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The Federal Pell Grant Program: Analysis and Options

Presentation to the American Association of Community Colleges

Nabeel Alsalam

Microeconomic Studies Division

This presentation provides information published in *The Federal Pell Grant Program: Recent Growth and Policy Options* (September 2013), www.cbo.gov/publication/44448.

Selected CBO Work on Education Policy

■ Cost Estimates

- Are formal written estimates of the cost of virtually every bill approved by Congressional committees, such as
 - Estimate for H.R. 1911, Bipartisan Student Loan Certainty Act of 2013.

■ Data and Technical Information

- Provide more detail about CBO's budgetary projections, such as
 - "Pell Grant Programs – May 2013 Baseline" and
 - "Student Loan Programs -- May 2013 Baseline."

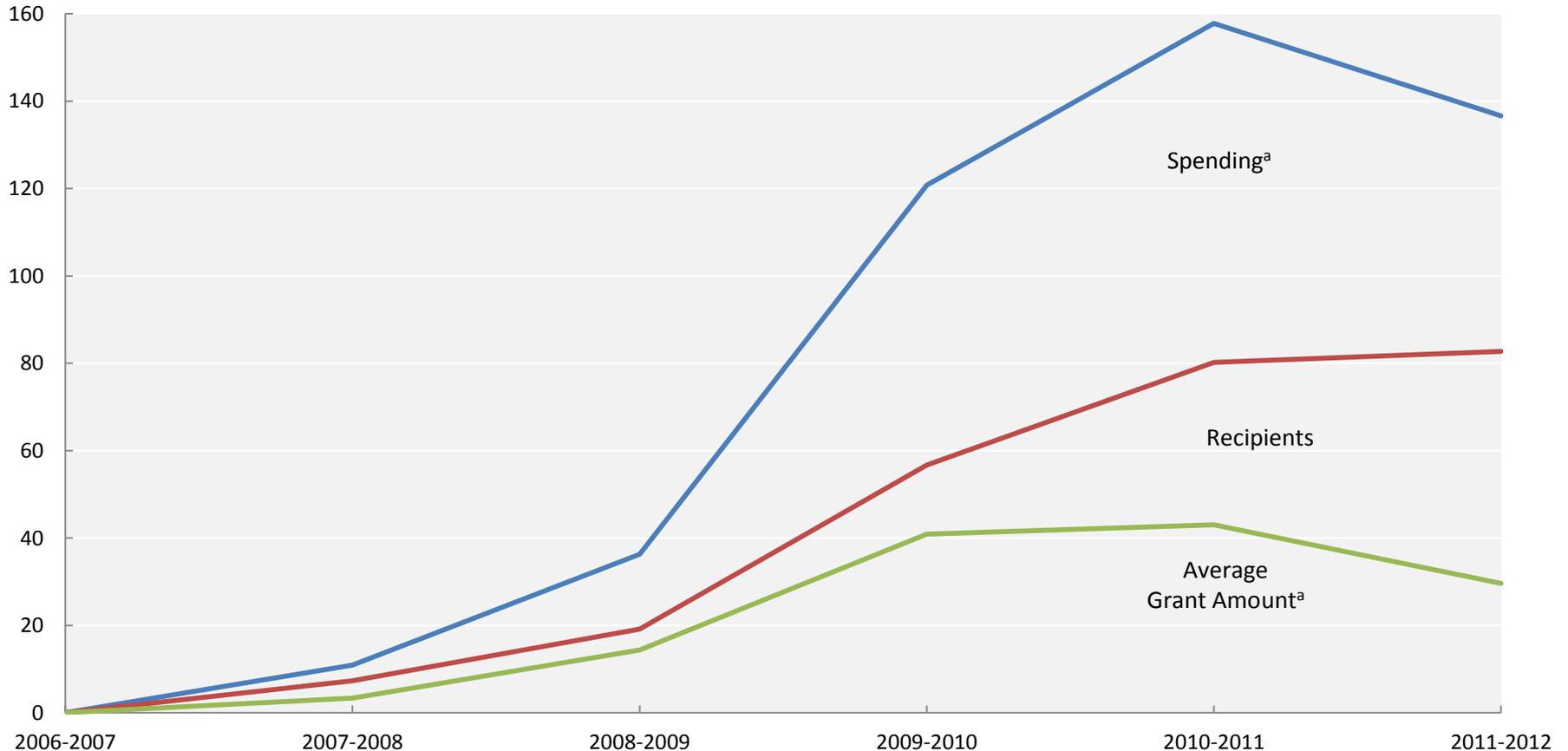
■ Analytic Reports

- Examine specific federal programs, such as
 - *The Federal Pell Grant Program: Recent Growth and Policy Options* and
 - *Options to Change Interest Rates and Other Terms on Student Loans.*

Why did the Pell grant program's costs increase so much?

Growth in the Pell Grant Program Between Award Years 2006-2007 and 2011-2012

(Percent)

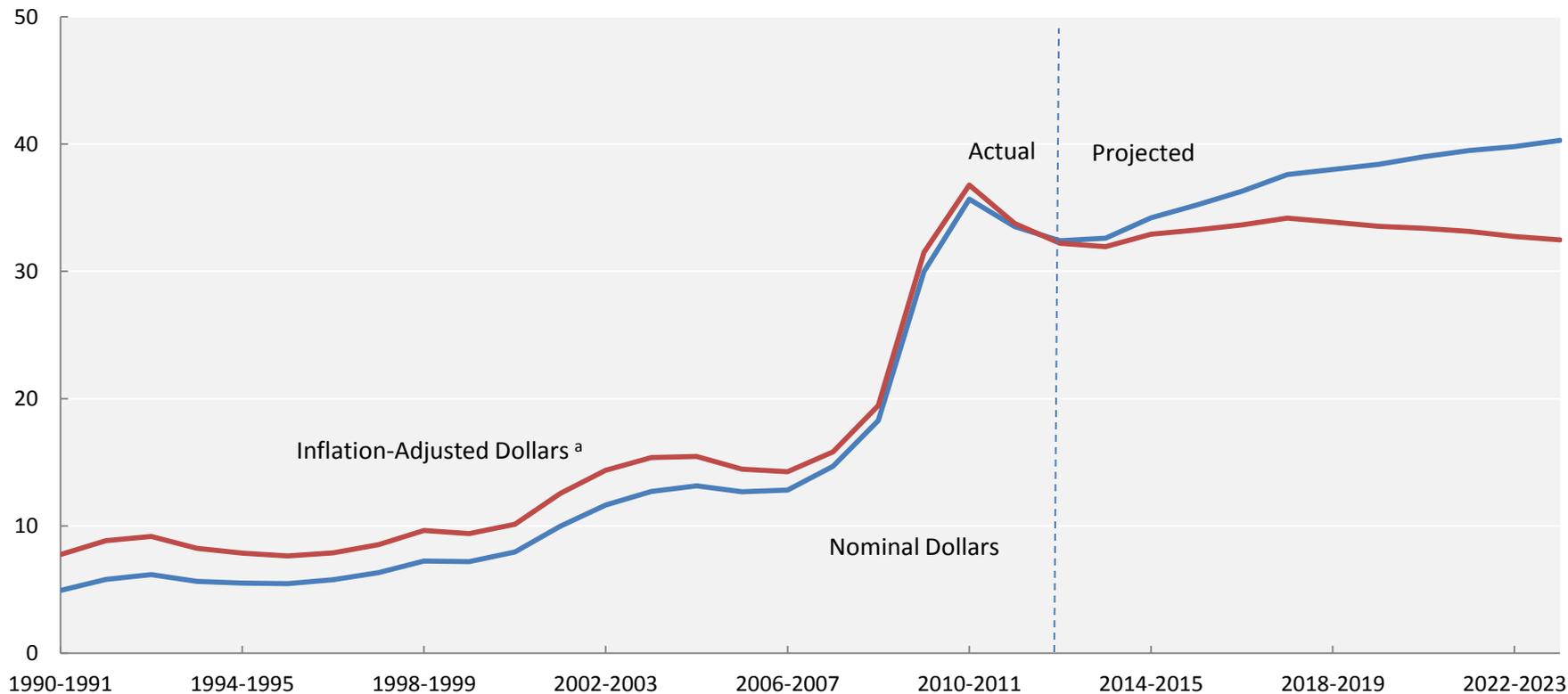


Source: Congressional Budget Office based on data from the Department of Education.

a. Adjusted for inflation to 2012 dollars using the personal consumption expenditures price index.

Recent Growth in Spending

Federal Spending on the Pell Grant Program, by Award Year
(Billions of dollars)



Source: Congressional Budget Office based on data from the U.S. Department of Education.

Notes: Data for award year 2012-2013 are preliminary estimates. The projection assumes a maximum discretionary award of \$4,860, which is the amount set in the most recent appropriation act. The projection is from Congressional Budget Office, "Pell Grant Program - May 2013 Baseline" (May 14, 2013), www.cbo.gov/publication/44199.

a. Adjusted for inflation to 2012 dollars using the personal consumption expenditures price index.

Recent Growth in Spending (Continued)

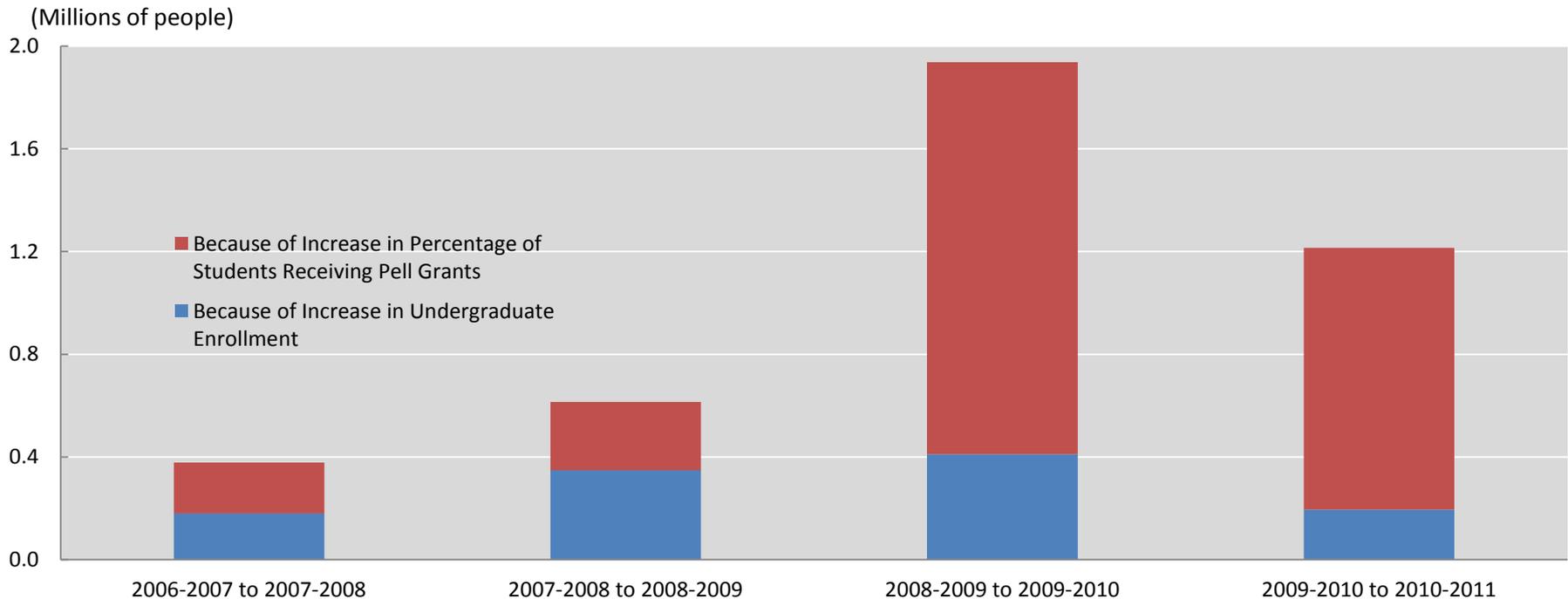
- Spending
 - Up from \$12.8 billion in 2006-2007 to \$35.7 billion in 2010-2011
- Recipients
 - Up from 5.2 million in 2006-2007 to 9.3 million in 2010-2011
- Average Grant Amount
 - Up from \$2,482 in 2006-2007 to \$3,833 in 2010-2011

Sources of the Increase in the Number of Recipients

- Undergraduate Enrollment
 - Up from 21.6 million students in 2006-2007 to 25.6 million students in 2010-2011
- Fraction of Students Receiving Grants
 - Up from 26 percent in 2008-2009 to 36 percent in 2010-2011

Recent Growth in the Number of Recipients (Continued)

Year-Over-Year Increases in the Number of Pell Grant Recipients, by Source of Increase



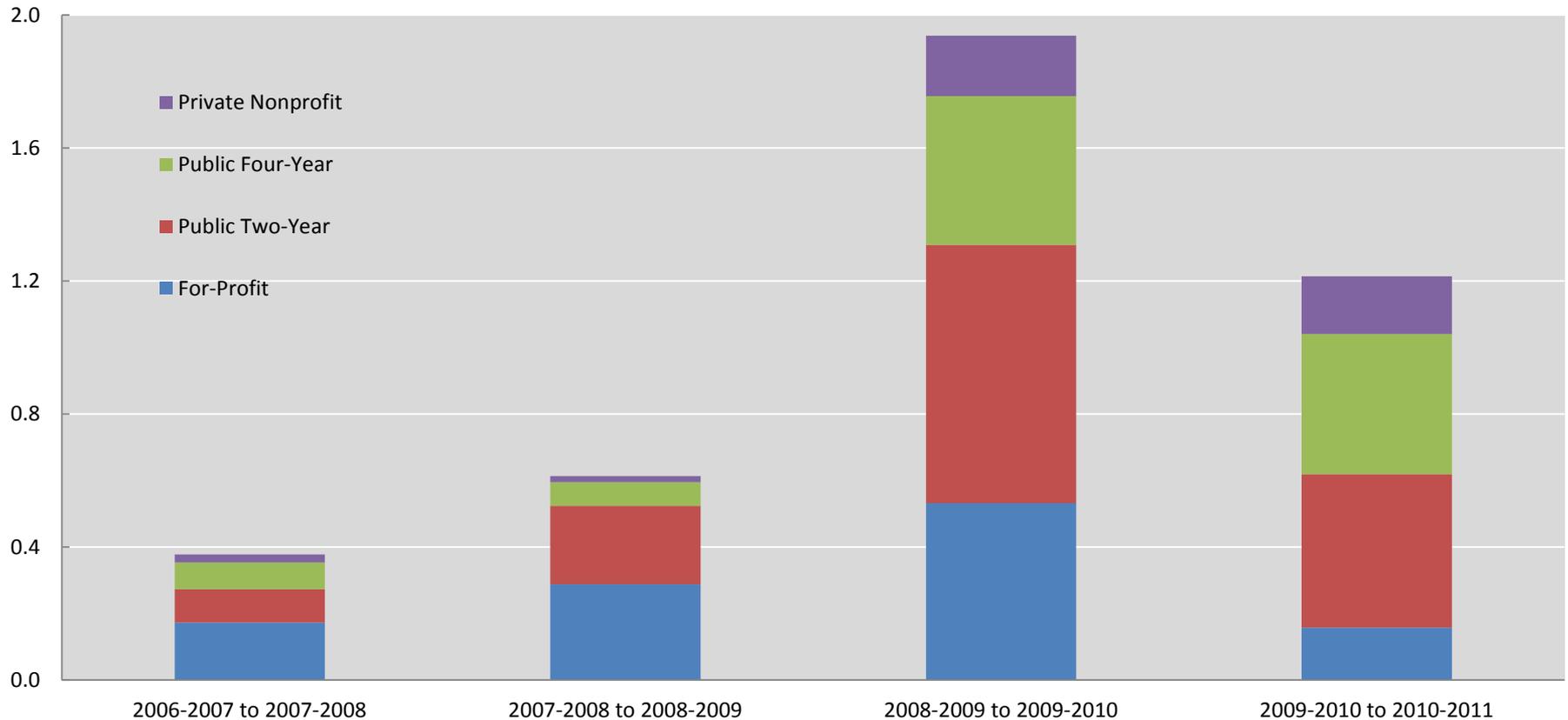
Source: Congressional Budget Office based on data from the Department of Education.

Note: The increase in the number of Pell grants resulting from the rise in undergraduate enrollment includes the number of additional grants that would have been awarded because of the growth in enrollment even if the percentage of students receiving grants remained unchanged. Similarly, the increase in the number of Pell grants resulting from the rise in the percentage of students receiving grants includes the number of new grants that would have been awarded with the observed change in that percentage but no increase in enrollment. Some additional grants were awarded only because enrollment and the percentage of students receiving grants changed simultaneously; CBO divides those grants evenly between the two categories.

Recent Growth in the Number of Recipients (Continued)

Year-Over-Year Increases in the Number of Pell Grant Recipients, by Type of Institution

(Millions of people)



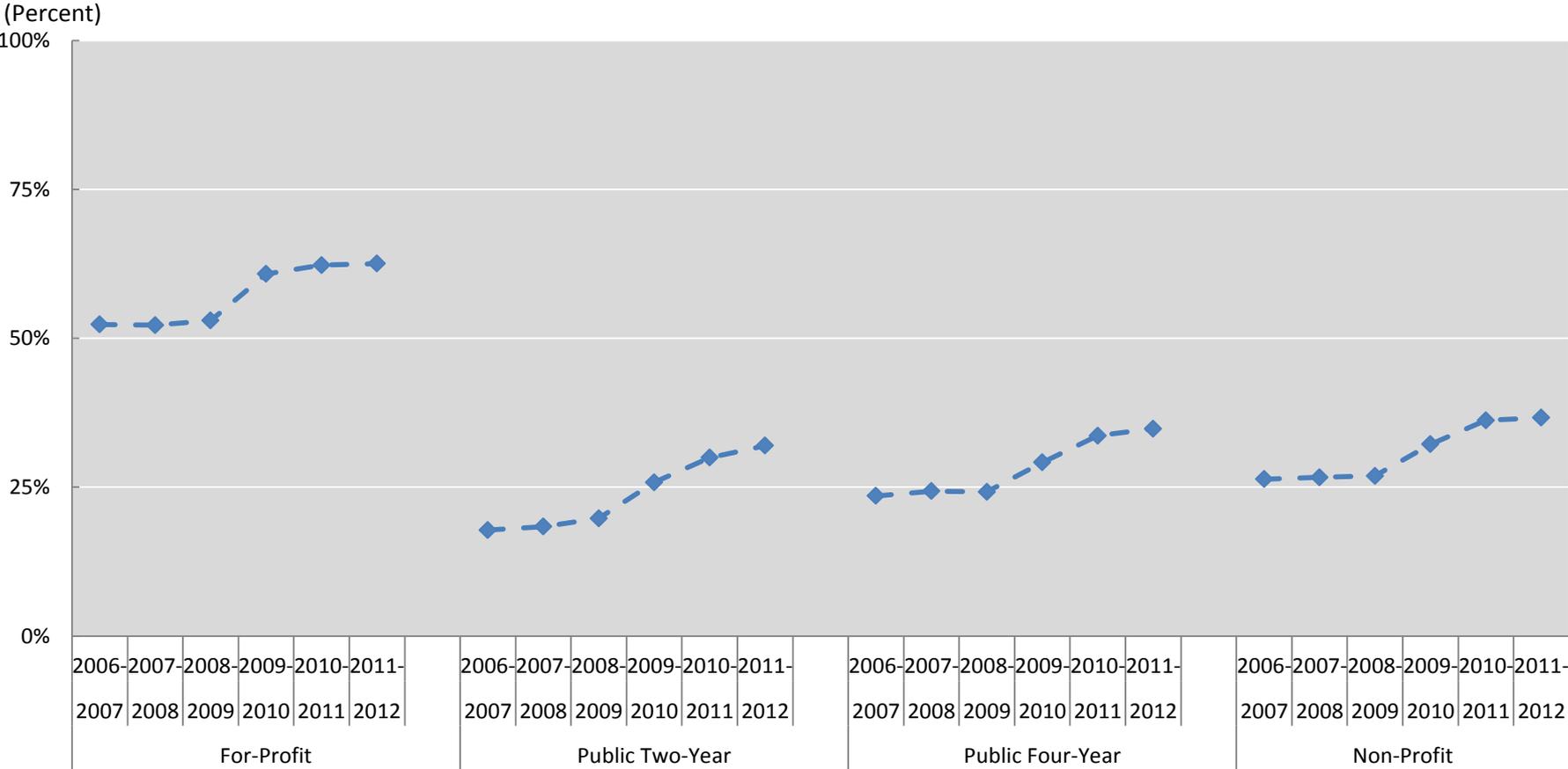
Source: Congressional Budget Office based on data from the Department of Education.

Factors That Boosted Enrollment

- The Weak Economy
- Rising Amounts and Increased Availability of Federal Student Aid
 - Pell grants were \$1,400 larger, on average.
 - Undergraduates could borrow at least \$2,000 more in federal student loans.
- Growth of Distance Learning Programs, Particularly at For-Profit Institutions
 - 6.7 million college students (about 1 in 3) participated in 2011.
 - Congress repealed the “50 percent rule.”

Increase in the Number of Recipients, by Type of Institution

Pell Grant Recipients as a Percentage of Undergraduate Enrollment, by Award Year and Type of Institution



Source: Congressional Budget Office based on data from the Department of Education.

Note: Enrollment is the unduplicated count of students enrolled at some point during the academic year.

Factors That Increased the Percentage of Students Receiving Grants

- Eligibility expanded because of
 - Policy changes
 - About 600,000 became eligible because the maximum grant increased.
 - Another 300,000 became eligible because of changes in the EFC formula.
 - Weak economy
 - The percentage of independent students with income less than \$30,000 increased from 31 percent to 34 percent.
- Percentage of eligible students applying probably increased because
 - There was room for increase -- 71 percent of likely Pell-*eligible* students actually submitted a FAFSA in 2007-2008.
 - For more students, the application was simple -- families with an AGI below \$30,000 automatically qualified for the maximum grant in 2010-2011.

Average Pell Grant Amount

- The maximum grant increased by \$1,500.
 - Larger grants became available to full-time students.
 - That boosted program costs by \$11 billion .
- A supplemental Pell grant was established for year-round students in 2009-2010.
 - 1.2 million recipients received an additional \$1,700 on average.
 - That boosted program costs by \$2 billion.
- The formula used to calculate financial need changed.
 - Income protection allowance was increased, income from earned income tax credit and other sources was excluded, and the income threshold for an automatic EFC of zero was raised.
 - That boosted program costs by \$2 billion.

Options for Changing the Program

- To address concerns about the cost of Pell grants
 - Reduce the number of grant recipients
 - Reduce grant amounts
 - Implement a combination of options to reduce the number of recipients and grant amounts
- To address concerns about the grants' adequacy to help pay for education
 - Increase grant amounts
- To address concerns about the complexity of the rules for eligibility and the application process
 - Simplify eligibility criteria and the grant application

Reduce the Number of Grant Recipients

- Tighten means testing
 - Reducing EFC ceiling to \$3,850 would, over 10 years, reduce the number of recipients by about 6 percent and save about \$7 billion.
 - Reducing EFC ceiling to zero would, over 10 years, reduce the number of recipients by about 35 percent and save about \$100 billion.
- Tighten academic requirements for initial eligibility
 - Applying academic standards for initial eligibility similar to those set by the NCAA would, over the first six years it was implemented, reduce the number of recipients by about 7 percent and save about \$30 billion.
- Tighten academic requirements for continued eligibility
 - Requiring returning students to have a GPA of at least 2.0 on a 4-point scale would, over 10 years, eliminate about 4 percent of grants and save about \$15 billion.

Reduce the Number of Grant Recipients (Continued)

- Eliminate grants to students enrolled in classes for fewer than six credit hours
 - Requiring Pell recipients to enroll in courses for six or more credits would, over 10 years, reduce the number of recipients by about 3 percent and save about \$3 billion.

Reduce Grant Amounts

- Reduce the maximum grant to \$4,860 in 2014-2015
 - This option would, over 10 years, cause the average grant amount to be about \$700 smaller and save about \$68 billion.
- Eliminate inflation indexing of the maximum grant
 - This option would reduce the average grant over the 2014-2015 to 2023-2024 period by about \$300, saving about \$29 billion.
- Increase the credit-hour requirement for the maximum grant
 - Increasing the number of course credit hours required to receive a maximum grant from 12 to 15 and reducing grant amounts proportionately for smaller course loads would, over 10 years, reduce the average grant by about \$400, saving about \$23 billion.

Implement a Combination of Options to Reduce the Number of Recipients and Grant Amounts

Forty percent fewer recipients and savings of about \$200 billion over 10 years would result from a combination of options that

- reduced the EFC ceiling to zero,
- tightened initial eligibility standards,
- tightened continuing eligibility standards,
- eliminated grants to students taking courses for fewer than six credits,
- increased the credit-hour requirement for the maximum grant,
- reduced the maximum grant to \$4,860, and
- eliminated inflation indexing.

Increase Grant Amounts

- Raise the maximum grant to \$6,400 in 2014-2015
 - Such a change would, over 10 years, increase the average grant by about \$500 and raise program outlays by about \$53 billion.
- Increase and extend the inflation adjustment for the maximum grant
 - Increasing inflation indexing to CPI+1 percent and extending that indexing beyond 2017-2018 would, over 10 years, increase the average grant amount by about \$500 and raise program outlays by about \$52 billion.
- Provide supplemental grant to certain students
 - Reauthorizing ACG and SMART grants would, over 10 years, provide supplemental grants to about 11 percent of Pell recipients that averaged \$1,000 and would boost outlays by about \$11 billion.

Simplify Eligibility Criteria and the Grant Application

- Change the EFC formula to require less financial information
 - Basing EFC only on information on income that is reported on federal tax returns would, over 10 years, increase outlays by about \$10 billion.
- Use federal poverty guidelines to determine grant eligibility and amounts
 - Providing maximum grants to students in families with AGI below 150 percent of the poverty guidelines and reduced grants to those between 150 percent and 250 percent of the guidelines would, over 10 years, reduce the number of recipients by about 3 percent and outlays by about \$14 billion.
- Poverty guidelines vs. simplified EFC formula
 - If the poverty guidelines were used, students in one-person families would tend to get larger grants, and students in families with two or more people would tend to get smaller grants than if the simplified EFC formula were used.

Alternatives to the Program

- Forgivable Loans
- Grant Commitments to Middle and High School Students
- Supplements to States' Grant Programs
- Occupational Training Grants

Forgivable Loans

- Pell grant recipients who fail to complete classes do not necessarily face immediate financial consequences.
- If the Pell grant program was structured as a loan program, loan forgiveness could be an incentive for students to complete all their classes.
 - A student would receive a federal direct loan at the beginning of a term that would be forgiven at the end as long as the student completed all classes successfully.
- The net effect on federal outlays could be positive or negative.

Grant Commitments to Middle and High School Students

- Low rates of college enrollment by students from low-income families may be due to insufficient preparation, because they perceive that postsecondary study is academically or financially unattainable.
- Grant commitments (often called college saving accounts) could be recorded in accounts each year starting in middle school based on a family's AGI.
- Federal costs could be higher or lower depending on the formula used to determine the government's grant commitments.

Supplements to States' Grant Programs

- More than 4.1 million students in 2009-2010 received a combined total of \$9.4 billion dollars from state grant programs.
- The federal government might establish matching or block grant programs to supplement the states' need-based grants.
 - In 1972, lawmakers authorized the Leveraging Educational Assistance Program.
 - Funding for that program declined significantly in the late 1990s, and since fiscal year 2010, it has not been funded.

Occupational Training Grants

- The rules of the Pell program prohibit grants for occupational training that is not part of a certificate or degree program.
- That excludes many
 - Adult education classes,
 - Evening classes at colleges and
 - Online courses.
- The government could fund grants specifically for occupational training with restrictions to control cost (and give applicants incentives to make informed choices), such as
 - Covering only tuition and
 - Reimbursing after completion.