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# The Federal Pell Grant Program and Reauthorization of the Higher Education Act

By Sandy Baum

*The Federal Pell Grant program has made education possible for many Americans. It has also helped establish the norm of public responsibility for widespread access to higher education. This essay reviews the growth of the Pell Grant program over time and its current characteristics. It then details some innovations with the potential to increase the program's effectiveness in increasing student success, in addition to access to postsecondary education. Both the eligibility formula and the application process should be simpler and students should not have to reapply every year. Students should receive timely information and coaching services to help them select institutions and programs of study. Some smaller steps also have the potential to make a significant difference.*

*Keywords:* Pell Grants, student aid, higher education

Originating with the 1972 amendments to the Higher Education Act, the Federal Pell Grant program (originally known as the Basic Educational Opportunity Grant program) is the bedrock of the federal financial aid system. After contentious debate within the higher education community and in Congress, the design of the program, which directs funding to students rather than to institutions, set in place the federal government's role in providing resources to individual students to help pay the price of attending college.

The ideas that financial circumstances should not prevent people from getting an education and that the federal government has a significant role to play in realizing this ideal enjoy widespread support today. But in 1972, the concept that the federal government had the right and the responsibility to put cash in the hands of low- and moderate-income students to increase their chances of earning college degrees was new.

The Pell Grant program has not just made education possible for many Americans. It has also succeeded in establishing in the American psyche (or at least in the minds and hearts of a clear majority of Americans) the idea that young people should not have to be born to affluent or educated parents in order to be able to expect a college education. Perhaps the program's greatest accomplishment is establishing the norm that higher education should not be the domain of only those fortunate enough to be able to pay for it on their own.

At the same time that we celebrate the program's success, we should consider ways to strengthen it so it meets the needs of students and society for the coming decades. This essay reviews the growth of the Pell Grant program over time and its current characteristics. It then details some innovations with the potential to increase the program's effectiveness in increasing student success, in addition to access to postsecondary education.

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## Who Is Served by the Pell Grant Program?

In 1972, 58% of Americans over the age of 25 had completed high school and only 12% had completed four years of college. By 2014, those figures had risen to 88% and 32% (U.S. Census Bureau, 2015). Pell Grants have played an important part in making this transformation possible. Starting in 1973-74, providing \$251 million (in 2013 dollars) to 176,000 students, the program grew to \$9.1 billion for 3.8 million students in 1993-94, and to 33.7 billion for 9.2 million students in 2013-14 (Table 1; College Board, 2014).

The original design of the Pell Grant program focused on the circumstances and needs of recent high school graduates from low-income families. Older adults enrolling in postsecondary education, generally without access to parental resources and with specific labor market goals in mind, were not central to the higher education agenda (Gladieux & Wolanin, 1976). In 1970, 72% of postsecondary students (including graduate students) were age 24 or younger. A decade later, the emergence of the community college sector had contributed to that share declining to 62% and since 1980, over a third of all students have been older adults. The Pell Grant program disproportionately serves these older students, many of whom are seeking specific occupational training in short-term programs rather than bachelor's degrees. In 2011-12, 38% of undergraduates younger than 24 received Pell Grants, compared to 46% of older students (National Center for Education Statistics [NCES], 2012).

Table 2 describes 2013-14 Pell Grant recipients and their enrollment patterns. Only 44% were dependent on their parents for financial aid purposes. More than a third had dependents of their own. Just over half of recipients were younger than 24; 47% were age 24 or older, including 23% over the age of 30.

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**Table 1. The Federal Pell Grant Program over Time**

Academic Year	Total Awards (Millions of Dollars)		Recipients (Thousands)	Percent of Recipients Who Are Independent	Average Award	
	Current Dollars	2013 Dollars			Current Dollars	2013 Dollars
1973-74	\$48	\$251	176	13%	\$270	\$1,426
1978-79	\$1,541	\$5,479	1,893	37%	\$814	\$2,894
1983-84	\$2,797	\$6,540	2,759	48%	\$1,014	\$2,371
1988-89	\$4,476	\$8,823	3,198	58%	\$1,399	\$2,759
1993-94	\$5,654	\$9,147	3,756	59%	\$1,505	\$2,435
1998-99	\$7,233	\$10,353	3,855	55%	\$1,876	\$2,685
2003-04	\$12,708	\$16,142	5,140	58%	\$2,473	\$3,141
2008-09	\$18,291	\$19,425	6,156	59%	\$2,971	\$3,155
2013-14	\$33,728	\$33,728	9,171	56%	\$3,678	\$3,678

Source: The College Board, *Trends in Student Aid 2014*.

**Table 2. Federal Pell Grant Recipients 2013-14**

Dependency Status		Dependent Student Family Income	
Dependent	44%	\$15,000 or less	30%
Independent without dependents	22%	\$15,001-\$30,000	30%
Independent with dependents	34%	\$30,001-\$50,000	27%
		\$50,001-\$70,000	11%
		\$70,001 or higher	2%
Age		Institution Type	
19 or younger	21%	Public four-year	31%
20-23	32%	Public two-year	35%
24-30	24%	Private nonprofit four-year	13%
31-40	14%	For-profit	20%
41 or older	9%		
Enrollment Pattern	All	Dependent	Independent
Full-time	73%	82%	66%
Three-quarter-time	8%	5%	9%
Half-time	13%	9%	16%
Less than half-time	7%	4%	9%
All part-time	27%	18%	34%

Source: U.S. Department of Education (2015), *2013-14 Federal Pell Grant Program End-of-Year Report*.

higher education agenda (Gladieux & Wolanin, 1976). In 1970, 72% of postsecondary students (including graduate students) were age 24 or younger. A decade later, the emergence of the community college sector had contributed to that share declining to 62% and since 1980, over a third of all students have been older adults. The Pell Grant program disproportionately serves these older students, many of whom are seeking specific occupational training in short-term programs rather than bachelor's degrees. In 2011-12, 38% of undergraduates younger than 24 received Pell Grants, compared to 46% of older students (National Center for Education Statistics [NCES], 2012).

Table 2 describes 2013-14 Pell Grant recipients and their enrollment patterns. Only 44% were dependent on their parents for financial aid purposes. More than a third had dependents of their own. Just over half of recipients were younger than 24; 47% were age 24 or older, including 23% over the age of 30.

In 2013-14, 36% of Pell Grant recipients attended public two-year colleges and 21% were enrolled in the for-profit sector. Three-quarters were enrolled full-time, including 83% of dependent and 69% of independent Pell Grant recipients.

In sum, the Pell Grant program serves a diverse group of students following a wide range of postsecondary paths.

### **How Pell Grants Are Allocated**

Both the application process and the formula for determining Pell eligibility have evolved over time. The complex formula uses information about income, some assets, family size, the number of students in college, and several other factors to determine “expected family contribution” (EFC), i.e., the amount the student and his or her family might be expected to contribute to college expenses for the year. The formula has its roots in careful thinking about how much parents in different circumstances might be able to afford to pay, but has been modified to accommodate political and budget concerns. Moreover, the EFC for independent students embodies tweaks to the dependent student formula, rather than a real assessment of the options facing adults financing their own postsecondary education.

Because of the complexity of the formula and the number of data elements involved, it is difficult for most students to predict the size of their Pell Grants in advance. Nonetheless, the program is reasonably successful at targeting its benefits to the students with the most limited resources. The small number of dependent students from more affluent backgrounds who receive Pell Grants tend to be those with siblings in college, since the formula divides parents’ expected contributions across the children who happen to be enrolled at the same time.

While virtually all applicants now file the Free Application for Federal Student Aid (FAFSA) electronically, this is a relatively new development (U.S. Department of Education, 2014). In 2002-03, 22% of applicants still relied on paper forms (U.S. Department of Education, 2004). The Department of Education has taken advantage of technology to implement skip logic that prevents applicants from having to work through questions not relevant to their situations. An even more notable innovation is the IRS data retrieval tool which, since 2009-10, has allowed some applicants to import data directly from their tax forms to populate the FAFSA. However, the FAFSA is not available until January 1 of the year the student plans to enroll and relies on data from the previous year’s tax returns, which are not due until April 15. Most students do not know their Pell Grant eligibility until they have completed college applications and there is little time to make decisions about where to enroll and how to finance that enrollment.

### **Access and Success**

The central role of the Pell program is to provide funds to students who lack them. A significant body of research, summarized in Judith Scott-Clayton’s article in this special issue of the *Journal of Student Financial Aid*, confirms the importance of grant aid in improving college access. But we have to think about an effective Pell Grant program as more than just giving people money. Too many students enroll in programs and institutions that do not serve their needs and leave school without a credential. There is no reason to believe that the status quo cannot be improved upon; surely the Pell program can do more to mitigate this problem.

Among students who began college in 2003-04, 47% had received a Pell Grant for at least one year of study by 2008-09. Students who were independent in 2003-04 were more likely than dependent students to receive a Pell Grant at some time in the next six years—60% versus 41%. (NCES, 2009).

Only half of the students who enrolled in 2003-04 had earned a certificate, an associate degree, or a bachelor’s degree by 2008-09—46% of Pell recipients and 52% of non-Pell recipients. Fifty-six percent of

dependent students in 2003-04 (and 52% of dependent students who ever received Pell Grants) completed a credential. Only 33% of independent students had completed credentials—but Pell Grant recipients had a *higher* completion rate of 37% (NCES, 2009). Given the correlation between family background and measured academic achievement, the relative success of Pell Grant recipients is encouraging.

But low completion rates have even higher costs for low-income students than for others. The largest component of the cost of college for most students is the opportunity cost. Forgone wages from spending time in school instead of the labor market place a particular burden on students whose families are struggling financially. And the frustration and lack of opportunities facing adults without college credentials may be most serious for those without the connections and experience to find remunerative alternative pathways or the financial wherewithal to try school again later.

Pell Grant recipients would surely have much lower enrollment and completion rates without this financial support; the data make it clear that the Pell Grant program is not the cause of, but likely mitigates, the completion problem. Nonetheless, it is worth asking if the program could be structured to better support student success.

### Constructive Changes

In order to continue its critical role in furthering the educational opportunities of disadvantaged students, the Pell Grant program must be adequately funded with more secure and predictable resources than it has had in recent decades. But reauthorization of the Higher Education Act also provides an opportunity to consider whether the structure of the program could be modified in ways that would support not only access, but also college completion for participants. A few hundred dollars a year of extra Pell funding will not solve this problem. Congress should make reforms to the Pell Grant program to improve its efficiency and improve student outcomes.

In a recent Hamilton Project discussion paper, Judith Scott-Clayton and I proposed three major structural reforms to the current Pell Grant program to better serve recent high school graduates who are dependent students, as well as older adults, other independent students, and others seeking specific occupational training (Baum & Scott-Clayton, 2013).

- Dramatically simplify the eligibility and application process for Pell Grants, fixing award eligibility for multiple years;
- Augment the Pell Grant program's current financial assistance mission with a new guidance and support mission: to provide timely information and coaching services to help students select institutions and programs of study and achieve their goals;
- Modify Pell Grant delivery to align the program's incentives with the goal of promoting student success, not just access.

#### ***Simplify the Current Eligibility and Application Process to Allow for Easier Access to Pell Grants and Greater Predictability***

In order to maximize the effectiveness of the Pell Grant program, we have to simplify it—not just ensure its funding level. The application process for federal student aid and the complex formula for determining eligibility make it virtually impossible for students to predict their aid amounts in advance. Moreover, many students who would be eligible for Pell Grants fail to apply; many fail to reapply after the first year; and we have no way of knowing exactly how many potential students never enroll in college at all because they are unaware of their potential funding or are deterred by the application process.

Although technology has made the aid application process considerably easier, the form is still lengthy and intimidating and must be completed each year to maintain eligibility for federal funds. Recent research strongly indicates that the complexity of the application process creates barriers to student access. For instance, students in low-income families who receive personalized information about eligibility and assistance in completing and submitting a FAFSA are significantly more likely to apply to and enroll in college, and are more likely to stay enrolled longer (Bettinger, Long, Oreopoulos, & Sanbonmatsu, 2012).

- *The Pell Grant program could automatically calculate eligibility for young people when they reach age seventeen using information retrieved electronically from their parents' tax returns for the prior three years.*

Families could be informed of their eligibility for Pell Grants approximately a year before students graduate from high school. The Pell eligibility set at age seventeen could be valid until the student automatically becomes an independent student at the age of twenty-four. An appeals process would allow awards to be adjusted based on unusual changes in family circumstances.

Students enrolling at age twenty-four or older would submit a brief application allowing data to be automatically retrieved from the IRS to determine their eligibility for grants, rather than manually gathering income, assets, and other information and inputting it into FAFSA forms. Students would be eligible if their average income over the past three years fell below a specific income threshold, with partial grants available at higher income levels. Eligible students would receive adequate funding to complete their credentials for five years or until they left or completed the program in which they enrolled.

Fixing eligibility for multiple years would greatly reduce the financial uncertainty students face when beginning a postsecondary program. It would also help to address the problem of students failing to reapply for aid each year. If high school students were automatically told of their potential Pell Grant awards, they would be aware that they would leave money on the table if they did not enroll in college.

- *A simple formula would allow look-up tables or smartphone apps enabling most students to predict their Pell Grant awards well in advance.*

To make it easier for both independent students and families with dependent students to determine their aid eligibility far in advance, award sizes could be based on a simple formula with widely available look-up tables or smartphone apps. For most students, eligibility would be based only on adjusted gross income and family size. For dependent students, eligibility would be based only on parents' financial circumstances, and neither students' income nor the timing of siblings' enrollment would affect the amount of aid awarded.

With a simple and predictable formula, the Internal Revenue Service could facilitate the use of existing income tax data to automatically calculate eligibility. The Pell program would determine eligibility once; eligibility would remain fixed for several years to reduce financial uncertainty and eliminate the need for students to reapply.

### ***Provide Better Guidance about Choosing Institutions and Programs of Study***

Pell Grants provide money without guidance about how to use that money. Many recipients have very limited information about the best courses of study, the best institutions for them, and the best ways to organize their lives to accomplish their goals.

All students need better information and guidance about the educational programs and institutions in which they have a reasonable chance of succeeding, the employment and graduate study options likely to be available when they complete their studies, and the costs they will incur in completing their credentials.

Independent students, most of whom have work or family responsibilities, may face barriers to success that are different from those faced by recent high school graduates. We should develop a structured support system to accompany the Pell Grant funding for both dependent and independent recipients. An investment on the order of 5 to 10% of current Pell Grant funding (\$1.5 billion–\$3.5 billion) could support meaningful and effective additional services for new recipients (Baum & Scott-Clayton, 2013).

### ***Tailor Pell Grant Program Guidance to the Distinct Needs of Dependent and Independent Students***

Relatively low-cost coaching services can have substantial impacts on younger students' decisions to enroll in college, as well as their likelihood of completing the first year. Prior to enrollment, coaching services may help students interpret aid award letters and prioritize the tasks and paperwork required to complete the enrollment process. After enrollment, coaching services may help identify barriers to remaining in school and provide students with links to relevant, institution-specific resources.

For independent Pell Grant recipients, particularly those looking to improve their employment-related skills, mandatory meetings with a third-party career counselor before enrollment in a program of higher education could make a significant difference. The 2014 Workforce Innovation and Opportunity Act (WIOA) strengthened the role of One-Stop Career Centers, which provide a variety of employment services and are designed to connect clients to training and education opportunities (U.S. Department of Labor, 2015). With an increased focus on postsecondary education, these or similar organizations could provide effective third-party pre-enrollment counseling for independent students. By requiring students to receive independent guidance before committing to specific programs and institutions, the federal government could ensure that independent students are using their Pell Grants in ways that directly enhance their career goals.

Savings to students and taxpayers from improved postsecondary success rates have the potential to compensate for the investment in better guidance both before and during postsecondary studies. Developing the optimal design for these counseling services will require careful experimentation and evaluation of alternative models.

### **Enhance Completion Incentives to Support Student Success**

The Pell Grant program includes few built-in incentives that encourage timely degree completion. Indeed, some features of Pell Grant regulations actually provide disincentives to progressing as quickly as is feasible. For example, students who enroll for additional credits either during a regular semester or over the summer do not receive the same funding they would get if they waited until the following year to take those courses.

- *Congress could modify the formula for allocating Pell Grant funding to be based on the number of credits attempted, allowing students to be funded to progress more rapidly through their programs.*

Rather than basing Pell Grants on academic years, the total amount for which students are eligible over the course of their study could be determined in advance and allocated in accordance with the schedule on which they enroll for credits. Under the current system, award levels are prorated for students who enroll for fewer than the 12 credits deemed “full-time” in a semester system, but not adjusted upward for more than 12 credits.

Timely completion requires an average of 15 hours per semester; thus, this system does not encourage students to earn credit hours with the intensity required to complete a bachelor's degree in four years or an

associate degree in two years. A system that funds students according to the number of credits for which they are enrolled would no longer penalize students who want to finish faster. Similar proposals appear in Rethinking Pell Grants Study Group (2013), Baum and Scott-Clayton (2013), and NASFAA (2013b).

This credit-based system should include several protections against overuse. First, lifetime Pell Grant awards would be capped at a fixed number of credits so there would be no incentive for institutions to inflate credit requirements or for students to take more credits than are necessary for the degree. In addition, students would be eligible for Pell Grants to cover up to 125% of the credits required for their specific degree or credential, up to a lifetime maximum of 150 credits, encouraging them to take only the credits required to graduate.

- *Satisfactory academic progress requirements could be made more effective by tracking students across institutions.*

Satisfactory academic progress (SAP) requirements typically stipulate that in order to maintain eligibility for federal aid, students must maintain a minimum GPA of 2.0 and complete at least two-thirds of credits they enroll in. These rules might need to be redesigned so that students have incentives to attempt only those credits they think they can successfully complete.

Particularly problematic is the reality that students who lose aid eligibility at one institution can now transfer to another institution and receive Pell Grants without having to show academic progress. The focus on student success should include tracking students across institutions. Since many students who receive Pell Grants also take federal education loans, this policy change would protect them against accumulating debt they are unlikely to be able to repay.

### ***Less-dramatic Modifications of the Pell Grant program***

Reauthorization of the Higher Education Act should provide an opportunity for Congress to take a step back and consider how major structural changes could strengthen the Pell Grant program. In addition, some modifications that are significant but less dramatic than those suggested above could improve the program's efficient promotion of college access and success.

- *Change the definition of full-time embodied in the Pell Grant formula so students can be funded to enroll for the number of credits they need for timely graduation.*

The optimal structure for Pell Grants would allow students to complete their coursework in the timeframes most suitable to their circumstances. Awarding the full funding at the beginning of their course of study, as proposed above, would facilitate this system. Absent the commitment of funds for more than one year at a time, students could still be provided with more funding if they enroll in more credits—including those taken in a third term over the summer.

- *Rely on "prior-prior year income information.*

Determination of Pell awards for the 2015-16 academic year now relies on information from 2014 ("prior-year") tax forms. Using information that is a year older would facilitate more timely notification of Pell Grant eligibility without having a major impact on the distribution of awards (NASFAA, 2013a; NASFAA, 2015).

- *Eliminate financial data elements not available from federal income tax forms.*

The most promising approach to simplifying the eligibility formula is to significantly reduce the number of data elements included, as proposed above. However, the IRS retrieval tool is a major innovation that expands the possibilities. Its contribution is now limited by the reality that the FAFSA requests information not included on tax forms. Basing eligibility only on tax information would both greatly diminish the burden on students and eliminate the burdensome verification process through which institutions must match FAFSA data with tax information.

- *Diminish the reliance on student income in determining Pell Grant eligibility.*

Parental income in the years just prior to a student's college enrollment is a reasonable predictor of parental income while their children are in college. Students' income in earlier years is quite different, since few students can maintain their income levels while enrolled in higher education. Moreover, for dependent students, most earnings differences are at least as much a function of work effort as of earnings capacity. The 50% marginal tax rate on student income creates a disincentive for students to earn extra money to help fund their studies.

- *Eliminate or diminish the student number-in-college adjustment.*

The current system calculates a family's EFC and then divides by two if there are two children in college in a given year. No allowance is made for children who just graduated from college, so families with two children born four years apart are expected to contribute almost twice as much all together as families with twins. Moreover, this adjustment makes it impossible to tell students in advance what their Pell Grants will be because the amounts are not attached to the students and their own circumstances, but depend on the decisions their siblings make.

## **Pell Grants versus “Free” College**

The Obama administration's recent proposal for “free” community colleges has shifted much of the discussion about removing financial barriers to postsecondary education from grant programs targeting low-income students to the elimination of charges for all students. While the administration's proposal would offer free tuition in addition to existing Pell Grant aid, other proposals would only fill the gaps left by existing grants—awarding most of the incremental dollars to students without financial need. Some ideas focus more on limiting or eliminating debt than on free tuition (Huelsman, 2015). The idea of “free” or “debt-free” has political appeal, and we will likely hear more about this as the election campaign season heats up. Pell Grants don't sound quite so exciting. Moreover, Pell Grants target the students with the most limited financial means, excluding many voters.

But in the end, the resistance to taxes in the American polity is quite likely to doom these expensive proposals. Strengthening the Pell Grant program—which has long benefited from bipartisan support (despite occasional calls to slash funding)—could accomplish the goal of increasing college affordability with fewer resources.

We could, for example, increase the maximum Pell Grant to cover average tuition and fees at public four-year institutions. In 2014-15, that price was \$9,139, compared to a maximum grant of \$5,730. For the lowest-income students, the federal government would be making tuition and fees free in the average state. State grant aid and federal tax credits could still support living expenses.

This one-time boost would have to be accompanied by strong incentives for states to stem the growth in college prices—both through direct appropriations to public institutions and through need-based student aid. Pell could be indexed to inflation to make grant levels predictable, but should not respond to more rapid increases in tuition levels.

## Conclusion

The Pell Grant program has played an important role for more than forty years in helping millions of low-income Americans attend college or receive workforce training. But as the Pell Grant program continues to grow to meet the financial needs of an increasingly diverse student body, it is under heavy scrutiny by policymakers in an era of tight budgets. We should reform the program in order to better serve all recipients, as well as the taxpayers who fund it.

Putting more money in the hands of low-income students is not enough. Getting students in the door of postsecondary education is not sufficient to ensure that they will benefit from increased opportunities. It is imperative that we find ways to support higher levels of student success at the same time that we provide subsidies to students. We should modify the design of the Pell Grant program so that it is even more effective in helping students achieve their goals and so that taxpayer dollars are spent as efficiently as possible in moving us toward a more just society that supports better lives for more of its members. As currently structured, the Pell program provides grants without providing any assistance for students as they attempt to steer their own courses through the maze of available options, and it lacks a sufficient strategy for supporting student success. Rather than just handing out dollars, the Pell Grant program should help students make better decisions about using those dollars.

The eligibility determination formula and the application process are complicated; simplifying them would allow for easier access to Pell Grants. Determining eligibility automatically for young people and fixing awards for multiple years for all students would greatly reduce the financial uncertainty students face when beginning a postsecondary program and eliminate the problem of students failing to reapply for aid each year.

Funding students according to the number of credits for which they are enrolled would ensure that recipients who want to finish on time are no longer penalized relative to those who stretch out their studies.

Although not instituted when the Higher Education Act of 1965 was first enacted, the Pell Grant program soon became the core avenue for diminishing the financial barriers to postsecondary education facing low- and moderate-income students. The upcoming reauthorization should refocus attention on the importance of directing subsidies to the students who need them most. Congress should take this opportunity to think seriously about how to strengthen the program so that it not only gets students in the door, but also supports their completion of postsecondary credentials that will serve them well throughout their lives.

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