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Pell Grants — a Key Tool for Expanding College Access and Economic Opportunity — Need Strengthening, Not Cuts

By Spiros Protopsaltis¹ and Sharon Parrott

For 45 years, the federal Pell Grant program has been the cornerstone of financial assistance for students from low- and moderate-income families, helping millions go to college. Pell Grants are awarded to students solely based on financial need and serve as the foundation of an eligible student's financial aid package upon which other forms of aid are layered, including loans and state and institutional aid. Pell has been by far the single largest source of grants for postsecondary education, expanding college access and economic opportunity over the past 40 years. Last year alone (academic year 2015-16), Pell provided more than \$28.5 billion to support 7.7 million students,² or nearly 40 percent of undergraduate students.³

By expanding college access, Pell Grants help narrow the postsecondary achievement gap between low- and moderate-income students and those of greater means. They boost college enrollment, reduce drop-out rates, and improve student outcomes. By enabling students to work less and take more courses, they also help accelerate graduation and improve college completion rates. Nor, despite widespread claims to the contrary, do Pell Grants do much if anything to fuel tuition increases at colleges. That is, in general, colleges don't raise tuition on the assumption that Pell Grants will cushion the blow.

Despite their proven success, however, Pell Grants now cover a small and shrinking share of college costs for students who receive them. That's true whether you compare Pell Grants to rising tuition and fees or you add room and board. Today, Pell covers just 29 percent of the average costs of tuition, fees, room, and board at public four-year colleges, its lowest level in more than 40 years and far below the 79 percent it covered in 1975. Rising college costs have outstripped the rate of general inflation, and Pell awards have not always kept pace even with general inflation. At public colleges, the rising cost of college in recent years has been due in large measure to state funding cuts that have forced larger tuition increases.

For most of their history, the President and Congress funded Pell Grants entirely through annual appropriations, which continue to provide 80 percent of Pell's federal funding. But President George W. Bush and Congress created an additional funding piece in 2007, adding a "mandatory" source that's funded through an authorizing law that remains in effect from year to year unless policymakers change it. President Obama and Congress expanded that mandatory source by

enacting an automatic annual inflation adjustment in Pell Grants for five years so that they keep pace with overall inflation. In addition, Congress also periodically provides additional mandatory funding for Pell to supplement annual discretionary funding. This is because, due to the ebbs and flows of college enrollment, the program sometimes faces significant funding shortfalls (and sometimes builds up excess funds that carry over from one year to the next) that policymakers must address by providing additional funding or cutting the program by restricting eligibility or reducing the grant level.

In funding the government for fiscal year 2017, the President and Congress took an important step when they restored a provision known as “year-round Pell,” which policymakers had eliminated in 2011 as a cost-saving measure and which will now allow more students to attend college during the summer and graduate more quickly. Policymakers can build on that important step by extending the annual inflation adjustment in Pell Grant levels, which is due to expire after the 2017-18 academic year; raise the maximum Pell Grant, which would help boost college attendance and completion; and look for further ways to promote college completion for Pell students by incentivizing both students and institutions to increase completion rates. Over the longer run, policymakers should consider funding Pell (which operates like an entitlement program, where all who are eligible and apply receive assistance) on the mandatory side of the budget, so that it automatically responds to increases and decreases in student enrollment without the need for congressional action.

What policymakers should *not* do is adopt the proposal from the Trump administration to cut carry-over balances by \$4 billion and not use any of those balances to increase the maximum Pell Grant or strengthen Pell’s impact. (Unfortunately, the House Appropriations Committee has followed suit, cutting \$3.3 billion from carry-over balances in 2018 on top of the \$1.3 billion in cuts made in 2017.) Nor should they enact the House Republican proposal of recent years — included once again in the House Republican 2018 budget resolution — to eliminate all mandatory funding for the program. That would immediately reduce the maximum Pell Grant by more than \$1,000 and, together with an end to the inflation adjustment, would sharply reduce Pell’s purchasing power. Because, as explained below, Pell eligibility is tied to the maximum grant level, hundreds of thousands of students would lose their Pell eligibility entirely and millions more would find themselves with significantly reduced grants. Moreover, eliminating the mandatory funding now available to supplement the annual discretionary appropriation would create a funding shortfall in the program in just a few years, forcing Congress either to find new resources or to cut eligibility.

The Basics

Pell provides need-based grants to undergraduate students who haven’t earned a bachelor’s degree and, unlike loans, students don’t need to repay them. The maximum award was \$5,815 for the 2016-17 award year and is \$5,920 for 2017-2018. Eligible students can use their grant at any of the approximately 5,100 participating accredited postsecondary institutions that receive such funds from the Education Department, but they must be enrolled for the purpose of getting a degree or certificate. Students can receive funds to attend only one school at any time.

Pell awards for students attending school part time are prorated accordingly. In 2008, the President and Congress limited Pell lifetime eligibility to 18 semesters, and in 2012 further reduced eligibility to 12 semesters.

Pell award amounts depend on a student's Expected Family Contribution (EFC), the cost of attendance (COA) as determined by each institution (tuition, fees, room and board, books and supplies, computer, transportation, and dependent care), the student's full- or part-time status, and the length of the academic program (whether it runs a full academic year or less).

To apply for Pell Grants, students file a Free Application for Federal Student Aid (FAFSA). The Education Department uses the information to determine the EFC, using a formula defined in the Higher Education Act. The difference between a student's EFC and COA determines the student's unmet need. The main factors driving the EFC are a family's income, assets, and size, the number of family members in school, whether the student is a dependent (and, if so, must provide information about the parents) or independent (and, if so, need not provide parental information), and whether the student has dependents.⁴ In the 2015-16 academic year, the most recent year for which data are available, independent students accounted for approximately half of Pell recipients and spending. (See Table 1.)

TABLE 1

Pell Recipients, Expenditures, and Average Grant

By dependency status, academic year 2015-16

Status	Recipients		Expenditures		Average Pell
	Number	Share	Dollars	Share	
Dependent	3,610,000	47%	\$14,506,278,000	51%	\$4,018
Independent with dependents	2,380,000	31%	5,735,575,000	20%	3,495
Independent without dependents	1,670,000	22%	8,317,071,000	29%	3,435
Total	7,660,000	100%	\$28,558,924,000	100%	\$3,728

Source: Department of Education, 2015-2016 Federal Pell Grant Program Data Book, Tables 51 and 92

Public institutions account for more than two-thirds of Pell recipients and spending, followed by for-profit schools and private nonprofit schools. Four-year public institutions serve the largest number of Pell students (36 percent) and receive the most funds (39 percent). Community colleges serve slightly fewer students than public four-year institutions (32 percent) and receive 29 percent of Pell funding. (See Table 2.) A larger share of Pell students attend for-profit colleges than do students overall (17 percent vs. 7 percent).⁵

TABLE 2

Pell Recipients, Expenditures, and Average Grant

By control and type of institution, academic year 2015-16

Institution type	Recipients		Expenditures		Average Pell
	Number	Share	Dollars	Share	
Public	5,204,000	68%	\$19,270,606,000	68%	\$3,703
Public 4-Year	2,748,000	36%	11,014,954,000	39%	4,008
Public 2-Year	2,456,000	32%	8,255,651,000	29%	3,325
For-Profit	1,306,000	17%	4,719,838,000	17%	3,615

Nonprofit	1,151,000	15%	4,568,480,000	16%	3,970
Total	7,660,000	100%	\$28,558,924,000	100%	\$3,728

Source: Department of Education, 2015-2016 Federal Pell Grant Program Data Book, Tables 18 and 84

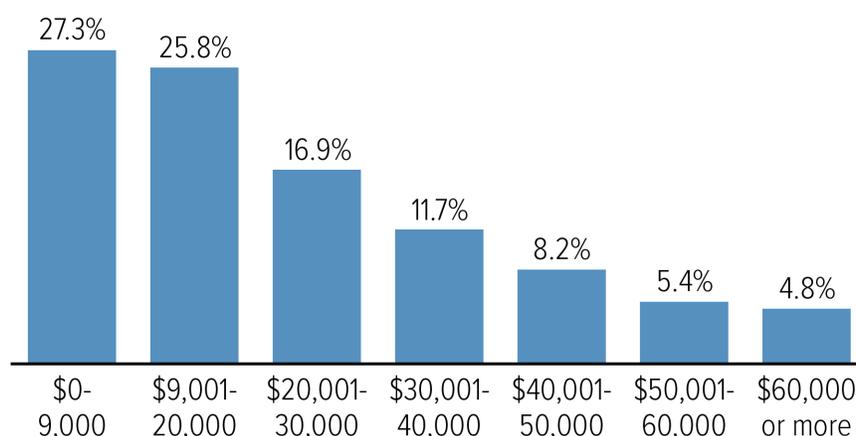
What Pell Achieves

Pell Grants are very well targeted to the neediest students, providing the largest awards to the lowest-income students. More than half or 53 percent of all Pell recipients had family incomes below \$20,000, 70 percent below \$30,000, and 95 percent below \$60,000.⁶ (See Figure 1.) Moreover, 3 out of 4 recipients had no net family assets and more than 96 percent had less than \$7,500. (A very small share of Pell recipients has incomes over \$60,000; that's because the EFC factors in several variables, such as whether several family members are attending college simultaneously or attending colleges with a higher COA.) Almost two-thirds of recipients (64 percent) had no EFC, more than half of whom had incomes of \$24,000 or less and, therefore, automatically qualified for a zero EFC.⁷

FIGURE 1

Pell Grants Provide Well-Targeted Aid

Distribution of Pell recipients by family income, academic year 2015-16



Source: Department of Education, 2015-16 Federal Pell Grant Program Data Book, Table 10A

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The distribution of Pell expenditures is also very well targeted, with 75 percent of Pell expenditures going to students with incomes of \$30,000 or less. (See Table 3.)

TABLE 3

Pell Recipients, Expenditures, and Average Grant

By income level, academic year 2015-16

Income	Recipients	Expenditures	Average Pell	Share of Pell
\$0-9,000	2,092,000	\$8,554,928,000	\$4,089	30%
9,001-20,000	1,975,000	7,723,367,000	3,910	27%

20,001-30,000	1,292,000	5,074,722,000	3,928	18%
30,001+	2,300,000	7,205,907,000	3,132	25%
Total	7,660,000	\$28,558,924,000	\$3,728	100%

Source: Department of Education, 2015-2016 Federal Pell Grant Program Data Book, Table 71A

Pell Grants play a critical role in expanding postsecondary opportunity for non-traditional and historically underserved populations, including older students and students who are parents. In the 2015-16 academic year, more than half (53 percent) of Pell recipients were financially independent⁸ (e.g., 24 or older, or married), of whom 59 percent had dependent children. Almost half (45 percent) were older students (24 or older), who typically must manage work and, often, parenting responsibilities along with school. Almost 3 out of 4 Pell students (71 percent) were enrolled full time.⁹

Comparing the 41 percent of students who receive Pell to non-recipient students in the 2011-12 academic year (the most recent year for which data are available) shows that Pell students are more likely to be older, a member of a racial or ethnic minority group, financially independent, and a first-generation college student, and more likely to attend school full time and throughout the academic year. (See Table 4.)

TABLE 4

Characteristics of Pell Recipients vs. Other Students

Academic year 2011-12

	With Pell	Without Pell	Difference
Age			
23 or younger	51.4	59.6	-8.2
24-29	21.9	16.1	5.8
30 or older	26.7	24.4	2.3
Race/ethnicity (excl. Puerto Rico)			
White	47.0	65.5	-18.5
Black	24.1	10.4	13.7
Hispanic	19.4	13.7	5.7
Asian/Pacific Islander	5.0	6.9	-1.9
American Indian	1.2	0.7	0.5
Other or Two or more races	3.3	2.8	0.5
Attendance status			
Full-time, full-year	43.9	34.6	9.3
Part-time or part-year	56.1	65.4	-9.3
Dependency status			
Dependent	40.9	54.2	-13.3
Independent	59.1	45.8	13.3
Employment status			
Not employed	37.0	32.1	4.9
Employed part time	41.9	41.7	0.2
Employed full time	21.1	26.1	-5

Parental educational attainment

High school or less	45.0	25.7	19.3
Some postsecondary education	29.4	27.2	2.2
Bachelor's degree or higher	25.6	47.1	-21.5

Source: National Center for Education Statistics, "Trends in Pell Grant Receipt and the Characteristics of Pell Grant Recipients: Selected Years, 1999–2000 to 2011–12," Tables 1.1 and 2.1

Pell students also take a larger course load, on average, and are somewhat less likely to work, particularly full time. That suggests that Pell Grants may help some students work less and focus on completing their degree or certificate programs. That's important because research shows that those who work more than 15-20 hours per week and enroll part time are likelier to drop out of college.¹⁰

Pell assists a broad range of college students and, in fact, nearly 4 in 10 veterans attending college (38 percent) receive Pell.¹¹ For the distribution of Pell recipients and spending by state of institution, see Appendix A.

Need-based grants expand college access and advance academic success, a significant body of research shows, helping to narrow the postsecondary achievement gap based on income through higher college enrollment, persistence, and completion rates for lower- and middle-income students.¹²

- A \$1,000 reduction in college costs — through either lower tuition or more grant aid — boosts enrollment by three to five percentage points, with lower-income students being more price sensitive, according to several studies.¹³
- A \$1,000 increase in grant aid improves college retention rates by one to five percentage points, research also shows.¹⁴ And recent studies in Florida and Wisconsin found that a \$1,300 and \$3,500 need-based grant led, respectively, to bachelor's degree completion gains of 22 percent (over six years) and 29 percent (over four years).¹⁵
- From 1996 to 2004, when grant support to low-income students grew faster than tuition at lower-priced public colleges, due mainly to Pell Grant increases, college attendance rates among lower-income youth increased, a 2008 Brookings Institution report found.¹⁶ Specifically, a cost decline of about \$1,000 due to more grant aid for students from families with incomes below \$30,000 was associated with a college attendance rate increase of six to seven percentage points immediately after high school. "Pell awards," the report concluded, "are an important contributor to the positive impact of grant-induced declines in net prices on college-going."¹⁷
- Pell had a significant effect on college enrollment among older adults, a 2002 study in *The Journal of Human Resources* concluded.¹⁸ In particular, an examination of Current Population Survey microdata found that Pell's introduction in the 1970s increased the probability of enrollment for eligible independent students ages 22 to 35 by 1.3 to 1.5 percentage points (relative growth of 16 percent for men and 40 percent for women), while changes to the definition of independent students in 1986 that restricted eligibility decreased the probability of attending college by about four percentage points for those who lost benefits.

Beyond promoting access to higher education, Pell also reduces college drop-out rates and strengthens student persistence and academic success:

- A \$1,000 increase in Pell boosted retention by 1.5 percentage points, according to a 2011 study in *Social Science Quarterly* that used data from the nationally representative Beginning Postsecondary Study.¹⁹
- “Receiving a Pell Grant was positively associated with persevering and becoming transfer-ready,” for students intending to transfer, even after controlling for demographic, attendance status, and other factors, a 2009 MPR Associates study of California community college students found. Pell was also associated with other measures of academic success, such as transferring to a four-year institution or getting an associate’s degree or certificate.²⁰
- Using student data from Ohio’s public institutions, a 2004 National Bureau of Economic Research paper found that a \$1,000 increase in a student’s Pell Grant reduced the likelihood that he or she would withdraw by six to nine percentage points, suggesting “strongly that a Pell Grant reduces dropout rates.”²¹

Moreover, Pell helps students work less and take more courses. “[R]eceiving a modest Pell Grant instead of additional loans leads students to reduce labor supply and increase enrollment intensity,” a March 2017 study by researchers at Columbia University’s Community College Research Center shows.²² The study focused on students enrolling in college from 2008 to 2010 at more than 20 community colleges and the differences between those who fell just below the Pell eligibility cutoff and received the \$500 minimum Pell award and those who fell just above it and did not. The authors found that the Pell award to students just below the eligibility cutoff “increases the intensity of enrollment, with recipients 4-7 percentage points more likely to enroll full-time from the spring of their first year to the spring of their second year,” and earn less from work, due to shifting more of their time from work to school, compared to students just above the cutoff.²³

Pell bolsters school completion as well. Using a national sample of full-time dependent students who enrolled in four-year degree programs in the 2003-04 academic year, a 2014 study by a University of Massachusetts (at Boston) researcher found that for every \$1,000 dollar increase in Pell, lower-income students’ chances of getting a bachelor’s degree within six years rose by 3 percent.²⁴ “The results,” the study concludes, “show that for students coming from the lowest income backgrounds, need-based grants do have a large impact on their chances to graduate. In particular, federal and state need-based grants are found most influential, with [Pell] showing even slightly larger positive effects.”²⁵

Finally, additional federal financial aid, including Pell Grants, accelerates graduation because students take more courses and their grades don’t suffer.²⁶ Using data from all Texas public institutions of higher education from academic years 2003-04 through 2013-14 tied to earnings records and focusing on older independent students (seniors who turn 24 during the academic year), a 2017 Upjohn Institute report examined what happened when a person received more aid as a result of becoming financially independent. It found that a Pell increase reduces the time that someone takes to earn a degree by increasing the number of credits taken without affecting his or her grades, especially for needier students.

At the same time, the debate over the “Bennett Hypothesis” continues. Since 1987, when then-Education Secretary William Bennett wrote that “If anything, increases in financial aid in recent years have enabled colleges and universities blithely to raise their tuitions, confident that Federal loan subsidies would help cushion the increase,”²⁷ many others have tied tuition increases to student aid increases²⁸ — despite the widespread evidence to the contrary, particularly with regard to public and nonprofit institutions that enroll more than 90 percent of all students:

- After reviewing research studies to examine whether there is a causal relationship between student aid and tuition increases, the nonpartisan Congressional Research Service concluded in 2014 that “clear evidence on the effects of aid on prices is seemingly not available” and “there is certainly no consensus on the existence, and certainly not the magnitude, of causal relationship between aid and price.”²⁹
- In a comprehensive review of the research for the American Council on Education, focusing on the role of federal student aid, Don Heller, Dean of Michigan State University’s College of Education, concluded in 2013, “While any change in federal aid may be a very small piece of the puzzle that leads to year-to-year tuition increases, there is scant evidence that it is a major contributing factor,” and “there is little compelling evidence” to support the Bennett Hypothesis.³⁰

Other research has reached the same conclusion.³¹ Indeed, George Washington University researcher Stephanie Cellini summarized the available evidence this way, “My reading of the literature is that there is no compelling evidence of a causal relationship between federal student aid and tuition among public and nonprofit colleges. However, my own research on the for-profit sector suggests that for-profit institutions increase their costs to take in federal aid.”³²

Pell’s Erosion

Despite the evidence that Pell lowers the net price of tuition for low- and moderate-income students and raises enrollment, persistence, and completion rates, Pell Grants now cover a shrinking share of college costs. That’s due to rising tuition costs — which, at public institutions, is tied to state funding cuts — as well as periods when Pell Grants didn’t keep pace with general inflation or tuition increases that generally outpace general inflation.³³

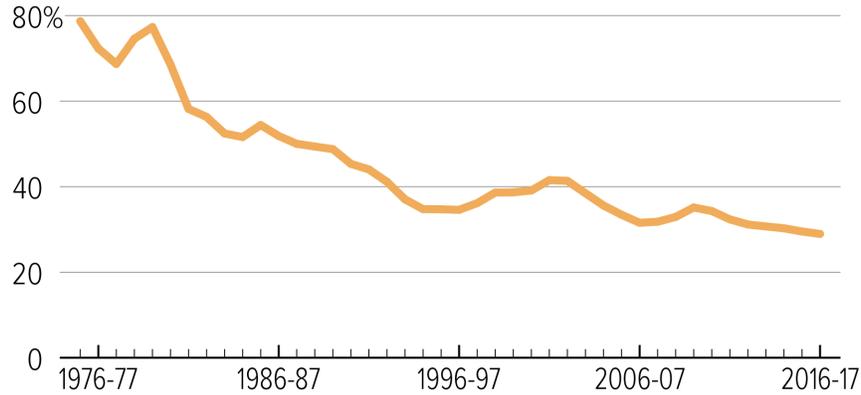
Unfortunately, the gap between college costs and Pell Grants has been gradually expanding since the Pell program was fully in effect in 1975. Whether comparing the maximum Pell Grant just to tuition and fees or including room and board, the picture is the same: Pell has failed to keep up with the rising cost of college and has shrunk to its lowest levels of purchasing power.

In the 2016-17 academic year, the maximum Pell Grant of \$5,815 covered just 29 percent of the average cost of tuition, fees, room, and board at public four-year colleges, the lowest point since it covered almost 80 percent in 1975. In the past 15 years alone, the share of college costs covered by the maximum Pell Grant has fallen from 42 percent in 2001 to 29 percent in 2016. (See Figure 2.) The maximum grant covered just 60 percent of tuition and fees, also the lowest point in 40 years.³⁴

FIGURE 2

Pell Grants Cover Shrinking Share of College Costs

Share of attendance costs covered by maximum Pell Grant, by academic year



Note: Attendance costs are the average undergraduate tuition, fees, room, and board rate for public four-year institutions.

Source: CBPP based on college pricing data from College Board

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While the Pell level is one side of the equation, the other is college costs, which have risen much faster than general inflation over the past 70 years.³⁵ Tuition rose four times faster than inflation from 1978 to 2012³⁶ and three times faster in the last decade.³⁷

A key driver behind rising college prices are cuts in state funding for public four-year colleges and universities and community colleges, which have a large impact on the tuition bills that Pell students pay. More than 2 of 3 Pell recipients are enrolled in public colleges and universities — including four-year institutions and community colleges³⁸ — so the major cuts in state funding for higher education over the last two decades affect college affordability for most Pell students.

Between 1990 and 2009, inflation-adjusted state funding per student fell by 26 percent while inflation-adjusted tuition more than doubled (rising 116 percent) at public four-year colleges and universities and rose by 71 percent at community colleges.³⁹ State funding cuts accelerated rapidly during the Great Recession, when inflation-adjusted, per-student state funding dropped 25 percent from 2008 through 2012, hitting a low of \$6,277 in 2012.⁴⁰

Today, 44 states spend less per student (in inflation-adjusted terms) than they did before the recession — with the average inflation-adjusted reduction totaling 17 percent.⁴¹ Consequently, tuition at four-year public colleges (after accounting for inflation) has risen by about \$2,500, or 35 percent, since the 2007-08 academic year.⁴² Over the same period, the maximum Pell Grant has only risen by roughly \$800 (adjusting for inflation), so the gap between the Pell amount and college costs has grown almost \$1,700 over this period for tuition alone.⁴³

The large and growing gap means that Pell students must assume significantly more debt to attend the same school as higher income students. In 2012, nearly 90 percent of Pell four-year college graduates carried student debt, compared to 53 percent of non-Pell, four-year college graduates. Pell graduates of four-year colleges who took student loans finished college with an average of \$31,200 in student debt, \$4,750 more than the average debt burden of non-Pell graduates who also borrowed to attend college.⁴⁴

Pell's Federal Financing

For roughly its first three decades, Pell was financed entirely through annual appropriations (funds that the President and Congress provide each year through the appropriations process), with policymakers increasing the grant amount from time to time. Today, more than 80 percent of Pell funding continues to come through appropriations.

To raise the Pell Grant, however, President George W. Bush and Congress in 2007 added a mandatory funding piece, funded through an authorizing law (which remains in effect from year to year unless policymakers change it). President Obama and Congress later used that mandatory piece to enact an annual inflation adjustment in the grant over the 2013-2017 period so that inflation doesn't lose value even faster. Under current law, however, that adjustment will end after the 2017-18 academic year. For the 2017-18 academic year, this mandatory funding finances \$1,060 of the \$5,920 maximum Pell Grant.

In addition, Congress has periodically provided additional mandatory funding to the Pell program to supplement the discretionary appropriation and address funding shortfalls. Currently, Pell receives \$1.4 billion in such "ad hoc" funding; this will decline to \$1.1 billion in 2021 and beyond. Without these funds, Congress either would have to provide more discretionary funds (which are in short supply due to cuts in this area of the budget), or cut the program by restricting eligibility or lowering the Pell award.

Although, as noted, more than 80 percent of Pell funding is subject to annual appropriations, the program is implemented so that all eligible students who apply can receive a Pell Grant based on the maximum award that the President and Congress set.⁴⁵ Thus, Pell *operates* like entitlement programs such as SNAP (formerly known as food stamps) or Medicare, in which all eligible applicants who apply receive the benefit or service.

Due to its mix of funding from appropriations and authorizing laws, Pell periodically builds up significant carry-over funding from year to year when costs come in lower than expected and can face significant shortfalls when costs come in higher. This pattern held during and after the Great Recession. When, during the sharp economic turndown, large Pell funding shortfalls emerged, President Obama and Congress increased funding and also restricted eligibility to lower costs. When the economy rebounded, funding grew faster than costs and significant carry-over balances emerged.

Pell Costs Are Driven by Enrollment

Enrollment is the largest factor driving Pell costs. As more Americans go to college, Pell spending rises. Indeed, college enrollment and Pell spending trends have always been closely

aligned.⁴⁶ Pell Grants help raise the skill level and productivity of both individual students and the economy as a whole.

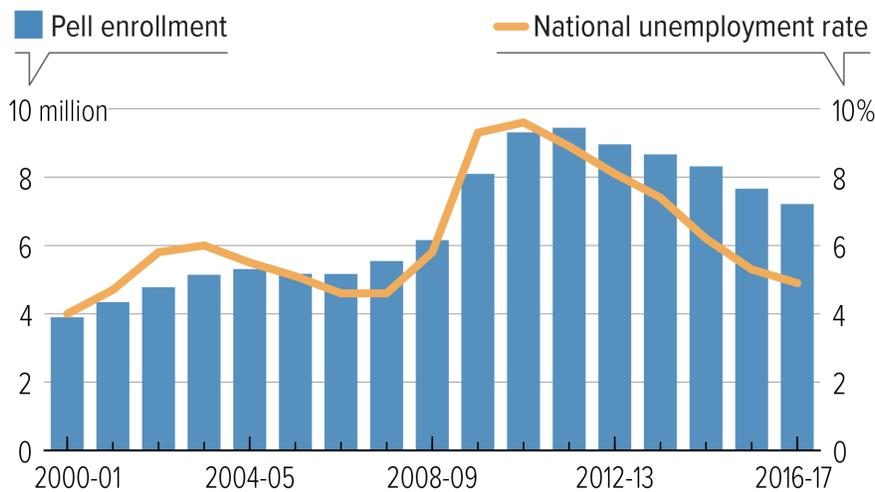
During the last recession, enrollment rose substantially as labor market conditions deteriorated — i.e., more people went to college due to a scarcity of jobs — and fell when the labor market rebounded.⁴⁷ In general, Pell’s availability during recessions is important because it lets a larger group of students attend school and upgrade their skills when jobs are scarce. That not only helps the individual worker, but also raises the overall skill level of the labor force, which benefits the economy overall. During the Great Recession, however, some low-quality for-profit colleges expanded rapidly, provided poor returns for students, and folded shortly after the recession ended.

Because Pell costs are so largely dependent on economic conditions, which are hard to predict, policymakers are hard-pressed to set funding levels accurately from year to year. During the Great Recession and prolonged high unemployment that it created, Pell enrollment rose by 50 percent from 2007-08 to 2009-10, fueling a large projected funding shortfall. Facing, in 2011, a \$20 billion shortfall over two years,⁴⁸ the President and Congress made significant changes to restrict eligibility — eliminating year-round Pell (which allowed students to get additional Pell funding to take classes in a third semester during the year, typically the summer, to accelerate completion), which was enacted in 2008, and reducing lifetime eligibility from 18 to 12 semesters, among others. Overall, policymakers reduced Pell costs by more than \$50 billion over ten years.⁴⁹

To see how, over the last 20 years, Pell enrollment rose with rising unemployment and fell when labor markets rebounded, see Figure 3 below.

FIGURE 3

When Unemployment Rises, More People Go to College, Raising Pell Costs



Source: CBPP based on Department of Labor, “Employment Status of the Civilian Non-institutional Population, 1946 to date,” and Department of Education, “Federal Pell Grant Program Data Book, 2015-2016.”

Current Pell Funding Outlook

As expected, the improving economy has driven steady enrollment declines. As recently as 2014, the Congressional Budget Office (CBO) projected a \$2.3 billion Pell shortfall in fiscal year 2017. By 2017, however, CBO reported that “spending for Pell Grants dipped by \$2 billion in 2016, primarily because of a drop in the number of students receiving such grants,”⁵⁰ and projected an \$8.6 billion surplus for 2017 — even though Congress cut carry-over funding by \$1.3 billion and restored “year-round” Pell in the fiscal year 2017 appropriations legislation.⁵¹

Pell’s financing outlook is positive. The improving economy, declining enrollments, and the program cuts made after the Great Recession have all reduced Pell costs significantly from their peak of 2011. Pell is projected to remain adequately funded through 2026 even if the President and Congress keep discretionary funding at its current level (assuming Congress does not continue to rescind carry-over funds) each year until then.⁵² At that point, policymakers would need to begin increasing discretionary funding to avoid a funding shortfall and cuts in Pell Grants. (Note that the need for increased discretionary funding will come sooner if Congress continues to rescind carry-over Pell funding that is needed to meet Pell costs in coming years.)

Of note, discretionary Pell funding has been essentially frozen (in nominal terms) since 2011. By 2026, the inflation-adjusted value of discretionary Pell funding would have fallen by more than a quarter over the previous 15 years. (And those figures assume that policymakers do not continue to rescind Pell funding. If they do, they will need to boost discretionary appropriations by an earlier date to cover program costs.⁵³)

If Inflation Adjustment Ends, Affordability Gap Will Grow

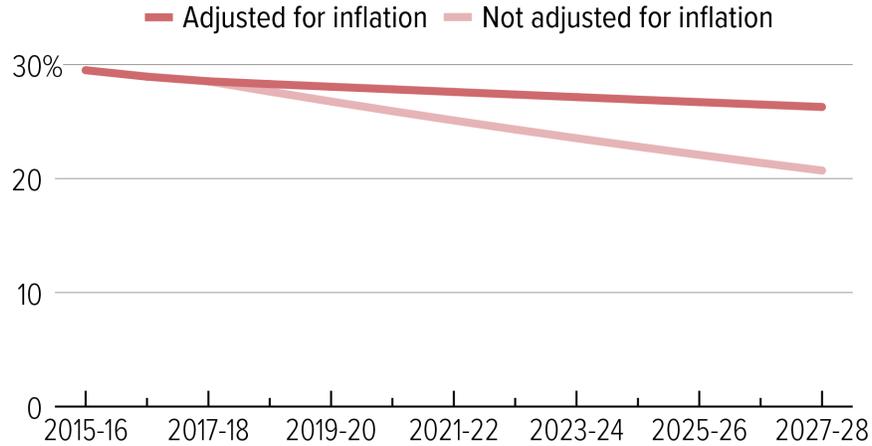
As noted, the annual inflation adjustment in Pell’s mandatory funding piece is scheduled to end after the 2017-18 academic year. During the five years of inflation indexing, from academic years 2013-14 to 2017-18, Pell’s purchasing power as compared to the cost of attending college fell by less than 3 percentage points — reflecting the fact that college costs rose faster than inflation, due in turn largely to state funding cuts. Without inflation indexing, the loss of purchasing power would have been much larger.

Pell will lose significant purchasing power if indexing ends. Using very conservative assumptions for college cost increases (an average of 3.3 percent a year⁵⁴), Pell’s purchasing power will drop from 29 percent in 2017-18 to a projected 21 percent in 2027-28. If, however, the President and Congress extend indexing, Pell’s purchasing power will fall much less — to a projected 26 percent. (See Figure 4.)

FIGURE 4

Ending Annual Inflation Adjustment Means Significant Loss of Pell Grants' Purchasing Power

Share of attendance costs covered by maximum Pell Grant, by academic year



Note: Attendance costs in future years are assumed to grow 3.3 percent annually, starting from the 2016-17 average undergraduate tuition, fees, room, and board rate for public four-year institutions.

Source: CBPP based on college pricing data from College Board

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The Right — And Wrong — Way Forward

The Right Way

For more than 40 years, Pell has helped millions of Americans go to college, and it remains the largest single federal investment to expand college opportunity and provide a pathway to the middle class. Nevertheless, its purchasing power as a share of college costs has steadily deteriorated and has now reached its lowest point in more than four decades. Now that Pell's financing has stabilized since the Great Recession, policymakers should strengthen the program so that more students can earn a degree or certificate and take out less in loans.

The President and Congress took an important first step in the fiscal 2017 omnibus appropriations bill by restoring year-round Pell eligibility, allowing more students to attend school in the summer and graduate more quickly.

Policymakers could take the following steps to improve Pell's effectiveness even more:

- **Continue indexing:** Policymakers should extend the Pell provision that indexes its grants to the overall inflation rate, rather than allowing it to end after the 2017-2018 academic year, which will help prevent or at least mitigate any further erosion in Pell's purchasing power as compared to the cost of college attendance.

- **Raise the maximum Pell award:** Indexing alone won't fully address the large loss in Pell's purchasing power. As noted, Pell today covers only 29 percent of the basic cost of attending a public college (tuition, fees, room, and board). For Pell to cover half of that cost — as it did in the 1987-88 academic year — the maximum grant would have to rise by about \$4,500. While, politically speaking, that may not be immediately attainable, research suggests that even more modest increases would have a positive impact on attendance and completion among low-income students. Even replicating the roughly \$1,000 maximum Pell increase that President Obama and Congress enacted for 2008 to 2014 (from \$4,731 to \$5,730 in nominal terms) would, research suggests, significantly help improve attendance and completion.⁵⁵
- **Innovate to support completion:** Policymakers should look for ways to promote college completion for Pell students by incentivizing both students and institutions to improve their performance and states to invest in higher education. The graduation gap between lower-income students and their more well-to-do peers is well-documented.⁵⁶ President Obama proposed a College Opportunity and Graduation Bonus to reward colleges with a strong record of not only enrolling but also graduating Pell students, as well as an additional \$300 On-Track Pell Bonus award for full-time students who take at least 15 credits each semester (the number typically needed to graduate a four-year college in four years). At a minimum, policymakers should support rigorous demonstration projects to test how financial incentives as well as other supports and services can best promote completion.

Finally, the President and Congress should consider converting Pell to an entitlement, under which its funding would be guaranteed — providing the necessary additional funding when, for instance, more people want to attend college when jobs are scarce. While there are political challenges to making this shift, it would provide a more stable fiscal outlook for the program.

The Wrong Way

The Trump Administration has proposed to cut carry-over balances by \$4 billion in fiscal year 2018 — while the House Appropriations Committee would cut these balances by \$3.3 billion on top of the \$1.3 billion cut in 2017 — and neither would use any of those balances to increase the maximum award or improve Pell's effectiveness.

At the same time, House Republican budgets of recent years⁵⁷ — and the House Budget Committee's 2018 budget resolution — have proposed to *eliminate* mandatory funding for the program entirely. Because \$1,060 of the \$5,920 maximum Pell award in the 2017-2018 academic year is financed with mandatory funding, ending it would mean an immediate, sharp cut in the maximum award to \$4,860. Cutting the maximum to this extent and failing to index Pell after 2017-2018 would slash Pell's purchasing power, as compared to the average COA, to an estimated 23 percent in the 2018-2019 academic year and an estimated 17 percent by 2027-2028. Because eligibility for Pell depends in part on the maximum Pell Grant, this sharp cut would mean that hundreds of thousands of students would lose Pell eligibility entirely while millions more would see their grant significantly reduced.

In total, eliminating all of Pell's mandatory funding — both the mandatory funding that supports \$1,060 of the current grant and the additional mandatory funding that policymakers have provided to supplement discretionary funding — would mean more than \$75 billion cut over ten years and a

new funding shortfall in 2019, requiring either a funding increase or more cuts to eligibility and benefit on top of the \$1,060 cut that would occur immediately.⁵⁸

APPENDIX A

Pell Recipients and Expenditures in the U.S. States and Territories

By state of institution, academic year 2015-16

	Recipients	Expenditures
Alabama	135,000	\$511,517,000
Alaska	11,000	37,259,000
Arizona	311,000	1,145,032,000
Arkansas	69,000	270,978,000
California	985,000	3,778,572,000
Colorado	120,000	418,151,000
Connecticut	76,000	264,295,000
Delaware	17,000	62,164,000
District of Columbia	38,000	136,278,000
Florida	517,000	1,891,171,000
Georgia	249,000	876,753,000
Hawaii	20,000	76,316,000
Idaho	45,000	170,498,000
Illinois	299,000	1,091,522,000
Indiana	190,000	686,649,000
Iowa	97,000	343,927,000
Kansas	63,000	234,598,000
Kentucky	99,000	372,576,000
Louisiana	102,000	395,155,000
Maine	26,000	97,949,000
Maryland	110,000	379,336,000
Massachusetts	128,000	475,788,000
Michigan	224,000	790,120,000
Minnesota	133,000	450,719,000
Mississippi	81,000	335,524,000
Missouri	145,000	520,502,000
Montana	17,000	65,345,000
Nebraska	37,000	130,536,000
Nevada	40,000	138,012,000
New Hampshire	51,000	135,345,000
New Jersey	164,000	635,864,000
New Mexico	50,000	179,599,000
New York	472,000	1,936,749,000
North Carolina	220,000	831,340,000
North Dakota	11,000	41,326,000
Ohio	221,000	800,757,000
Oklahoma	84,000	313,531,000

Oregon	89,000	320,237,000
Pennsylvania	239,000	888,621,000
Puerto Rico	207,000	893,304,000
Rhode Island	29,000	106,839,000
South Carolina	100,000	376,061,000
South Dakota	22,000	75,037,000
Tennessee	140,000	536,347,000
Texas	575,000	2,144,055,000
Utah	112,000	413,402,000
Vermont	11,000	39,199,000
Virginia	184,000	674,909,000
Washington	113,000	417,904,000
West Virginia	57,000	207,005,000
Wisconsin	104,000	371,423,000
Wyoming	8,000	27,890,000
American Samoa	1,000	4,378,000
Micronesia	2,000	9,716,000
Guam	4,000	14,729,000
Marshall Islands	1,000	4,613,000
Northern Mariana Islands	1,000	3,933,000
Palau	1,000	2,218,000
Virgin Islands	1,000	5,351,000
Total	7,660,000	\$28,558,924,000

Source: Department of Education, 2015-2016 Federal Pell Grant Program Data Book, Table 21

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¹ Spiros Protopsaltis is Visiting Associate Professor and Fellow, College of Education and Human Development, George Mason University and served as the Deputy Assistant Secretary for Higher Education and Student Financial Aid at the U.S. Department of Education from 2015 to 2017.

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⁵⁴ Annual growth rate in the average costs of tuition, fees, room, and board at public four-year colleges has averaged 5.3 percent over the last 20 academic years, ranging from 2.7 percent to 8.9 percent. For historical data on the increase in college costs, see: College Board. (2016). “Trends in College Pricing 2016: Figures and Tables,” Table 2. Available at https://trends.collegeboard.org/sites/default/files/2016-trends-college-pricing-source-data_0.xlsx.

⁵⁵ While some of this increase stemmed from indexing which began in 2013, most of this increase came from two pieces of legislation that raised the maximum grant before indexation began.

⁵⁶ See, for example: The Pell Institute for the Study of Opportunity in Higher Education and the University of Pennsylvania Alliance for Higher Education and Democracy. (2016). “Indicators of Higher Education Equity in the United States: 2016 Historical Trend Report.” Available at http://www.pellinstitute.org/downloads/publications-Indicators_of_Higher_Education_Equity_in_the_US_2016_Historical_Trend_Report.pdf; Andrew Nichols. (2015). “The Pell Partnership: Ensuring a Shared Responsibility for Low-Income Student Success.” The Education Trust. Available at https://edtrust.org/wp-content/uploads/2014/09/ThePellPartnership_EdTrust_20152.pdf.

⁵⁷ House Education and Workforce Committee. (2017). “Budget Views and Estimates for Fiscal Year 2018.” Available at https://edworkforce.house.gov/uploadedfiles/budget_views_and_estimates_for_fiscal_year_2018_-_final.pdf; House Budget Committee. (2016). “A Balanced Budget for a Stronger America: Fiscal Year 2017 Budget Resolution.” Available at http://budget.house.gov/uploadedfiles/fy2017_a_balanced_budget_for_a_stronger_america.pdf.

⁵⁸ CBPP calculations based on the June 2017 CBO baseline projections for Pell; Lindsay Ahlman. (2017). “What the House Republican proposal to cut \$77 billion in mandatory Pell Grant funding means for students.” The Institute for College Access and Success. Available at <http://ticas.org/blog/what-house-republican-proposal-cut-77-billion-mandatory-pell-grant-funding-means-students>.