FINANCIAL AID AND SELF-REPORTS

BY DISADVANTAGED STUDENTS:

THE IMPORTANCE OF BEING EARNEST

Monograph 86-9

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University of Houston Law Center/Institute for Higher Education Law and Governance (IHELG)

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Abstract

This study reports findings from a national survey of Hispanic financial aid recipients, and has the unusual feature of having student self-reports of income (theirs or their parents) and verified income figures. The findings are that students do not know very well how much they or their families earn; contrary to other studies, these data reveal that over half the students overestimated actual income. The implications of overreporting are discussed, both for aid awards and use of such self-reports in studies of students. The study warns against the consequences of requiring additional verification.
Financial Aid and Self-Reports by Disadvantaged Students:  

The Importance of Being Earnest

Because of the extraordinary growth in governmental support of student aid, an enormous industry has developed to administer financial assistance programs, process the necessary forms, and evaluate families' eligibility. A complex balance of income reporting, evaluation, and verification is reached between applicants and financial aid offices (or other institutions, such as banks or loan authorities), yet this process has not been widely examined by scholars or policy analysts.

One financial aid research area that has drawn scholarly attention is that of the accuracy of self reports, in which validity of aid award amounts is evaluated. Because application forms are completed many months in advance of the actual award of aid—and often before income tax deadlines—self reports of annual income are frequently employed, subject to verification (Bowman, 1976; Hearn, 1981; Sharon and Horch 1972). In a different vein, many studies of student behaviors rely upon self-assessments of difficult-to-measure characteristics: academic performance (Baird, 1976; Hamilton, 1981), social status (Kerchoff et al, 1973; Simmons and Rosenberg, 1971), parental education (St. John, 1970) and particularly, parental income (Breland, 1981; Cunningham, 1972; Sharon and Horch, 1972). Moreover, major national student samples (Cooperative
Institutional Research Program, High School and Beyond, National Longitudinal Study) rely upon such measures, on the assumption that students self-assess accurately.

This literature on self reports has also attempted to establish the validity of proxy measures, and to improve the means by which financial aid is distributed according to indices of eligibility. The national student samples have been employed for many studies, including policy studies that recommend changes in financial aid practices. While these data bases are representative of the majority of students in U.S. institutions, certain segments of the student population appear to be particularly difficult to measure: low income students, and minority—particularly Hispanic—students. While the reasons for data inadequacies are complex (Olivas, 1982), they are, in the main, due to the small number of Hispanics enrolled in postsecondary institutions, and to the special characteristics of these students, particularly the students' poverty and enrollment patterns.

This study reports findings from a national survey of Hispanic financial aid recipients, and has the advantage of verified parental income as well as the more commonly-relied-upon estimates of parental income. The data set and collection techniques are described elsewhere (Olivas, 1985), but several items are important and bear repeating. Because Hispanics are impoverished relative to Anglo and even other minority groups, and because college remains a predominantly middle class
opportunity, the detailed data in this study are unique. They include complete financial aid records and parent confidential statements, including Internal Revenue Service (IRS) forms and notarized income receipts, of 521 full time, first time Hispanic students, 2/3 of whose families earned less than $10,500 in FY 1979.

This study reports data on a subsample of the poorest of these poor students, and analyzes the students' ability to report their parents' income; during a structured counseling session, each student was asked to estimate family income. At subsequent sessions, the verified data were provided. The data are reported by dependent and independent student status, by whether or not students receive public assistance, and by a range of other variables not reported in this study. The findings should provide baseline data on self reports for low income students, and should clarify misconceptions about fraud; indeed, over 55% of all the students overestimated their parents' income by $500 or more. The implications of overreporting will be discussed, and recommendations will be made for improving financial aid documentation and financial aid counseling.

Data and Discussion

Disaggregating the data into dependent and independent students allows analysis of both self-report phenomena: student estimates of parental income (dependent students) and accuracy of students' self-reported income (independent students). These two
measures have different proxy values and methodological implications, in ways that appear to differ from Anglo income-reporting patterns.

First, Hispanic dependent students have a poor sense of their parents' income. While studies of black children reporting their parental SES have suggested an upward bias (Kerchoff et al. 1973: St. John, 1970), the data suggested that the older the children sampled, the more likely they would accurately gauge their parents' educational and occupational status. As complex as this determination is (Colfax and Allen, 1967), determinations of family income are even more difficult, as most sons and daughters are simply unlikely to know how much money their parents make. Not surprisingly, only 10.3% of the Hispanic dependent students correctly estimated family income—including only wages and salaries — within $250. Fifty-six percent overestimated the family income by more than $500, a significant amount when almost 70% of the families earned less than $10,500 annually. Twenty-two percent underestimated the income by more than $500; if the error levels are increased to $500, only 21.5% correctly estimated the family income. The most impoverished students (whose families earned less than $7,500) were far more likely to overestimate greatly (68.7%), than underestimate (6.1%), while students from the "wealthier" families were slightly more likely to underestimate (45.7% to 40%).
Independent students are wage earners reporting their own earnings. While the literature on adult wage earner self-reports is inconclusive (Banks, 1979; Breland, 1979; 1981), it appears that the higher the income, the more likely one is to underestimate income, particularly when reporting all income could render ineligibility for need-based aid. In one institutional case study for example, whereas 45% of the lowest income group (earning less than $6,000) had underreported its earnings, over 90% of those earning $12,000 or more had underreported (Collins, 1973). One would assume that independent students would be likely to report accurately, for they would be assumed to have better knowledge of their own finances. Yet the lowest income independent Hispanic students (making less than $7,500) also overestimated their annual income; over 2/3 erred by more than $500, while 28.9% were within $500.

The data included a subsample of public assistance recipients (17% of the total sample), both independent and dependent. Of course, nearly all these students (93%) were in the lowest income quartile, making less than $7,500. They appeared to have most knowledge of the family's or their own financial status; while 54% overestimated by more than $500, 43% accurately estimated within $500. As a percentage of error magnitude, this was a remarkable display of accuracy. This increased knowledge can in all likelihood be attributed to the necessary frugality imposed upon a family when they receive a small monthly check. The "parcelling out" of the money for
essentials is frequently a family activity of which the students would be aware. During interviews, the students multiplied a monthly figure by twelve to arrive at the annual income.

What are the implications of such inaccurate self reports and reports of parental income? First, they call into question the validity of the extensive use of student estimates of parental income, as those employed in the Cooperative Institutional Research Program (CIRP), High School and Beyond (HSB), and other national student samples. There is no reason to believe Anglo or other minority students know their parents' income with any more accuracy than do Hispanic students, although inaccuracies seem a function of poverty and its concomitant lack of information about finances. Intriguing research on poor children's class consciousness suggests that minority children have a tendency to ascribe higher occupational status to their parents than is accurate (St. John, 1970; Simmons and Rosenberg, 1971) additional research is necessary to disaggregate the factors of SES, ethnicity, and reports of parental income. Major questions should be addressed, however, of policy studies based upon student reports of family income.

The bulk of self-report literature, however, is concerned with ferreting out under-reporting, or documenting the tendency of families or individuals to "shelter" or not to report income. While most studies indicate a high degree of honesty and accuracy in self-reports [usually verified by matching IRS and College Scholarship Service CSS statements, or be validating parent confidential statements and IRS-1040 forms] (Bowman, 1974), there
is a recurring debate over additional requirements to verify income for eligibility. Both the Department of Education (Elmendorf, 1982) and its critics (Windham, 1983) have recommended 1040 forms as additional requirements for basic grant applications. While rebuttal of these suggestions is beyond the scope of this article, it should be noted that additional requirements will disproportionately affect low income families, who often do not have either the resources or technical assistance to complete complex forms; the lowest income families are not even required to file 1040 forms, and so would be completing the form in order to verify aid eligibility even though they had no statutory requirement to file with the IRS. As Windham (1984) has noted, the federal government has not even attempted to understand this issue, but instead has chosen to characterize even small, acceptable errors as evidence of "fraud".

The data reported in this study show a pronounced tendency for low income Hispanic families to overreport actual income; this is a problem, to be sure, but a decidedly different problem than that purported to be the root of proposals for additional reporting requirements. For instance, overreporting income can lead to lower eligibility and aid awards, which would necessitate a larger portion of college costs being borne by the students or families. This error would be compounded over the period of enrollment if it were not caught and corrected. Conversely, underestimating income would likely lead to overawarding aid.
Financial aid officials should carefully work with poor students or applicants to ensure that ostensibly-irregular forms are not improperly-prepared or documented. In many cases, the needy families will otherwise not fit into computer profiles, and their aid will be denied or delayed.

First, as distressing as these data are, and the likely underawarding of aid is a serious problem of the neediest students, the students who participated in this study were clients in a large, well established program. Therefore, they were likely to be the most informed among the poor, and the problem is even more dire than is evident. Second, many poor families, particularly in times of high unemployment, are unlikely or unable to document income with the required specificity. Persons not regularly employed; who may do piecework, housecleaning, odd jobs, or day-labor; who are agricultural workers; or whose companies do not keep regular or timely records will literally be unable to document income or assets. Lack of technical assistance to complete forms often means late, incomplete, or inaccurate applications, and overextended financial aid offices are unlikely to offer adequate assistance. Merely keeping up with correct and timely forms often overwhelms even the most well-run financial aid offices.

The data presented here give an unusual and serendipitous insight into economically disadvantaged student characteristics. Counselors and financial aid administrators, unless they regularly encounter such students, may not be able or willing to
spend the time and effort necessary to assist. To be sure, this type of assistance is difficult to provide, for the forms are complex and require great attention to detail. However, the students most in need of financial aid are those least likely to have the expertise required to execute the forms.

Many of the reforms proposed to ferret out fraud and deceit in the various assistance programs would require additional documentation and technical expertise. Certainly, no one could plausibly object to reasonable and necessary efforts to eliminate fraud. However, before Congress imposes additional paperwork burdens on the poor to verify their poverty, they should be aware that the poorest families are the least likely to be able to comply with the requirements, and in all likelihood, have the least to hide or shelter. The risk is high, however, that the requirements will prove another burden to the most needy applicants, low income and disadvantaged students.
BIBLIOGRAPHY


<table>
<thead>
<tr>
<th>ACTUAL FAMILY INCOME</th>
<th>Less than estimated 500+</th>
<th>Less than estimated 500-251</th>
<th>W/i $250 student's estimate</th>
<th>More than estimated 251-500</th>
<th>More than estimated 500</th>
<th>TOTAL</th>
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<td>10.3</td>
<td>4.1</td>
<td>22.2</td>
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Note: Percentages may not add to 100.0 due to rounding.
### Table 2: Independent Student Estimates of Family Income

<table>
<thead>
<tr>
<th>Actual Family Income</th>
<th>Less than estimated 500+</th>
<th>Less than estimated 500-251</th>
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<th>More than estimated 251-500</th>
<th>More than 500</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>less than $7,500</td>
<td>68.4</td>
<td>10.5</td>
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<td>66.7</td>
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<td>0.0</td>
<td>100.0</td>
<td>0.0</td>
<td>1.1</td>
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<td><strong>Total</strong></td>
<td><strong>65.6</strong></td>
<td><strong>10.0</strong></td>
<td><strong>15.6</strong></td>
<td><strong>3.3</strong></td>
<td><strong>5.6</strong></td>
<td><strong>100.0</strong></td>
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</tbody>
</table>

Note: Percentages may not add to 100.0 due to rounding.
<table>
<thead>
<tr>
<th>Actual Family Income</th>
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<th>More than estimated 251-500</th>
<th>More than 500</th>
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<td>less than $7,500</td>
<td>54.0</td>
<td>22.2</td>
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<td>0.0</td>
</tr>
<tr>
<td>more than 15,000</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.0</td>
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<tr>
<td>Total</td>
<td>54.0</td>
<td>20.6</td>
<td>16.2</td>
<td>4.4</td>
<td>4.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Note: Percentages may not add to 100.0 due to rounding.
Students on Public Assistance may be Dependent (48) or Independent (20).
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opportunity, the detailed data in this study are unique. The
data examined here are files from the country's largest Hispanic
Talent Search, a federally funded counseling program in eleven
cities that annually counsels 16,000 Hispanic students. Because
of federal record-keeping requirements for the program, extensive
data are gathered for each student. The complexity of financial
applications demands many personal and family items, including
parental income and other confidential data. A sample of 521
complete files was compiled, each containing a thirty-item
counselor questionnaire, a notarized parental confidential
statement or federal tax return, a high school transcript, an
official test score (except where scores were imputed), a
notification-of-aid award, and other personal information such as
letters or application essays. Family income guidelines for the
program require that at least two-thirds of those clients served
be from low-income families. The 521 files were from new, full-
time Mexican American and Puerto Rican students in 1979-80. With
program guidelines and Hispanic poverty, it was not surprising
that 77 percent of the students in the sample came from families
with 1978-79 incomes of less than $15,000; over 60 percent of the
families had incomes of less than $10,500. Income quartile
measurements conform to 1972 National Longitudinal Study
categories of low (below $7,500), lower middle ($7,500-$10,500),
upper middle ($10,000-$15,000), and high (over $15,000).

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(Insert Table 1)

Independent students are wage earners reporting their own earnings. While the literature on adult wage earner self-reports is inconclusive (Banks, 1979; Breland, 1979; 1981), it appears that the higher the income, the more likely one is to underestimate income, particularly when reporting all income could render ineligibility for need-based aid. In one institutional case study for example, whereas 45% of the lowest income group (earning less than $6,000) had underreported its earnings, over 90% of those earning $12,000 or more had underreported (Collins, 1973). One would assume that independent
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(Insert Table 2)

The data included a subsample of public assistance recipients (17% of the total sample), both independent and dependent. Of course, nearly all these students (93%) were in the lowest income quartile, making less than $7,500. They appeared to have most knowledge of the family's or their own financial status; while 54% overestimated by more than $500, 43% accurately estimated within $500. As a percentage of error magnitude, this was a remarkable display of accuracy. This increased knowledge can in all likelihood be attributed to the necessary frugality imposed upon a family when they receive a small monthly check. The "parcelling out" of the money for essentials is frequently a family activity of which the students would be aware. During interviews, the students multiplied a monthly figure by twelve to arrive at the annual income.

(Insert Table 3)

What are the implications of such inaccurate self reports and reports of parental income? First, they call into question the validity of the extensive use of student estimates of parental income, as those employed in the Cooperative Institutional Research Program (CIRP), High School and Beyond (HSB), and other national student samples. There is no reason to
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BIBLIOGRAPHY


Table 1  DEPENDENT STUDENT ESTIMATES OF FAMILY INCOME

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<th>TOTAL</th>
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</thead>
<tbody>
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Note: Percentages may not add to 100.0 due to rounding.
<table>
<thead>
<tr>
<th>ACTUAL FAMILY INCOME</th>
<th>Less than estimated 500+</th>
<th>Less than estimated 500-251</th>
<th>W/i$250 student's estimate</th>
<th>More than estimated 251-500</th>
<th>More than 500</th>
<th>TOTAL</th>
</tr>
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<tbody>
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</tbody>
</table>

Note: Percentages may not add to 100.0 due to rounding.
<table>
<thead>
<tr>
<th>ACTUAL FAMILY INCOME</th>
<th>Less than estimated 500+</th>
<th>Less than estimated 500-251</th>
<th>W/i $250 student's estimate</th>
<th>More than estimated 251-500</th>
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<th>TOTAL</th>
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</thead>
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</tr>
</tbody>
</table>

Note: Percentages may not add to 100.0 due to rounding.
Students on Public Assistance may be Dependent (48) or Independent (20).