Student Aid Policy Analysis

Preserving the Pell Grant:
Alternatives to Cutting Year-Round Pell or the Maximum Grant

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The Pell Grant program is in peril. There is a $10.7 billion funding shortfall for 2011-12. The US House of Representatives passed the Full-Year Continuing Appropriations Act of 2011 (H.R. 1) on February 19, 2011. This legislation seeks to cut the maximum Pell Grant by $845 (15%) as part of a proposal to roll back federal spending to 2008 levels. President Obama's FY2012 budget proposes preserving the maximum Pell Grant by suspending the year-round Pell Grant program, which allowed students in accelerated programs to obtain two Pell Grants in a single year. Either way Pell Grant funding will be cut.

But the Pell Grant is the most effective federal student aid program and the one that is most carefully targeted based on financial need. The following are several potential alternatives that would be less harmful than cutting the Pell Grant.

1. **Cut subsidized interest.** Eliminate subsidized interest on the subsidized Stafford loan for undergraduate, graduate and professional students, not just graduate and professional students. The subsidized interest primarily affects debt at graduation. It does not improve access, retention or completion rates. There already exist adequate safety nets for students who have difficulty repaying their federal student loans, such as income-based repayment.

2. **Cut education tax benefits.** Eliminate the three education tax benefits (Hope Scholarship tax credit, Lifetime Learning tax credit and the Tuition and Fees Deduction). These tax credits primarily benefit middle and upper income families, not low income families. This would not only eliminate the shortfall, but possibly provide enough money to turn the Pell Grant into a true entitlement, with a maximum grant indexed to CPI + 1%.

If the Pell Grant funding must be cut, the following are some ideas for ways to cut the program that will be less harmful than cutting the maximum Pell Grant.

1. **Prevent expansion of the number of recipients with increases in the maximum grant.** Pell Grant appropriations doubled from 2008-09 to 2010-11 because of a 45% increase in the number of recipients and a 39% increase in the average grant (16% increase in the maximum grant). Currently the EFC eligibility cutoff for a Pell Grant floats with the maximum Pell Grant (i.e., 95% of the overall maximum), so when Congress increases the maximum Pell Grant it expands the pool of eligible students. Congress could decouple the eligibility cutoff from the maximum grant by setting a separate EFC cutoff on Pell Grant eligibility.

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[1] Added additional idea.

2. **Reduce the number of semesters of eligibility for a Pell Grants.** Currently students are limited to 18 semesters of Pell Grant eligibility. That's the equivalent of 9 years. Possible limitations could include

    a. limiting eligibility to 12 semesters (6 years), akin to the 150% timeframe limits on SAP

    b. establishing limits by degree program, so that students in certificate or Associate's degree programs would have lower limits on the number of semesters of Pell Grant eligibility

    c. cutting the amount of the maximum grant in half after the 12th semester of eligibility

3. **Require students to be enrolled at least half-time to qualify for the Pell Grant.** Students who enroll part-time and work full-time are less likely to graduate than students who enroll full-time and work part-time. This would target the money where it is most likely to lead to completion.

4. **Limit the Pell Grant to institutional charges.** Currently the Pell Grant is capped at demonstrated financial need (the difference between the cost of attendance and the expected family contribution). Establishing an additional cap based on tuition, required fees and textbooks would prevent students from using the Pell Grant for living expenses. This proposal would disproportionately affect students at low-cost community colleges.

5. **Establish explicit income cutoffs on eligibility.** Currently there is no explicit income cutoff on eligibility, but a cutoff based on the expected family contribution. However, more than 95% of recipients have family AGI under $50,000. Less than 1% of recipients have family AGI over $100,000 (mostly when there are multiple children in college at the same time). Perhaps eligibility for the Pell Grant should be limited to families with income under 250% of the poverty line.

6. **Establish restrictions on the types of colleges that are eligible for the Pell Grant.** Currently the main restriction on eligibility for the Pell Grant is the cohort default rate, as part of the general restrictions on institutional eligibility for federal student aid. But about 250 colleges have opted out of the student loan program in order to preserve eligibility for the Pell Grant. More are thinking about doing this because of the pending switch to 3-year cohort default rates. Somehow it doesn't seem right for colleges that would have had high default rates to remain eligible for the Pell Grant. Eliminating such colleges from eligibility is one possibility. (However, part of the reason why these colleges had high default rates is their low costs. Low institutional charges makes a college prone to a form of abuse where students enroll in the lowest cost college to maximize the refund they get after deducting institutional charges from the student financial aid.)

7. **Establish minimum graduation rates for Pell Grant recipients for a college to retain eligibility.** This would ensure that Pell Grant funding is targeted at colleges where the students have a greater chance of graduating. Several years ago Bob Shireman proposed establishing a bounty on college completion for Pell Grant recipients, where colleges would get a bonus when a Pell Grant recipient graduated. A more recent manifestation of this idea was incorporated in the Perkins loan reengineering, which didn't pass Congress. That proposal was designed to be a carrot, as opposed to a stick, where colleges would gain more Perkins loan funds for meeting completion targets. But one could just as easily design a program where colleges lost funds for

failing to satisfy minimum completion targets. This is mainly a matter of perspective, as to whether the glass is half full or half empty. But given the low completion rates at many colleges, perhaps it is time to establish minimum completion rates for aid eligibility? The main risk, of course, would be grade inflation.

8. **Make the Pell Grant performance based.** Currently the Satisfactory Academic Program (SAP) rules check for eligibility at the end of the second year. MDRC has demonstrated that a tighter feedback loop leads to improved retention and improved academic performance. Perhaps part of the Pell Grant should be pegged more closely to academic performance, where it is paid at the end of each semester based on the student's GPA for the semester (e.g., students get nothing for a D, half for a C, three quarters for a B and the full amount for an A). Or perhaps the standard for continued Pell Grant eligibility should be raised from a 2.0 GPA to a higher threshold. Or perhaps provide Pell Grant recipients with a bonus for graduating within the normal timeframe (e.g., 4 years for a Bachelor's degree and 2 years for an Associate's degree).

9. **Limit the Pell Grant to specific fields of study, such as science, technology, engineering, mathematics and nursing.** The National SMART Grant tried this but only with an add-on incentive to study STEM. The National SMART Grant does not appear to have shift many students into STEM fields. Instead, it gave extra money to students who were going to major in those fields regardless and may have improved their graduation rates. Students in non-STEM fields were fine just keeping their original grants. But if the only way to retain a Pell Grant (or a full Pell Grant) were to major in STEM fields, we might see more of a migration.

10. **Require colleges to match Pell Grant funding.** In a September 30, 2009 column in Higher Ed Watch, I proposed establishing new $2,500 grants for zero EFC students, with the requirement that colleges match the grants to these students.[2]

11. **Establish an earlier deadline for Pell Grant eligibility.** Currently students may submit the Free Application for Federal Student Aid (FAFSA) from January 1 of the current year to June 30 of the following year (18 months). So long as the FAFSA is submitted by the last day of the academic year the student can receive a Pell Grant. Many states have earlier deadlines for their state grants, and this year five states (Illinois, Kentucky, Oregon, South Carolina and Tennessee) award state grants on a first-come, first-served basis until funds are expended. Establishing an earlier deadline, such as December 31 (12 months), might reduce the number of Pell Grants. However, low income students often don't apply for financial aid until they arrive on campus, and there's a need to allow for adjustments to aid eligibility when a family experiences a mid-year change in financial circumstances.

12. **Restrict Pell Grant eligibility to Associate's and Bachelor's degree programs.** This would eliminate non-degree certificate programs from eligibility, such as cosmetology and massage therapy programs.

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[2] Mark Kantrowitz, Bolder Steps are Needed to Help Low-Income Students Avoid Debt, Higher Ed Watch, New America Foundation, September 30, 2009. www.newamerica.net/blog/higher-ed-watch/2009/guest-post-bolder-steps-are-needed-help-low-income-students-avoid-debt-15013

13. **Cut the second Pell Grant in half.** Most colleges with accelerated degree programs treat the summer as a third semester and not as a second academic year. So the year-round Pell Grant program was effectively providing two Pell Grants for academic programs that were 1 1/2 as large. But given that college costs significantly exceed the maximum Pell Grant, the colleges are able to easily absorb a full second Pell Grant even with programs that are only 50% more intense. Cutting the second Pell Grant in half would save $4 billion.

14. **Restrict eligibility for a second Pell Grant to zero EFC students.** Part of the reason for the increase in the cost of the year-round Pell Grant program from the $800 million cost estimate to $8 billion is due to the unanticipated popularity of the program, with 4 or 5 times as many students participating as originally estimated. Restricting eligibility to students with exceptional financial need might reduce the demand for the program somewhat.