No ○ 2

51. Do you have children who receive more than half of their support from you? Yes ○ 1 No ○ 2

52. Do you have dependents (other than your children or spouse) who live with you and who receive more than half of their support from you, now and through June 30, 2007? Yes ○ 1 No ○ 2

53. Are (a) both of your parents deceased, or (b) are you (or were you until age 18) a ward/dependent of the court? Yes ○ 1 No ○ 2

54. Are you a veteran of the U.S. Armed Forces? See page 2. Yes ○ 1 No ○ 2

If you (the student) answered "No" to every question in Step Three, go to Step Four.
If you answered "Yes" to any question in Step Three, skip Step Four and go to Step Five on page 6.

(Health Profession Students: Your school may require you to complete Step Four even if you answered "Yes" to any Step Three question.)

For Help – 1-800-433-3243

Yet More FAFSA

Step Four: Complete this step if you (the student) answered "No" to all questions in Step Three. Go to page 7 to determine who is a parent for this step.

55. What is your parents' marital status as of today?
Married/Remarried ○ 1 Divorced/Separated ○ 3
Single ○ 2 Widowed ○ 4

56. Month and year they were married, separated, divorced or widowed — MONTH YEAR

57-64. What are the Social Security Numbers, names and dates of birth of the parents reporting information on this form? If your parent does not have a Social Security Number, you must enter 000-00-0000.

57. FATHER'S/STEPFATHER'S SOCIAL SECURITY NUMBER
58. FATHER'S/STEPFATHER'S LAST NAME, AND
59. FIRST INITIAL
60. FATHER'S/STEPFATHER'S DATE OF BIRTH — M M D D 1 9 Y Y

61. MOTHER'S/STEPMOTHER'S SOCIAL SECURITY NUMBER
62. MOTHER'S/STEPMOTHER'S LAST NAME, AND
63. FIRST INITIAL
64. MOTHER'S/STEPMOTHER'S DATE OF BIRTH — M M D D 1 9 Y Y

65. Go to page 7 to determine how many people are in your parents' household. Enter that number here.

66. Go to page 7 to determine how many in question 65 (exclude your parents) will be college students between July 1, 2006, and June 30, 2007. Enter that number here.

67. What is your parents' state of legal residence? — STATE

68. Did your parents become legal residents of this state before January 1, 2001? Yes ○ 1 No ○ 2

69. If the answer to question 68 is "No," give month and year legal residency began for the parent who has lived in the state the longest. — MONTH YEAR

70. For 2005, have your parents completed their IRS income tax return or another tax return listed in question 71?
a. My parents have already completed their return. ○ 1
b. My parents will file, but they have not yet completed their return. ○ 2
c. My parents are not going to file. (Skip to question 76.) ○ 3

71. What income tax return did your parents file or will they file for 2005?
a. IRS 1040 ○ 1
b. IRS 1040A or 1040EZ ○ 2
c. A foreign tax return. See page 2. ○ 3
d. A tax return with Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Marshall Islands, the Federated States of Micronesia, or Palau. See page 2. ○ 4

72. If your parents have filed or will file a 1040, were they eligible to file a 1040A or 1040EZ? See page 2. Yes ○ 1 No ○ 2 Don't Know ○ 3

For questions 73-83, if the answer is zero or the question does not apply, enter 0.

73. What was your parents' adjusted gross income for 2005? Adjusted gross income is on IRS Form 1040—line 37; 1040A—line 21; or 1040EZ—line 4. $

74. Enter your parents' income tax for 2005. Income tax amount is on IRS Form 1040—line 57; 1040A—line 36; or 1040EZ—line 10. $

75. Enter your parents' exemptions for 2005. Exemptions are on IRS Form 1040—line 6d or on Form 1040A—line 6d. For Form 1040EZ, see page 2.

76-77. How much did your parents earn from working (wages, salaries, tips, combat pay, etc.) in 2005? Answer this question whether or not your parents filed a tax return. This information may be on their W-2 forms, or on IRS Form 1040—lines 7 + 12 + 18; 1040A—line 7; or 1040EZ—line 1.
Father/Stepfather (76) $
Mother/Stepmother (77) $

Parent Worksheets (78-80)

78-80. Go to page 8 and complete the columns on the right of Worksheets A, B, and C. Enter the parents' totals in questions 78, 79 and 80, respectively. Even though your parents may have few of the Worksheet items, check each line carefully.
Worksheet A (78) $
Worksheet B (79) $
Worksheet C (80) $

81. As of today, what is your parents' total current balance of **cash, savings, and checking accounts**? $

82. As of today, what is the net worth of your parents' **investments**, including real estate (not your parents' home)? *Net worth* means current value minus debt. See page 2. $

83. As of today, what is the net worth of your parents' current **businesses and/or investment farms**? Do not include a farm that your parents live on and operate. See page 2. $

Now go to Step Six.

Page 5

For Help – www.studentaid.ed.gov/completefafsa

Step Five: Complete this step only if you (the student) answered "Yes" to any Step Three question.

84. Go to page 7 to determine how many people are in your (and your spouse's) household. Enter that number here.

85. Go to page 7 to determine how many people in question 84 will be college students, attending at least half time between July 1, 2006, and June 30, 2007. Enter that number here.

Step Six: Please tell us which schools may request your information, and indicate your enrollment status.

Enter the 6-digit federal school code and your housing plans. Look for the federal school codes at www.fafsa.ed.gov, at your college financial aid office, at your public library, or by asking your high school guidance counselor. If you cannot get the federal school code, write in the complete name, address, city and state of the college. For state aid, you may wish to list your preferred school first.

	Federal school code				Housing plans
86.	1ST FEDERAL SCHOOL CODE	OR	NAME OF COLLEGE / ADDRESS AND CITY	STATE	87. on campus ○ 1 off campus ○ 2 with parent ○ 3
88.	2ND FEDERAL SCHOOL CODE	OR	NAME OF COLLEGE / ADDRESS AND CITY	STATE	89. on campus ○ 1 off campus ○ 2 with parent ○ 3
90.	3RD FEDERAL SCHOOL CODE	OR	NAME OF COLLEGE / ADDRESS AND CITY	STATE	91. on campus ○ 1 off campus ○ 2 with parent ○ 3
92.	4TH FEDERAL SCHOOL CODE	OR	NAME OF COLLEGE / ADDRESS AND CITY	STATE	93. on campus ○ 1 off campus ○ 2 with parent ○ 3
94.	5TH FEDERAL SCHOOL CODE	OR	NAME OF COLLEGE / ADDRESS AND CITY	STATE	95. on campus ○ 1 off campus ○ 2 with parent ○ 3
96.	6TH FEDERAL SCHOOL CODE	OR	NAME OF COLLEGE / ADDRESS AND CITY	STATE	97. on campus ○ 1 off campus ○ 2 with parent ○ 3

98. See page 7. At the start of the 2006-2007 school year, mark if you will be: Full time ○ 1 3/4 time ○ 2 Half time ○ 3 Less than half time ○ 4 Not sure ○ 5

Step Seven: Read, sign and date.

If you are the student, by signing this application you certify that you (1) will use federal and/or state student financial aid only to pay the cost of attending an institution of higher education, (2) are not in default on a federal student loan or have made satisfactory arrangements to repay it, (3) do not owe money back on a federal student grant or have made satisfactory arrangements to repay it, (4) will notify your school if you default on a federal student loan and (5) will not receive a Federal Pell Grant for more than one school for the same period of time.

If you are the parent or the student, by signing this application you agree, if asked, to provide information that will verify the accuracy of your completed form. This information may include U.S. or state income tax forms that you filed or are required to file. Also, you certify that you understand that the Secretary of Education has the authority to verify information reported on this application with the Internal Revenue Service and other federal agencies. If you sign any document related to the federal student aid programs electronically using a Personal Identification Number (PIN), you certify that you are the person identified by the PIN and have not disclosed that PIN to anyone else. If you purposely give false or misleading information, you may be fined $20,000, sent to prison, or both.

99. Date this form was completed. M M D D 2006 ○ or 2007 ○

100. Student (Sign below)

Parent (A parent from Step Four sign below)

If this form was filled out by someone other than you, your spouse or your parents, that person must complete this part.

Preparer's name, firm and address

101. Preparer's Social Security Number (or 102)

102. Employer ID number (or 101)

103. Preparer's signature and date

SCHOOL USE ONLY: D/O ○ 1 Federal School Code

FAA Signature

DATA ENTRY USE ONLY: ○ P ○ * ○ L ○ E

Page 6

For Help—1-800-433-3243

Notes for questions 55–83 (page 5) **Step Four:** Who is considered a parent in this step?

Read these notes to determine who is considered a parent on this form. **Answer all questions in Step Four about them**, even if you do not live with them. (Note that grandparents, foster parents and legal guardians are not parents.)

If your parents are living and married to each other, answer the questions about them.

If your parent is widowed or single, answer the questions about that parent. If your widowed parent is remarried as of today, answer the questions about that parent and the person whom your parent married (your stepparent).

If your parents are divorced or separated, answer the questions about the parent you lived with more during the past 12 months. (If you did not live with one parent more than the other, give answers about the parent who provided more financial support during the past 12 months, or during the most recent year that you actually received support from a parent.) If this parent is remarried as of today, answer the questions on the rest of this form about that parent and the person whom your parent married (your stepparent).

Notes for question 65 (page 5)

Include in your parents' household (see notes, above, for who is considered a parent):

- your parents and yourself, even if you don't live with your parents,
- your parents' other children if (a) your parents will provide more than half of their support from July 1, 2006, through June 30, 2007, or (b) the children could answer "no" to every question in Step Three on page 4 of this form, and
- other people if they now live with your parents, your parents provide more than half of their support, and your parents will continue to provide more than half of their support from July 1, 2006, through June 30, 2007.

Notes for questions 66 (page 5) and 85 (page 6)

Always count yourself as a college student. Do not include your parents. Include others only if they will attend, at least half time in 2006-2007, a program that leads to a college degree or certificate.

Notes for question 84 (page 6)

Include in your (and your spouse's) household:

- yourself (and your spouse, if you have one),
- your children, if you will provide more than half of their support from July 1, 2006, through June 30, 2007, and
- other people if they now live with you, you provide more than half of their support, and you will continue to provide more than half of their support from July 1, 2006, through June 30, 2007.

Notes for question 98 (page 6)

For undergraduates, "full time" generally means taking at least 12 credit hours in a term or 24 clock hours per week. "3/4 time" generally means taking at least 9 credit hours in a term or 18 clock hours per week. "Half time" generally means taking at least 6 credit hours in a term or 12 clock hours per week. Provide this information about the college you are most likely to attend.

Information on the Privacy Act and use of your Social Security Number

We use the information that you provide on this form to determine if you are eligible to receive federal student financial aid and the amount that you are eligible to receive. Sections 483 and 484 of the Higher Education Act of 1965, as amended, give us the authority to ask you and your parents these questions, and to collect the Social Security Numbers of you and your parents. We use your Social Security Number to verify your identity and retrieve your records, and we may request your Social Security Number again for those purposes.

State and institutional student financial aid programs may also use the information that you provide on this form to determine if you are eligible to receive state and institutional aid and the need that you have for such aid. Therefore, we will disclose the information that you provide on this form to each institution you list in questions 86–96, state agencies in your state of legal residence, and the state agencies of the states in which the colleges that you list in questions 86–96 are located.

If you are applying solely for federal aid, you must answer all of the following questions that apply to you: 1–9, 14–16, 18, 21–22, 25–26, 31–36, 38–45, 48–67, 70–74, 76–85 and 99–100. If you do not answer these questions, you will not receive federal aid.

Without your consent, we may disclose information that you provide to entities under a published "routine use." Under such a routine use, we may disclose information to third parties that we have authorized to assist us in administering the above programs; to other federal agencies under computer matching programs, such as those with the Internal Revenue Service, Social Security Administration, Selective Service System, Department of Homeland Security, Department of Justice and Veterans Affairs; to your parents or spouse; and to members of Congress if you ask them to help you with student aid questions.

If the federal government, the U.S. Department of Education, or an employee of the U.S. Department of Education is involved in litigation, we may send information to the Department of Justice, or a court or adjudicative body, if the disclosure is related to financial aid and certain conditions are met. In addition, we may send your information to a foreign, federal, state, or local enforcement agency if the information that you submitted indicates a violation or potential violation of law, for which that agency has jurisdiction for investigation or prosecution. Finally, we may send information regarding a claim that is determined to be valid and overdue to a consumer reporting agency. This information includes identifiers from the record; the amount, status and history of the claim; and the program under which the claim arose.

State Certification

By submitting this application, you are giving your state financial aid agency permission to verify any statement on this form and to obtain income tax information for all persons required to report income on this form.

The Paperwork Reduction Act of 1995

The Paperwork Reduction Act of 1995 says that no one is required to respond to a collection of information unless it displays a valid OMB control number, which for this form is 1845-0001. The time required to complete this form is estimated to be one hour, including time to review instructions, search data resources, gather the data needed, and complete and review the information collection. If you have comments about this estimate or suggestions for improving this form, please write to:
U.S. Department of Education, Washington DC 20202-4700.

We may request additional information from you to process your application more efficiently. We will collect this additional information only as needed and on a voluntary basis.

Worksheets

Calendar Year 2005

Do not mail these worksheets in with your application.
Keep these worksheets; your school may ask to see them.

Worksheet A

Report Annual Amounts

Student/Spouse For question 40		Parents For question 78
$	Earned income credit from IRS Form 1040—line 66a; 1040A—line 41a; or 1040EZ—line 8a.	$
$	Additional child tax credit from IRS Form 1040—line 68 or 1040A—line 42	$
$	Welfare benefits, including Temporary Assistance for Needy Families (TANF). Don't include food stamps or subsidized housing.	$
$	Social Security benefits received, for all household members as reported in question 84 (or 65 for your parents), that were not taxed (such as SSI). Report benefits paid to parents in the Parents column, and benefits paid directly to student (or spouse) in the Student/Spouse column.	$
$	—Enter in question 40. Enter in question 78.—	$

Worksheet B

Report Annual Amounts

For question 41		For question 79
$	Payments to tax-deferred pension and savings plans (paid directly or withheld from earnings), including, but not limited to, amounts reported on the W-2 Form in Boxes 12a through 12d, codes D, E, F, G, H and S	$
$	IRA deductions and payments to self-employed SEP, SIMPLE, and Keogh and other qualified plans from IRS Form 1040—line 28 + line 32 or 1040A—line 17	$
$	Child support you received for all children. Don't include foster care or adoption payments.	$
$	Tax exempt interest income from IRS Form 1040—line 8b or 1040A—line 8b	$
$	Foreign income exclusion from IRS Form 2555—line 43 or 2555EZ—line 18	$
$	Untaxed portions of IRA distributions from IRS Form 1040—lines (15a minus 15b) or 1040A—lines (11a minus 11b). Exclude rollovers. If negative, enter a zero here.	$
$	Untaxed portions of pensions from IRS Form 1040—lines (16a minus 16b) or 1040A—lines (12a minus 12b). Exclude rollovers. If negative, enter a zero here.	$
$	Credit for federal tax on special fuels from IRS Form 4136—line 15 (nonfarmers only)	$
$	Housing, food and other living allowances paid to members of the military, clergy and others (including cash payments and cash value of benefits)	$
$	Veterans' noneducation benefits such as Disability, Death Pension, or Dependency & Indemnity Compensation (DIC), and/or VA Educational Work-Study allowances	$
$	Other untaxed income not reported elsewhere on Worksheets A and B (e.g., workers' compensation, untaxed portions of railroad retirement benefits, Black Lung Benefits, disability, combat pay not reported on the tax return, etc.) Don't include student aid, Workforce Investment Act educational benefits, non-tax filers' combat pay, or benefits from flexible spending arrangements, e.g., cafeteria plans.	$
$	Money received, or paid on your behalf (e.g., bills), not reported elsewhere on this form	XXXXXXXX
$	—Enter in question 41. Enter in question 79.—	$

Worksheet C

Report Annual Amounts

For question 42		For question 80
$	Education credits (Hope and Lifetime Learning tax credits) from IRS Form 1040—line 50 or 1040A—line 31	$
$	Child support you paid because of divorce or separation or as a result of a legal requirement. Don't include support for children in your (or your parents') household, as reported in question 84 (or question 65 for your parents).	$
$	Taxable earnings from need-based employment programs, such as Federal Work-Study and need-based employment portions of fellowships and assistantships	$
$	Student grant and scholarship aid reported to the IRS in your (or your parents') adjusted gross income. Includes AmeriCorps benefits (awards, living allowances and interest accrual payments), as well as grant or scholarship portions of fellowships and assistantships.	$
$	—Enter in question 42 Enter in question 80.—	$

Policy Proposal: Deliver all aid through tax system

- Aid system hardest to navigate for those we want most to help – ESL, first-generation college students.

- For low-income families, aid forms more complex than typical income tax return (1040A).

- Solution: Run a radically simplified aid process through the tax system, using information already collected by IRS.

Policy Proposal: Tie loan payments to ability to pay, through IRS

- On average, going to college is a great deal. But it *is* a gamble.
- For some this "bet" does not pay off.
- Loan burden for such students may be extremely high.
- Solution: Run loan payments through the tax system, capping payments at a certain % of income. Models: England, Australia, New Zealand.

Conclusion

- College pays off
  - College is a good bet
  - There has never been a worse time to *not* be a college graduate
  - Distributionally, it makes sense for those who go to college to share the costs as well the benefits
- But there are troubling signs
  - Large racial and ethnic gaps in college going and completion
  - High debt burdens for some borrowers
- Proposed solutions
  - Simplify and expand aid, especially for low-income youth
  - Protect borrowers against excessive debt burden

References

- College Board, *Trends in Student Aid*
- College Board, *Trends in College Pricing*
- College Board, *Education Pays*
- *Current Population Survey, October* (Author’s calculations)
- US Department of Education, *Digest of Education Statistics*