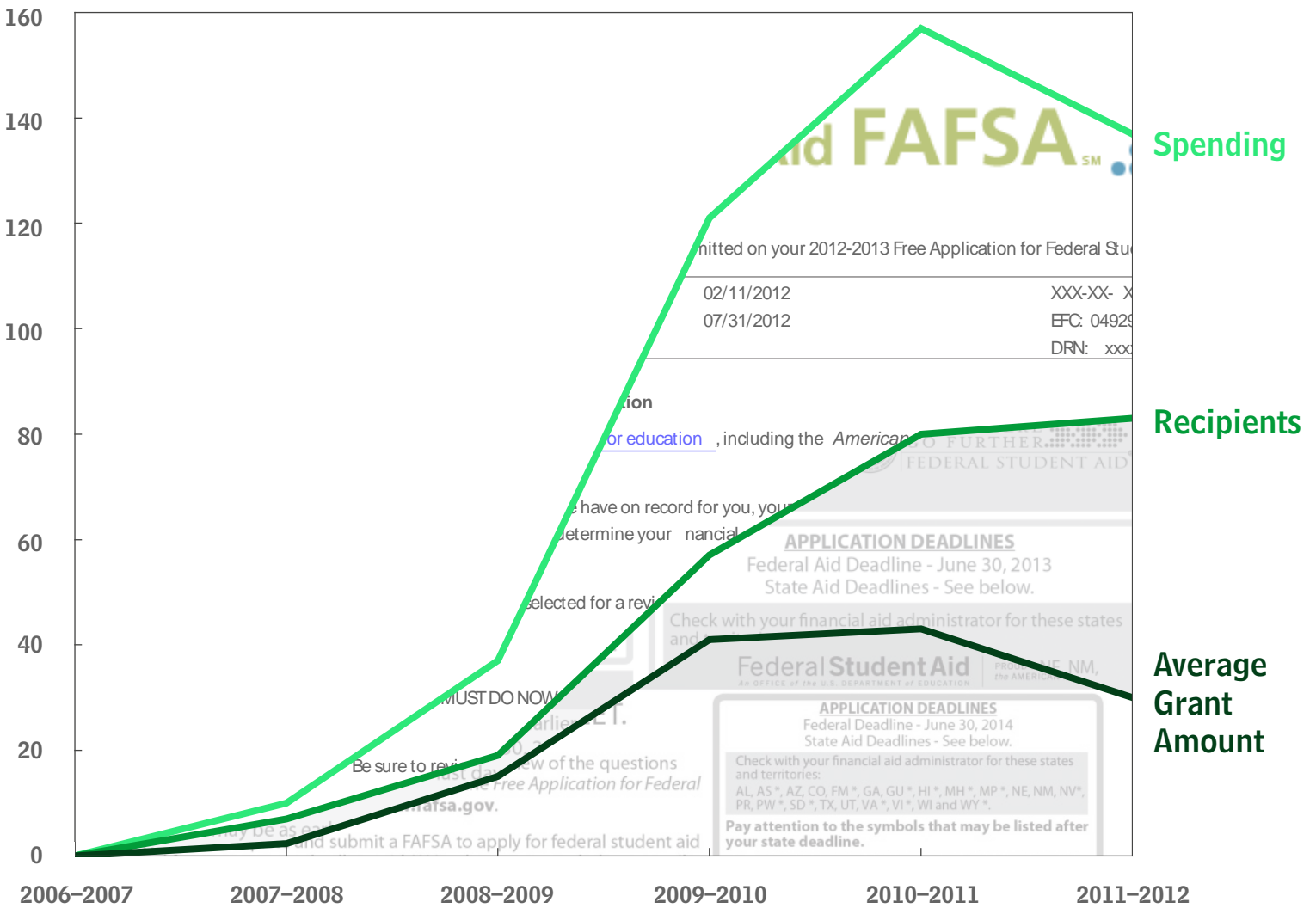


CBO

The Federal Pell Grant Program: Recent Growth and Policy Options

Percent



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

SEPTEMBER 2013

Notes

This report presents spending on the Federal Pell Grant Program by the program's award years, which run from July 1 to June 30.

Unless otherwise indicated, figures for government spending that are expressed as constant 2012 dollars were converted from nominal amounts using the price index for personal consumption expenditures, which is calculated by the Bureau of Economic Analysis.

Numbers in the text and tables may not add up to totals because of rounding.



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The Federal Pell Grant Program: Recent Growth and Policy Options

Summary

The Federal Pell Grant Program was created to improve the access of low-income students to postsecondary education. Grant recipients enroll at a variety of educational institutions, including four-year colleges and universities, for-profit schools, two-year community colleges, and institutions that specialize in occupational training. Grants are awarded on the basis of financial need and academic course load, and the maximum grant a student can receive for the 2013–2014 award year is \$5,645. During the most recent award year for which data are available (July 1, 2011, to June 30, 2012), the program provided \$33.6 billion in grants to some 9.4 million students at U.S. educational institutions.

The cost of the program has risen dramatically in recent years. From 2006–2007 to 2010–2011, real (inflation-adjusted) spending on Pell grants increased by 158 percent. That change resulted from an 80 percent rise in the number of recipients and a 43 percent real increase in the amount of the average grant during those four years (see Figure 1). Spending for the program declined in 2011–2012 because of a reduction in the amount of the average grant.

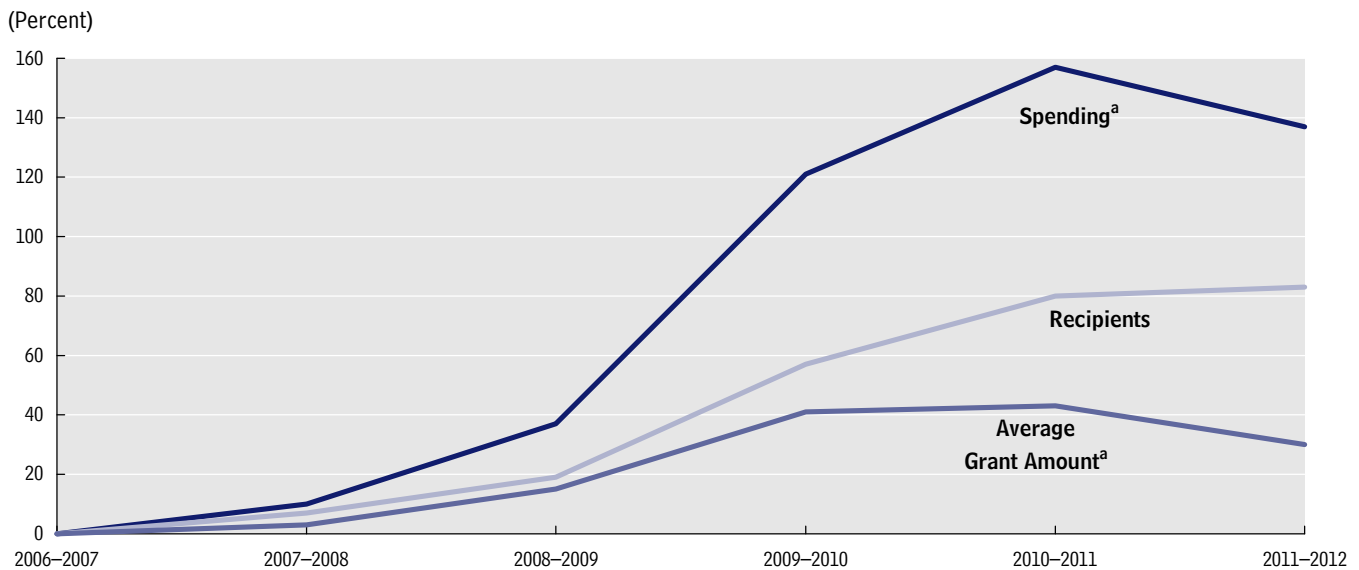
Why Did the Program's Costs Increase So Much?

The large increase in the number of grant recipients was the most significant contributor to the program's rising costs. The expansion had its roots in several factors:

- Changes in the economy,
- Changes in the way postsecondary education is provided, and
- Choices made by policymakers to expand the program.

The recession of 2007–2009 and the subsequent slow recovery drew more students into the recipient pool. Eligibility increased as adult students and the families of dependent students experienced losses in income and assets; enrollment of eligible students also rose as people who had lost jobs sought to acquire new skills and people who would have entered the workforce enrolled in school because they could not find employment. The expansion of online education, particularly at for-profit institutions, attracted still more students, many of whom were eligible for Pell grants. Rising tuition has put more pressure on family finances and made applying for the program more attractive. Legislated policy changes, including larger grants, simpler applications, expanded eligibility, and the increased availability of federal aid for online study, provided more grants to students who would have enrolled even without the changes and encouraged others to enroll and submit grant applications.

Growth in the amount of the average Pell grant also contributed to rising program costs; that average rose by more than 50 percent (in nominal terms) between the 2006–2007 and 2010–2011 award years (and then declined in 2011–2012). Legislated changes to the program played a significant role in those developments. First, lawmakers raised the maximum grant each year from 2006–2007 to 2010–2011, thereby increasing the size of almost all grants. The maximum grant rose from \$4,050 to \$5,550 over that period (and then remained unchanged for 2011–2012). The higher maximum boosted grants for recipients who would have been eligible under the 2006–2007 maximum by an average of \$1,200 compared with what they would have received if the maximum grant had not increased. Second, lawmakers established a supplemental grant for year-round students in 2009–2010 and 2010–2011, which was then

Figure 1.**Growth in the Pell Grant Program Between Award Years 2006–2007 and 2011–2012**

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.

repealed for the 2011–2012 award year. That change first increased and then decreased the average grant amount for all recipients by more than \$200.

How Would Various Policy Changes Affect the Program?

Analysts and policymakers have expressed concerns about the cost of Pell grants, the grants' adequacy to help pay for education, and the complexity of the rules for eligibility and the application process. The Congressional Budget Office (CBO) has examined options that have been proposed to address those concerns, in several categories:

- Reduce the number of grant recipients,
- Reduce the amounts of the grants,
- Increase the grant amounts, and
- Simplify eligibility criteria and the grant application.

Options for reducing the number of students receiving grants include tightening one or more of the major criteria for eligibility, which pertain to financial need, academic readiness for enrollment, academic progress once enrolled, and enrollment in a minimum number of credit hours.

The amounts of the grants could be cut by reducing the size of all of the grants, either immediately or gradually, or by shrinking the amounts available for particular groups of students. To maximize savings, options that tighten eligibility could be combined with those that reduce the size of grants.

Alternatively, if policymakers believed that the current grant amounts are too small, they could increase the size of grants for all low-income students, immediately or gradually, or offer greater amounts to students who make particular educational choices.

Another set of options could reduce the program's complexity by simplifying the criteria for eligibility and the grant application. One approach would reduce the amount of financial information applicants must provide on the Free Application for Federal Student Aid (FAFSA); another would tie eligibility to federal poverty guidelines.

The effects of the options would depend on how they were specified and implemented. CBO analyzed illustrative versions of each to estimate effects on recipients and program costs (see Table 1). For example, reducing the maximum grant to \$4,860 in 2014–2015 would save an average of about \$7 billion annually over 10 years, whereas increasing that maximum amount to \$6,400

Table 1.

Summary of Average Annual Effects Projected Over the Next Decade for Various Options for the Pell Grant Program

Option	Percentage of Recipients Whose Grant Amounts Would Change	Percentage of Recipients Who Would Gain or Lose (-) Eligibility	Change in Program Cost (Billions of dollars)
Reduce the Number of Grant Recipients			
Tighten Means-Testing			
Reduce the EFC ceiling to \$3,850 ^a	0	-6	-0.7
Reduce the EFC ceiling to zero ^a	0	-35	-10.0
Tighten Academic Requirements for Initial Eligibility, Effective 2018–2019 ^b	0	-7	-3.0
Tighten Academic Requirements for Continuing Eligibility	0	-4	-1.5
Eliminate Grants to Students Enrolled in Classes for Fewer Than Six Credit Hours	1	-3	-0.3
Reduce Grant Amounts			
Reduce the Maximum Grant to \$4,860 in 2014–2015	97	-3	-6.8
Eliminate Inflation Indexing of the Maximum Grant	99	-1	-2.9
Increase the Credit Hour Requirement for the Maximum Grant	60	0	-2.3
Implement a Combination of Options to Reduce the Number of Recipients and Grant Amounts			
Tighten Means-Testing by Reducing the EFC Ceiling to Zero and Implement All Other Options Above ^a	60	-40	-20.0
Increase Grant Amounts			
Raise the Maximum Grant to \$6,400 in 2014–2015	100	0	5.3
Increase and Extend the Inflation Adjustment for the Maximum Grant	100	0	5.2
Provide Supplemental Grants to Certain Students	11	0	1.1
Simplify Eligibility Criteria and the Grant Application			
Change the EFC Formula to Require Less Financial Information	20	2	1.0
Use Federal Poverty Guidelines to Determine Grant Eligibility and Amounts	30	-3 ^c	-1.4

Source: Congressional Budget Office.

Notes: Estimates are for changes relative to CBO’s projections under current law. Except as noted, the estimates are for the period spanning award years 2014–2015 to 2023–2024. CBO estimates that under current law, annual spending for the program would average \$38.1 billion per year over the period, that the average number of recipients would be 9.4 million, and that the average grant amount would be \$4,000.

EFC = expected family contribution.

- a. The EFC ceiling is the largest EFC that a student can have and still remain eligible for a Pell grant.
- b. Average annual effects from the time the option takes effect through 2023–2024.
- c. Net effect: 7 percent of recipients would lose eligibility and 4 percent would be newly eligible.

would boost costs by about \$5 billion annually. A set of options that would tighten means-testing, impose more rigorous academic requirements, and reduce the grant amounts could cut the program's costs in half, saving an average of about \$20 billion per year, but would reduce the number of recipients by 40 percent, according to CBO's estimates.

How Else Might the Federal Government Provide Aid to Low-Income Students?

Lawmakers might consider several alternative methods for helping students to pay for postsecondary education:

- Forgivable loans,
- Grant commitments to middle and high school students,
- Federal support of state grant programs, and
- Grants for occupational training.

Each of those approaches presents advantages and disadvantages. For example, loans made at the beginning of a term that were forgiven upon successful course completion but had to be repaid otherwise would effectively be conditional grants. And although those forgivable loans could help make federal spending more effective by boosting completion rates, they also might discourage some students either from enrolling or from taking challenging courses, and they could increase the amount of some students' debt.

Accounts showing grant commitments to middle and high school students might make low-income students and their families aware earlier of the existence of federal financial aid, thereby encouraging families to start planning earlier for college. However, a family that qualified for such a program only after a sudden reduction in income while a student was in high school or already enrolled in a postsecondary program could receive significantly less federal aid than it might under the current Pell grant program.

Federal matching funds for state need-based grant programs could reduce duplication of effort between those programs and the Pell grant program and reduce federal administrative costs. Even with such matching funds, however, fiscal constraints in some states could still result in a reduction in the amount of aid available to students.

Grants to support occupational training could provide wider educational options to adults seeking new job skills. However, such grants might spur the creation of poor-quality programs.

The Federal Pell Grant Program

The Federal Pell Grant Program—the government's largest grant program for helping low-income students attend college—was established in 1972 in amendments to title IV of the Higher Education Act of 1965. The program's budgetary costs, now totaling more than \$30 billion a year, depend on two things: the number of recipients in a given year, which depends on eligibility rules; and the grant amounts, which reflect the maximum grant established by law and the program's aid formula. (For an explanation of how the program is funded, see Box 1.)

Recipients of Pell grants enroll in all types of educational institutions. The largest group is enrolled at public two-year schools, but Pell grant recipients also constitute the highest percentage of the student body at for-profit schools. The effectiveness of the program in meeting its primary goal of increasing the enrollment of low-income students in postsecondary education is difficult to determine, but it may help widen educational opportunities for students who would have enrolled even without the grants. (The Federal Direct Student Loan Program makes up the other major category of federal financial aid—more than half of all Pell grant recipients also take out federal loans.)¹

Eligibility

Grant eligibility is determined on the basis of several criteria, including demonstrated financial need and the ability to meet several academic requirements:²

1. For analyses of federal student loans see Congressional Budget Office, *Options to Change Interest Rates and Other Terms on Students Loans* (June 2013), www.cbo.gov/publication/44318, "Student Loan Programs—February 2013 Baseline" (February 6, 2013), www.cbo.gov/publication/43913, and *Costs and Policy Options for Federal Student Loans* (March 2010), www.cbo.gov/publication/21018.
2. Shannon Mahan, *Federal Pell Grant Program of the Higher Education Act: How the Program Works, Recent Legislative Changes, and Current Issues*, Report for Congress R42446 (Congressional Research Service, January 15, 2013). For more information about the Pell grant program, see Department of Education, "Federal Pell Grant Program," (March 28, 2012), <http://go.usa.gov/jJXF>.

- The student must satisfy the program's standards for an "ability to benefit" from postsecondary education; students with a high school diploma or GED, for example, are considered to meet that criterion.
- The student must enroll in an undergraduate degree or certificate program at one of the more than 5,400 institutions that have signed what is known as a title IV agreement with the U.S. Department of Education regarding participation in federal student financial aid programs.
- The student who is entering a second or later year must demonstrate that he or she has made satisfactory academic progress to that point by completing a certain number of credit hours of course work and by attaining a particular grade point average (GPA).

With a few exceptions, eligibility ceases when students complete a bachelor's degree. Students who have not done so lose eligibility after receiving grants for the equivalent of six full-time years of postsecondary education.

Financial eligibility is determined by a formula that identifies what is called the expected family contribution (EFC), a measure of financial resources that considers a family's adjusted gross income (AGI)—and in some cases its assets—as well as the number of people in the family and the number of students the family expects to have in postsecondary education in the upcoming award year, which begins July 1 and ends June 30. An applicant is eligible for a Pell grant if the expected family contribution is below the "eligibility ceiling." For 2013–2014, that ceiling is \$5,081, or 90 percent of the maximum grant amount. For the purposes of the application, if the student qualifies as a dependent, his or her family includes parents and siblings. Dependent students generally are under the age of 24, unmarried, without dependents of their own, and neither on active duty nor veterans of military service. The family of an independent student—the other category of applicant—consists of the student and, if any, his or her spouse and dependents.

Grant Amounts

Three variables determine the size of a Pell grant: the maximum grant for the year (\$5,645 for 2013–2014); financial need as reflected in the individual's EFC; and academic load, usually measured in credit hours. Maximum grants are offered to students with the most need (those whose EFC is zero) and who carry a course load

equivalent to 12 or more credit hours per semester. The grant amount declines dollar-for-dollar with declining need (and rising EFC) and then drops to zero when the EFC reaches the eligibility ceiling. Students who enroll in fewer than 12 credit hours receive smaller grants.

Pell grants generally do not cover the full cost of attendance (and may not exceed the full cost of attendance, although fewer than 1 percent of all recipients are affected by that cap). In 2012–2013, for example, the maximum grant of \$5,550 covered about 65 percent of the average cost of in-state tuition and fees—about 30 percent of tuition, fees, room, and board—at public four-year colleges.

Most recipients supplement their Pell grants with funds from other sources, including federal student loans. In 2011–2012, about 60 percent took out means-tested federal student loans, on which interest does not accrue while the student is enrolled in school. About half took out other federal loans on which interest does accrue during enrollment. All told, Pell grant recipients borrowed more money from federal programs that year than they received in grants. In 2007–2008 (the most recent year for which data on the cost of attendance are available for Pell grant recipients) those sources combined generally covered less than half of their cost of attendance. Students drew on other sources to pay the rest of their expenses, including grants from the schools, which effectively are tuition discounts; nonfederal loans; earnings from work, including work funded by the Federal Work-Study Program; and contributions from family members.

The current purchasing power of Pell grants reflects the rapid increase in college tuition rates over the past three decades—on average, tuition has risen 3.6 percent per year more than has the consumer price index for all urban consumers (CPI-U). From 1979–1980 through 1995–1996, the maximum Pell grant lost two-thirds of its purchasing power, falling from 244 percent to 82 percent of average in-state tuition and fees at public four-year colleges. Between 1995–1996 and 2011–2012, lawmakers more than doubled the maximum Pell grant, from \$2,340 to \$5,550, but its value relative to in-state tuition and fees at those colleges still declined from 82 percent to 72 percent.

Where Pell Grant Recipients Use Their Awards

Recipients enroll in four main types of postsecondary institutions: public four-year colleges and universities,

Box 1.**Funding for the Pell Grant Program**

The Federal Pell Grant Program currently receives funding from two sources in the federal budget: *discretionary appropriations*, which generally are provided in annual appropriation acts, and *mandatory funding*, which is provided outside the regular appropriation process.

From its establishment in 1972 until 2007, funding for Pell grants was primarily discretionary; that is, each fiscal year, the Pell grant program was funded through appropriation acts that stipulated the maximum grant amount and provided budget authority to support the program's costs.¹ The Congress generally appropriates an amount of budget authority that is greater than or equal to the amount that the Congressional Budget Office (CBO) estimates the discretionary portion of the program will cost.² But because the program's actual cost for an award year is determined by the number of students who receive Pell grants and by size of their grants, that cost can be more—or less—than the amount of budget authority appropriated.

1. In fiscal year 2006, lawmakers provided \$4.3 billion in mandatory budget authority to eliminate funding shortfalls that had accumulated from previous fiscal years.
2. To encourage the Congress to provide enough funding to fully support the Pell grant program for the upcoming award year, the fiscal year 2006 budget resolution (H. Con. Res. 95) adopted the "Pell grant scoring rule," under which CBO includes in its estimate of the cost of appropriation acts the full estimated cost of Pell grants at the award amount the act specifies for the upcoming award year (adjusted for any surplus or shortfall in funding for previous years), even if the appropriation act does not provide that amount.

As a rule, when the budget authority available for a particular year falls short of actual costs, the Department of Education maintains grant sizes and provides grants to all eligible students who apply by using the next fiscal year's budget authority once it becomes available. Thus, when the program's costs for award year 2007–2008 exceeded the \$14 billion provided for fiscal year 2007, the department made up the difference by using some funds from fiscal year 2008. (Because the fiscal year begins in October, funds from the next year's appropriation become available part-way through the award year, which starts in July.)

Over the past five years, lawmakers have twice changed the program's funding. First, in 2008, with the enactment of the College Cost Reduction and Access Act (which was later amended by the Health Care and Education Reconciliation Act of 2010), the Pell grant program received a new, permanent, mandatory funding stream to increase the maximum award above the amount set in discretionary appropriations. In award year 2012–2013, for example, that "add-on" increased the maximum grant by \$690, raising it from \$4,860 (as set in the appropriation act) to \$5,550. (For 2013–2014, the maximum grant is \$5,645, including a \$785 add-on.) Under current law, the add-on is determined by formula, and because the funding is provided automatically, no legislative action is required. As a result, unlike the discretionary portion of the program, the mandatory portion cannot experience a gap between program costs and funds provided.

Continued

public two-year colleges, private nonprofit schools, and for-profit schools. Of those four types, public two-year colleges enroll the most Pell grant recipients—3.4 million in 2011–2012—followed by public four-year schools (2.8 million that year), for-profit schools (2.1 million), and private nonprofit schools (1.2 million). Pell grant recipients made up a much larger share of the student body—63 percent—at for-profit schools than at other

types in 2011–2012. Public two-year schools had the smallest proportion of recipients among their students—32 percent—compared with 35 percent at public four-year schools and 37 percent at private nonprofits.

The proportion of Pell grant recipients is much higher at for-profit institutions in part because so many of those students come from low-income families. Another key

Box 1.

Continued

Funding for the Pell Grant Program

As the number and amount of awards increased following the past recession, discretionary funding from regular appropriation acts was insufficient to cover all of the program’s costs. In 2009, with the enactment of the American Recovery and Reinvestment Act of 2009 (ARRA), \$16 billion in discretionary funding was added to the program, although that funding was not part of the regular appropriation process. The ARRA funds made it possible for the discretionary portion of the program to support a maximum grant of \$4,860 for award years 2009–2010 and 2010–2011, which would not have been possible with only the budget authority provided in the regular appropriation acts for fiscal years 2009 and 2010. (The add-on from mandatory funding boosted the maximum grant to \$5,350 in 2009–2010 and to \$5,550 in 2010–2011.)

Starting with fiscal year 2011, when ARRA funds were no longer available, lawmakers provided supplemental mandatory funding to finance the maximum award of \$4,860 as set in appropriation acts—in addition to the permanent add-on that boosted the maximum to \$5,550 in award years 2011–2012 and 2012–2013 and to \$5,645 in 2013–2014. Through fiscal year 2013 (award year 2013–2014), the supplemental mandatory funding was sufficient to allow the discretionary budget authority provided under regular appropriation acts to remain well below the full cost of providing the grants, given the

specified maximum award. For example, the appropriation act for fiscal year 2011 provided \$23.0 billion in discretionary budget authority for Pell grants, whereas the estimated cost of providing maximum grants of \$4,860 for award year 2011–2012 was \$28.8 billion. However, lawmakers provided three other sources of funds to make up the difference: supplementary mandatory funds for fiscal years 2011 and 2012 and discretionary funds for fiscal year 2012. (Another \$4.8 billion in fiscal year 2011 funded the add-on.)

It may be difficult for the program to maintain a maximum award of \$4,860 (aside from the add-on). Assuming the appropriation of the same amount of budget authority for fiscal years 2014 to 2023 as in fiscal year 2013, the difference between CBO’s estimate of the future costs of Pell grants and available discretionary and supplemental mandatory funding would average almost \$5 billion per year. Thus, maintaining the size of the maximum award would require either a significant increase above the supplemental mandatory funding under current law or large increases in regular appropriations, which are subject to annual caps on discretionary spending imposed by the Budget Control Act of 2011. (Appropriations for the Pell grant program are subject to those caps, although the program is exempted from the sequestration procedures in the Budget Control Act.)

factor is that almost all eligible students at for-profit schools (a proportion estimated at 94 percent in 2007–2008) apply for the grants, perhaps because for-profit institutions can be significantly more expensive than public institutions and perhaps because they are better at helping eligible students submit applications.

One reason for the relatively small percentage of Pell grant recipients at two-year institutions is that many are ineligible because they are not pursuing a degree or certificate.³ Moreover, a relatively smaller percentage of students at two-year schools who could be eligible

actually apply for the grants: In 2007–2008 (the latest year for which data are available), an estimated 57 percent of students applied for Pell grants at two-year schools, compared with 82 percent for students at other types

3. The data used to determine that percentage include students who, although not seeking a degree or certificate, are enrolled in at least one course that could count toward the requirements of such a program. See National Center for Education Statistics, Integrated Postsecondary Education Data System 2012–2013, “Fall Enrollment Full Instructions, Coverage, Who to Include” (accessed August 27, 2013), <http://go.usa.gov/DcTk>.

of schools.⁴ It also is possible that students at two-year schools (and their families) might be less inclined to apply for Pell grants because the cost of attendance typically is less than it is at most four-year institutions.

Effects of the Pell Grant Program

One measure of the program's effectiveness is the gap in the rates at which low- and higher-income students enroll in postsecondary education. Although Pell grants may have helped increase enrollment among low-income students, there is little evidence that the gap in enrollment between low- and higher-income students has been affected—at least among recent high school graduates (see Box 2). Pell grants that go to students who would have enrolled in any case may have other beneficial effects, however: By making enrollment more affordable, the grants could allow students to spend less time working and more time on coursework, thus potentially increasing completion rates, or the grants could allow students to enroll in schools that better fit their needs.

Beyond their effects on individual students, Pell grants and other forms of federal financial aid may produce some benefit to society in general. For example, manufacturing plants in cities with a larger share of college graduates exhibit higher productivity.⁵ Research related to that finding suggests that wages tend to be higher in cities where there are larger shares of college graduates.⁶

In contrast, some observers assert that subsidies for postsecondary education have the undesirable effect of encouraging poorly prepared students to enroll in programs in which they are not likely to succeed.⁷ Some also argue that the Pell grant program was designed to meet the needs of traditional students going directly from high school to college and does not adequately meet the needs of some other students, including older students who have jobs and dependents.⁸ Also, some research suggests that institutions may respond to increases in the size of Pell grants by raising tuition or shifting their own institutional aid to students who are not eligible for Pell grants.⁹

Recent Growth in Spending

The cost of the Pell grant program increased much more rapidly between 2006–2007 and 2010–2011 than it had in previous years, and that increase was more than CBO projects will occur over the next decade under current law (see Figure 2 on page 12.) The growth over that period was attributable to substantial increases both in the number of recipients and in the average size of grants (see Table 2 on page 13). The recession, legislated policy changes, and continuing changes in postsecondary education combined to boost the number of recipients by 80 percent over the period, reflecting increases both in postsecondary enrollment and in the percentage of students receiving grants. As a result of policy changes that raised the maximum grant, the average grant rose by 43 percent in real terms over the period.

That pace of growth in the program's costs is not expected to continue. Under current law, the maximum grant is indexed to the CPI-U through the 2017–2018 award year but not thereafter. As a result, CBO estimates, the average grant will decline by 12 percent in real terms

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4. CBO's tabulations are based on data for 2007–2008 from the National Postsecondary Student Aid Study. Those data are available at National Center for Education Statistics, "QuickStats" (accessed August 27, 2013), <http://go.usa.gov/THNh>. The eligibility of students who did not apply for federal aid is estimated from data collected in the student interview portion of that survey. See also Mark Kantrowitz, Student Financial Aid Policy Analysis, *Student Aid Policy Analysis: Reasons Why Students Do Not File the FAFSA* (FinAid, January 18, 2011), <http://tinyurl.com/kque9ra>; and American Council on Education, *Missed Opportunities Revisited: New Information on Students Who Do Not Apply for Financial Aid*, AEC Issue Brief (February 2006), <http://tinyurl.com/cdqkmlld>.
 5. See Enrico Moretti, "Workers' Education, Spillovers and Productivity: Evidence from Plant-Level Production Functions," *American Economic Review*, vol. 94, no. 3 (June 2004), pp. 656–690, <http://tinyurl.com/l4za2mr>.
 6. See Enrico Moretti, "Estimating the Social Return to Higher Education: Evidence from Longitudinal and Repeated Cross-Sectional Data," *Journal of Econometrics*, vol. 121, no. 1–2 (July–August 2004), pp. 175–212, <http://tinyurl.com/l5rvjbm>.

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7. For example, see Richard Vedder, "For Whom the Pell Tolls," *Forbes* (March 7, 2011), <http://tinyurl.com/jw3melp>.
 8. See Sandy Baum and others, *Rethinking Pell Grants* (College Board Advocacy and Policy Center, April 2013), pp. 25–26, <http://tinyurl.com/lg64nzg>.
 9. See Lesley J. Turner, "The Incidence of Student Financial Aid: Evidence From the Pell Grant Program," (Columbia University, April 2012), <http://tinyurl.com/dymm98k> (PDF, 1,213 KB); and Stephanie Reigg Cellini and Claudia Goldin, *Does Federal Student Aid Raise Tuition? New Evidence on For-Profit Colleges*, Working Paper 17827 (National Bureau of Economic Research, February 2012), www.nber.org/papers/w17827.

over the 11 award years from 2012–2013 to 2023–2024. Because of an estimated 15 percent increase in the number of recipients over the period, the program's costs are projected to grow by 1 percent in real terms. (In nominal dollars, the average grant is projected to rise by 8 percent and the program's costs are projected to increase by 24 percent.)¹⁰

Increase in Recipients

The number of students who received Pell grants rose from 5.2 million in 2006–2007 to 9.3 million in 2010–2011; that gain contrasts with an increase of 0.4 million recipients over the four award years immediately preceding. The largest year-over-year increases were 1.9 million (about 30 percent) from 2008–2009 to 2009–2010 and 1.2 million (another 15 percent) from 2009–2010 to 2010–2011 (see the top panel of Figure 3 on page 14).

The year-over-year increases were associated with both higher overall undergraduate enrollment and a boost in the percentage of students receiving grants. From 2006–2007 to 2008–2009, both of those conditions contributed about equally to the increase in the number of grant recipients, but the larger increases in the second half of the period were attributable mostly to the burgeoning share of students receiving grants, which rose from 26 percent in 2008–2009 to 36 percent in 2010–2011.

Another difference between the first and second halves of the period was in the changing distribution of grants among the four major types of postsecondary institutions (see Figure 3, bottom panel). About half of the increase in the number of grants from 2006–2007 to 2008–2009 was at for-profit institutions; between 2008–2009 and 2010–2011, the increases were spread more evenly among the various types of institutions, and the largest rise occurred at public two-year institutions. The dominant role of for-profit institutions in the first half of the period is attributable to the fact that the percentage of students receiving grants was twice as large at for-profit schools as it was at any other type of school. Those

10. CBO's projection of the maximum award assumes a maximum discretionary award of \$4,860, which is the amount set in the most recent appropriation act. In those projections, the maximum total award rises from \$5,645 in 2013–2014 to \$6,100 in 2017–2018 (and remains constant thereafter) because that amount is indexed to the CPI-U over the period. See Congressional Budget Office, "Pell Grant Programs—May 2013 Baseline" (May 14, 2013), www.cbo.gov/publication/44199.

percentages increased for all four school categories in the second half of the period, but they had the greatest effect on the number of recipients at public two-year schools, the largest of the four categories in terms of total enrollment (see Figure 4 on page 15).

Factors That Boosted Student Enrollment. Three factors probably accounted for most of the increase in enrollment between 2006–2007 and 2010–2011: the weak economy; the rising amounts and increased availability of federal student aid; and the growth of distance learning programs, particularly at for-profit institutions.¹¹

A weak economy can spur increases in enrollment in postsecondary programs, at least as long as financial aid is available.¹² A poor job market induces some people who have difficulty finding work to enroll in school to gain new skills, thus creating increased demand for Pell grants. The increased availability of federal financial aid also may have induced more eligible students to enroll. Pell grants were \$1,400 larger, on average, and an undergraduate could borrow at least \$2,000 more in federal student loan programs in 2010–2011 than in 2006–2007.¹³ How much such conditions affected the number of students who enrolled is difficult to ascertain, however (see Box 2).

The popularity and feasibility of distance education, including online classes, grew rapidly through the 2000s. For-profit institutions were particularly quick to expand such offerings, but other types of schools did also. By fall

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11. Other factors also may have contributed to enrollment increases: the small (about 2 percent) increase in the college-age population, the continuing high earnings of people with college degrees relative to those with high school diplomas, and the better labor market for college graduates. The increase in tuition and fees that occurred over the period worked against enrollment increases.
 12. See Michael S. Christian, "Liquidity Constraints and the Cyclicity of College Enrollment in the United States," *Oxford Economic Papers*, vol. 59, no. 1 (January 2007), pp. 141–169, <http://tinyurl.com/l4b4s8s>; and Harris Dellas and Plutarchos Sakellaris, "On the Cyclicity of Schooling: Theory and Evidence," *Oxford Economic Papers*, vol. 55, no. 1 (January 2003), pp. 148–172, <http://tinyurl.com/m9k6sul>.
 13. The benefits available under the Post 9/11 G.I. Bill to military veterans who have served since September 11, 2001, also may have induced more students to enroll. Those benefits, which do not affect recipients' eligibility for Pell grants, include full in-state tuition at public colleges, a housing allowance, and an annual book stipend of \$1,000.

Box 2.**Does the Pell Grant Program Encourage Low-Income Students to Pursue Postsecondary Education?**

The Federal Pell Grant Program may have several effects on low-income students' access to postsecondary education. It could narrow the gap in enrollment between low-income students and their peers from middle- and higher-income families by making education more affordable. The expectation of being able to enroll may encourage low-income students, with the support of counselors, teachers, and parents, to prepare academically by taking college preparatory courses and entrance exams. The program also may allow low-income students who would have pursued postsecondary education anyway to consider a wider range of schools. Finally, the program may help low-income adults who wish to pursue vocational education and technical training as a path to developing marketable skills.

Empirical data to demonstrate that the Pell grant program increases enrollment among low-income students—and if so, by how much—are difficult to obtain. The direct evidence suggests that the program meets that goal in some cases but not in others. For example, there was no disproportionate increase in low-income students' enrolling in postsecondary education shortly after graduating from high school after the program was established in 1972.¹ And over the past 30 years, the increase in the share of low-income students who enroll after high school graduation has been about the same as it is among high-income students. By the fall after high school graduation, the rate of enrollment among students from families in the bottom quarter of the nation's

income distribution had risen from about 30 percent in the mid-1970s to about 50 percent 30 years later. But over that period, enrollment among recent high school graduates in the highest income quartile rose from about 60 percent to about 80 percent.²

In contrast, after the program was established, enrollment of low-income 22- to 35-year-olds increased relative to that of their higher-income peers. And in 1987, a policy change that affected the eligibility of unmarried 21- to 23-year-olds without dependents—who could no longer claim financial independence from their parents—resulted in a drop in enrollment among those students relative to their counterparts who were married or had children.³

Studies of other grant programs that are not means-tested demonstrate substantial increases in enrollment among students in targeted groups. In particular, studies of four tuition assistance programs—the G.I. Bill as introduced at the end of World War II, a Social Security grant program that until 1982 assisted college students who had a deceased parent, the Georgia HOPE Scholarships program introduced in 1992, and the D.C. Tuition Assistance Grant Program introduced in 1999 for residents of the District of Columbia—identified significant changes in enrollment associated with the introduction or discontinuance of those programs.

1. See Thomas J. Kane, *Rising Public College Tuition and College Entry: How Well Do Public Subsidies Promote Access to College?* Working Paper 5164 (National Bureau of Economic Research, July 1995), www.nber.org/papers/w5164; and W.L. Hansen, "Impact of Student Financial Aid on Access," in J. Froomkin, ed., *The Crisis in Higher Education* (Academy of Political Science, 1983), pp. 84–96, www.jstor.org/stable/3700892.

2. The 50 percent and 80 percent figures for the lowest- and highest-income quartiles are averages for 2000 to 2010. See National Center for Education Statistics, "Indicator 34: Immediate Transition to College," *The Condition of Education* (May 2012), pp. 84–85, <http://go.usa.gov/Dx35> (PDF, 12.1 MB).

3. See Neil S. Seftor and Sarah E. Turner "Back to School: Federal Student Aid Policy and Adult College Enrollment," *Journal of Human Resources*, vol. 37, no. 2 (Spring 2002), pp. 336–352, www.jstor.org/stable/3069650.

Continued

Box 2.

Continued

Does the Pell Grant Program Encourage Low-Income Students to Pursue Postsecondary Education?

The estimated effects were about 3 to 5 percentage points per \$1,000 in grants (in 2010 dollars).⁴

There may be two reasons that researchers have not found strong evidence that Pell grants increase enrollment among recent high school graduates. One is that the data do not give researchers enough information to quantify the effect of the Pell grant program; the other is that the program has less impact on high school graduates' pursuit of postsecondary enrollment than other programs have had. Perhaps both factors have been at work.⁵

4. See Thomas J. Kane, "Evaluating the Impact of the D.C. Tuition Assistance Grant Program," *Journal of Human Resources*, vol. 42, no. 3 (Summer 2007), pp. 555–582, <http://tinyurl.com/mpfun4h>; Susan Dynarski, "The New Merit Aid," in Caroline M. Hoxby, ed., *College Choices: The Economics of Where to Go, When to Go, and How to Pay For It* (University of Chicago Press, 2004), pp. 63–100, <http://papers.nber.org/books/hoxb04-1>, and "Does Aid Matter? Measuring the Effect of Student Aid on College Attendance and Completion," *American Economic Review*, vol. 93, no. 1 (March 2003), pp. 279–288, www.jstor.org/stable/3132174; John Bound and Sarah Turner, "Going to War and Going to College: Did World War II and the G.I. Bill Increase Educational Attainment for Returning Veterans?" *Journal of Labor Economics*, vol. 20, no. 4 (October 2002), pp. 784–815, www.jstor.org/stable/10.1086/342012; and Susan Dynarski, "Hope for Whom? Financial Aid for the Middle Class and Its Impact on College Attendance, Working," *National Tax Journal*, vol. 53, no. 3 (September 2000), pp. 629–662, <http://tinyurl.com/ca76vys>.

5. David S. Mundel, "What Do We Know About the Impact of Grants to College Students?" in Sandy Baum, Michael McPherson, and Patricia Steele, eds., *The Effectiveness of Student Aid Policies: What the Research Tells Us* (College Board, 2008), pp. 9–38, <http://tinyurl.com/bn7co2g> (PDF, 2,345 KB).

Beyond the data from the introduction of the program and the 1987 change to the eligibility rules, no other information sheds much light on its effects. Because the program is the same nationwide, there are no state-to-state policy differences for researchers to analyze; nor are there sharp contrasts over time—changes from one year to the next in eligibility rules and grant amounts have been modest.

Researchers who try to explain why the Pell grant program's effectiveness at boosting enrollment among low-income students might be less than that of other programs point to the complex eligibility rules and the complicated application. According to one study, students in families that got help with completing the Free Application for Federal Student Aid were much more likely to apply and enroll and received more financial aid than similar students in families that did not receive that help.⁶ Moreover, families can have trouble determining whether they are likely to be eligible before they actually apply for financial aid, because the expected family contribution to postsecondary educational expenses as determined by the Department of Education does not have a simple relationship to family income. In contrast, eligibility for other grant programs is determined on the basis of a single, easily identifiable, factor: grade point average (for Georgia HOPE Scholarships), a deceased parent (for Social Security child benefits), District of Columbia residency (for D.C. Tuition Assistance Grants), or veteran status (for G.I. benefits).

6. See Eric P. Bettinger and others, "The Role of Application Assistance and Information in College Decisions: Results from the H&R Block FAFSA Experiment," *Quarterly Journal of Economics*, vol. 127, no. 3 (August 2012), pp. 1205–1242, <http://tinyurl.com/l2k43yl>.

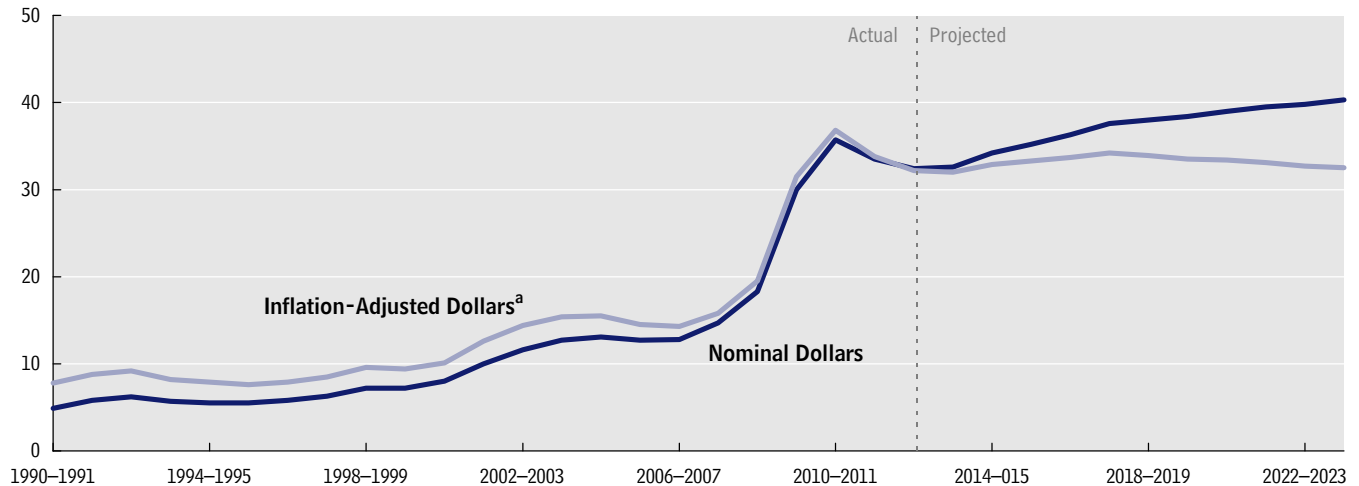
2011, 6.7 million college students—about 1 in 3—were participating: Some took just one class; others enrolled in programs conducted entirely online. And some of those students—particularly those who took classes primarily or exclusively online—might not have been enrolled otherwise, perhaps because of circumstances (work, family responsibilities, or overseas military deployment, for

example) that limited their ability to attend classes in person.

The effect of the increase in distance education on enrollment and on the number of Pell grants awarded was probably amplified by a policy change in 2005. In that year, lawmakers repealed the "50 percent rule," which

Figure 2.**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.

Note: 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 expenditure price index.

prohibited institutions participating in federal student aid programs from offering more than half of their courses as distance learning or from enrolling more than half their students in online programs. By 2007–2008, 770,000 undergraduate students (accounting for roughly 4 percent of such students) were in programs in which all courses were offered online; 34 percent of them received Pell grants, above the average of 27 percent for all students that year.¹⁴ (At for-profit institutions, the figures were higher: About 12 percent of undergraduates were in programs conducted entirely online, and 60 percent of that group received Pell grants.)

Factors That Increased the Percentage of Students Receiving Grants. From 2006–2007 to 2010–2011, the percentage of students receiving Pell grants increased from 24 percent to 36 percent, mainly because of expanded eligibility that resulted from policy changes and economic conditions that led to a rise both in the number

of low-income students and in applications from the pool of eligible students.

Expanded Eligibility. CBO estimates that about 900,000 of the 9.3 million Pell grant recipients in 2010–2011 could not have received grants under the rules in effect in 2006–2007. That group constituted about one-quarter of the total increase over the four-year period in the percentage of students receiving grants. Roughly 600,000 Pell grant recipients—or two-thirds of the group—became eligible because of a policy change that increased the maximum grant (see Table 3 on page 16). (The rise in the maximum grant expanded eligibility because the EFC ceiling—the amount below which applicants are eligible for a grant—is a fixed proportion of that maximum grant.)¹⁵ Another 300,000 Pell grant recipients, or one-third of the group, gained eligibility because of changes in the EFC formula.

In addition, more students became eligible as weakness in the economy increased financial need. One annual survey shows that although the share of independent students

14. CBO’s tabulations are based on data for 2007–2008 from the National Postsecondary Student Aid Study. Those data are available at National Center for Education Statistics, “QuickStats” (accessed August 27, 2013), <http://go.usa.gov/THNhh>. No similar data are available for 2006–2007 or for 2010–2011.

15. The EFC ceiling was 95 percent of the maximum grant in 2006–2007; as of 2012–2013, the ceiling was reduced to 90 percent.

Table 2.
Selected Characteristics of the Pell Grant Program, by Award Year

	Actual										Projected ^a									
	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024		
Program Cost (Billions of dollars)	12.8	14.7	18.3	30.0	35.7	33.6	32.4	32.6	34.2	35.2	36.3	37.6	38.0	38.4	39.0	39.5	39.8	40.3		
Recipients (Millions of people)	5.2	5.5	6.2	8.1	9.3	9.4	8.9	8.9	9.2	9.3	9.4	9.5	9.6	9.7	9.8	10.0	10.1	10.2		
Minimum Grant Amount (Dollars)	400	400	890	976	555	555	555	565	573	585	597	610	610	610	610	610	610	610		
Average Grant Amount (Dollars)	2,482	2,648	2,971	3,706	3,833	3,555	3,660	3,655	3,725	3,795	3,875	3,960	3,960	3,960	3,960	3,960	3,960	3,960		
Maximum Grant Amount (Dollars)	4,050	4,310	4,731	5,350 ^b	5,550 ^b	5,550	5,550	5,645	5,730	5,845	5,970	6,100	6,100	6,100	6,100	6,100	6,100	6,100		
EFC Ceiling ^c (Dollars)	3,848	4,095	4,494	5,083	5,273	5,273	4,995	5,081	5,157	5,261	5,373	5,490	5,490	5,490	5,490	5,490	5,490	5,490		

Sources: Congressional Budget Office and the U.S. Department of Education.

Notes: Data for award years 2012–2013 are preliminary estimates. Those data and the projection for award years 2013–2014 through 2023–2024 for program costs, the number of recipients, and average grants are from Congressional Budget Office, “Pell Grant Programs—May 2013 Baseline” (May 14, 2013), www.cbo.gov/publication/44199.

EFC = expected family contribution.

- a. Projections are made under the assumption that the discretionary portion of the program will continue to be funded at its current level.
- b. In award years 2009–2010 and 2010–2011, students attending year-round could receive two Pell grants; the maximum amount applied to each.
- c. The EFC ceiling is the largest EFC that a student can have and still remain eligible for a Pell grant. For 2011–2012 and earlier years, the EFC ceiling was 95 percent of the maximum grant. For 2012–2013 and under current law, the ceiling is 90 percent of the maximum grant.

whose income was below \$30,000 (an amount that is a rough indicator of the percentage eligible for a Pell grant) declined from 31 percent in award year 2006–2007 to 28 percent in 2007–2008; it then rose to 35 percent in 2009–2010 before dropping to 34 percent in 2010–2011.¹⁶ Also, data from the Department of Education show that the share of Pell grant recipients whose families’ AGI was below \$6,000 rose from 19 percent from 2006–

2007 through 2008–2009 to 24 percent in 2009–2010 and 2010–2011.¹⁷

Increase in the Percentage of Eligible Students Applying. Even among students who would have been eligible for a Pell grant in a stronger economy and with the more stringent eligibility policies in effect in 2006–2007, the percentage applying probably increased because of the pressure of rising tuition, along with policy changes that

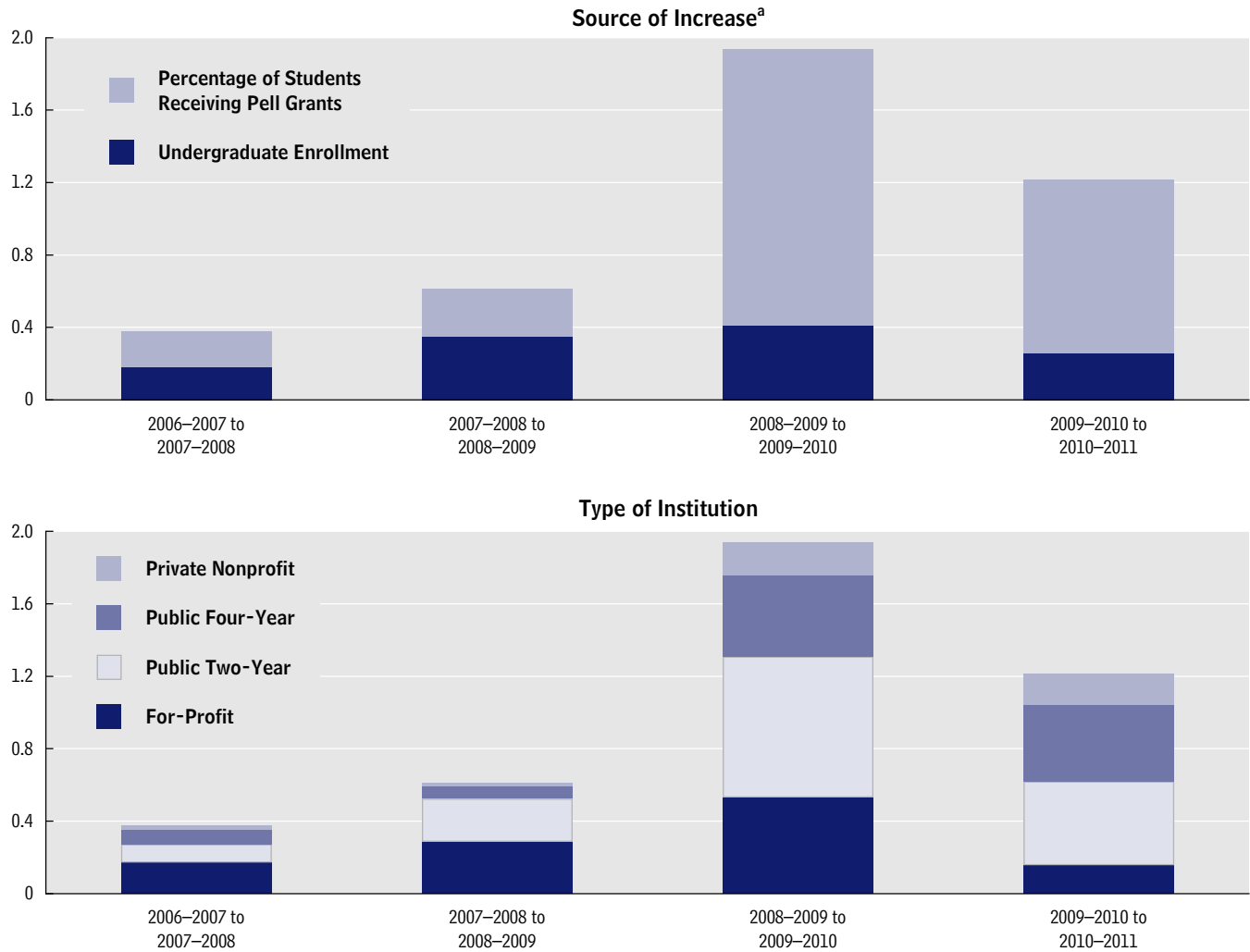
16. CBO’s tabulations are based on data from several years of the Current Population Survey, Census Bureau, www.census.gov/hhes/school/data/cps/.

17. See Department of Education, *2010–2011 Federal Pell Program End of Year Report*, Table 3 (June 29, 2012), <http://go.usa.gov/jYd>.

Figure 3.

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

(Millions of people)



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

- a. 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.

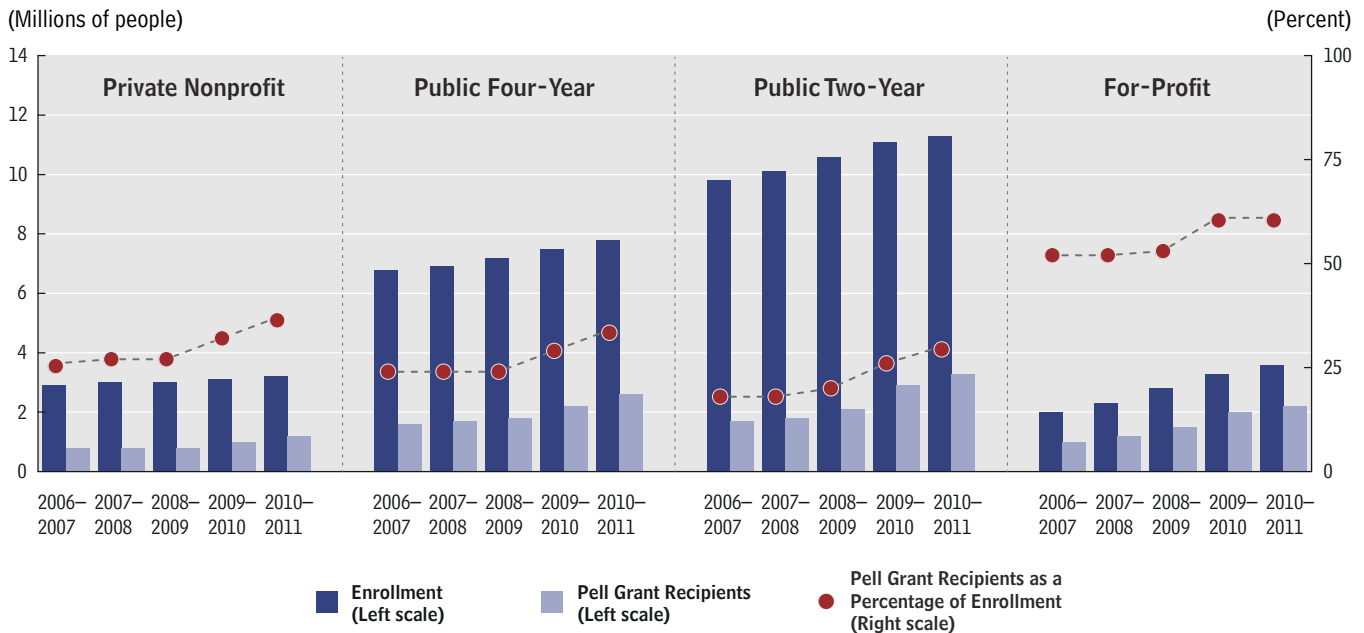
boosted grant amounts and simplified the application process. It is estimated that 71 percent of eligible students actually applied in 2007–2008. Hence, there was room for an increase as grant amounts rose and applications were streamlined. In particular, one policy change in 2009–2010 made the process simpler: The maximum family AGI that automatically qualified for an EFC of zero—and thus for the maximum grant—was raised from

\$20,000 to \$30,000. Applicants whose family income was below that amount were not asked to supply any other financial information on the FAFSA.¹⁸ The number

18. Also, a redesign of the web-based FAFSA for 2010–2011 reduced by two-thirds the number of pages applicants had to view and cut from 79 to 57 the number of questions most applicants had to answer.

Figure 4.

Undergraduate Enrollment and Pell Grant Recipients, 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.

of recipients who were automatically assigned an EFC of zero rose from 2.4 million in 2008–2009 to 4.0 million in 2009–2010, increasing as a share of all recipients from 38 percent to 50 percent. CBO cannot judge how many of those additional recipients would have applied even if the policy changes had not been made. (The upper limit on AGI that automatically qualifies for an EFC of zero was reduced to \$23,000 for award year 2012–2013; under current law, that limit will increase with inflation, adjusting in increments of \$1,000.)

Increase in Grant Amounts

The average Pell grant increased by 54 percent (in nominal terms) from 2006–2007 to 2010–2011—from \$2,482 to \$3,833—mainly because of legislated policy changes. (For the 2011–2012 award year, the average dropped to \$3,555, primarily because one of those policies was repealed.) Those increases occurred for three reasons:

- The maximum grant was increased each year;
- A supplemental Pell grant was established for year-round students in 2009–2010; and

- Some changes in the formula used to calculate financial need tended to reduce recipients’ EFCs and thus increase the size of their grants.

In 2006–2007, the maximum grant was \$4,050; it reached \$5,550 in 2010–2011 and remained unchanged for the next two award years. Because of the way amounts are determined—students receive the maximum grant minus the EFC—each increase in the maximum boosted the grant for almost all recipients. Most grant recipients in 2010–2011 (about 8.8 million of the total of 9.3 million) would have been eligible even if the maximum amount had been \$4,050 (as in the 2006–2007 award year). But with the maximum of \$5,550, grants to full-time students who would have been eligible at the lower maximum were \$1,500 larger and grants to all such students were, on average, \$1,200 larger (see Table 3). Those who became eligible as a result of the higher maximum grant, about 600,000 students, received an average grant of \$915, which was much less than the average for all recipients. All in all, those increases boosted the program’s cost by \$11 billion—accounting for about one-third of the cost of the Pell grant program in 2010–2011.

Table 3.**Effects on the Pell Grant Program in Award Year 2010–2011 Caused by Selected Legislated Changes to the 2006–2007 Rules**

Legislated Change	Recipients Whose Grant Amount Changed		Recipients Who Gained Eligibility		Increase in Program Cost (Billions of dollars)
	Millions of People	Average Amount of Change (Dollars)	Millions of People	Average Grant Amount (Dollars)	
Increase in the Maximum Grant from \$4,050 in 2006–2007 to \$5,550 in 2010–2011	8.8	1,200	0.6	915	11.0
Creation of a Supplemental Grant for Year-Round Students	1.2	1,700	0.0	n.a.	2.1
Increase in the Income Protection Allowance	3.0	360	0.2	800	1.2
Exclusion of Certain Means-Tested Transfers From the EFC Calculation ^a	1.6	375	0.1	900	0.7
Increase in the Maximum AGI for an Automatic Assignment of an EFC of Zero	0.3	825	*	4,300	0.3

Source: Congressional Budget Office.

Notes: CBO applied 2006–2007 policy rules to a sample of 2010–2011 grant recipients to determine the effect of major policy changes between the two award years on eligibility and average grant size. The effects of the major policies combined are about equal to the sum of each alone. Not in the table are other smaller policy changes made during the period, including changes to the simplified needs test, which exempted some applicants from reporting their assets.

In the 2010–2011 award year, 9.3 million students received grants averaging \$3,833, for a total program cost of \$35.7 billion.

EFC = expected family contribution; AGI = adjusted gross income; * = fewer than 50,000 recipients.

a. Those transfers include the earned income tax credit, Temporary Assistance for Needy Families, Supplemental Security Income, and Disability Insurance.

The supplemental grants established in 2009–2010 provided 1.2 million students with an additional \$1,700, on average, in 2010–2011, costing about \$2 billion and raising the overall average grant that year by \$220. Lawmakers eliminated that additional amount for the next award year, and that policy change accounted for most of the \$279 decrease in the average grant from \$3,833 in 2010–2011 to \$3,555 in 2011–2012.

Three changes in the formula used to calculate financial need that took effect in 2009–2010 raised the amount each student received in 2010–2011 by an average of \$235:

- An increase in the income protection allowance (the amount subtracted from available income to determine the EFC);

- An exclusion of income from certain sources—including the earned income tax credit, unemployment compensation, and Temporary Assistance for Needy Families—in the calculation of EFC; and
- The increase from \$20,000 to \$30,000 in a family's maximum AGI that qualifies for an automatic EFC of zero.

Those changes added another \$2.2 billion to the program's costs in 2010–2011.

Options for Changing the Program

This report presents 12 options that illustrate a variety of approaches to changing the Pell grant program. Seven

would reduce federal spending for the program either by tightening the eligibility criteria or by reducing the size of the maximum grant; three would expand the program by increasing grant amounts for some or all eligible recipients; and two would increase both the number of grant recipients and the average grant size by reducing the amount of financial information required from applicants, thus encouraging more people to apply. Most of the options are not mutually exclusive; some combinations and variations are noted. (Estimates given below of average annual effects on program costs over the next 10 years cover the 10 program years from 2014–2015 through 2023–2024.)

Arguments can be made for and against all of the options (see Table 4). Several options, for example, would reduce federal spending by limiting the number of grant recipients, thus making it harder for some students to finance postsecondary education and causing others to forgo enrollment altogether. Those options could be designed to reduce or eliminate aid for students with less financial need or to students who might be less likely than others to complete a program. Conversely, policies that increased grant amounts would make it easier for recipients to finance postsecondary education. Some of the resulting increases in federal spending would go to students who would not otherwise have pursued postsecondary education, but most of the additional funds would go to applicants who would enroll under current law. Larger grants to recipients who would enroll anyway would not reduce the gap in college attendance rates between low- and higher-income students, but they might encourage some recipients to consider a wider range of educational choices, make it possible for them to work less while attending school, or help them to graduate with less debt.

The options' effects would depend to some extent on the responses of educational institutions to the policy changes. If larger grants increased demand, some institutions—particularly those with high percentages of Pell grant recipients—might raise tuition or shift more of their institutional resources to give aid to students who do not qualify for Pell grants. (Meeting the additional demand also could induce such institutions to expand capacity in order to accommodate more students.) There is some evidence that larger grants can prompt public colleges to raise out-of-state tuition and nonprofit private colleges both to raise tuition and to shift institutional financial aid away from Pell grant recipients.¹⁹ There

also is evidence that tuition is substantially higher at for-profit institutions that participate in federal student aid programs than at comparable institutions that do not participate.²⁰

Reduce the Number of Grant Recipients

Policymakers could curtail federal spending by reducing the number of Pell grant recipients through the imposition of tighter means-testing or stricter academic requirements.

Tighten Means-Testing. Under current law, a student may receive a Pell grant if his or her EFC is 90 percent or less of the maximum grant amount. As the maximum is increased and the EFC ceiling rises, students with higher EFCs (and thus less need) become eligible for grants. In the 2006–2007 award year, for example, the EFC ceiling was \$3,848. But by 2010–2011, increases in the maximum grant had raised that ceiling to \$5,273, and about 6 percent of recipients that year had an EFC between \$3,848 and \$5,273; they would not have been eligible under the lower limit.

The number of eligible students would be smaller if the EFC did not rise with the maximum grant, and the number would shrink even more if the EFC ceiling was reduced. CBO estimates that if the EFC ceiling in 2013–2014 was reduced from the \$5,081 projected under current law to \$3,850 (about the same as in 2006–2007) and then indexed for inflation, the number of eligible students would be, on average, 6 percent below the number projected under current law for the next 10 years, and average annual spending for Pell grants would be \$0.7 billion lower for the period (see Table 5 on page 20). The effects would be smaller if the limit was

19. See Lesley J. Turner, "The Incidence of Student Financial Aid: Evidence From the Pell Grant Program," (Columbia University, April 2012), <http://tinyurl.com/dymm98k> (PDF, 1,213 KB). For reviews of previous research, see Bridget Terry Long, *What Is Known About the Impact of Financial Aid? Implications for Policy*, NCPWR Working Paper (National Center for Postsecondary Research, April 2008), <http://tinyurl.com/d93mmkn>; and Bradley R. Curs, Larry D. Singell Jr., and Glen R. Waddell, "The Pell Program at Thirty Years," in J.C. Smart, ed., *Higher Education: Handbook of Theory and Research*, vol. 22 (Springer, 2007), pp. 281–334.

20. See Stephanie Reigg Cellini and Claudia Goldin, *Does Federal Student Aid Raise Tuition? New Evidence on For-Profit Colleges*, Working Paper 17827 (National Bureau of Economic Research, February 2012), www.nber.org/papers/w17827.

Table 4.**Summary of Arguments For and Against Options to Change the Pell Grant Program**

Option	For	Against
	Reduce the Number of Grant Recipients	
<i>All Options in This Category</i>	Would yield federal budgetary savings.	Would reduce the resources available to some low-income students to pursue postsecondary education (although institutions could choose to mitigate some of the reductions by shifting some aid resources to students who lose eligibility for Pell grants).
Tighten Means-Testing	Would achieve savings by excluding students who have the highest EFCs—the least need—among current recipients.	Even the highest EFCs among current recipients are below the cost of attendance of most postsecondary institutions.
Tighten Academic Requirements for Initial Eligibility, Effective 2018–2019	Would achieve savings by excluding students who appear to be the least prepared for postsecondary study and the least likely to complete a program; some students would increase their preparation for postsecondary education.	Would affect some capable students; financial aid offices would have to gather data on course-taking and test scores; requirements might be inappropriate for older students or for students who are entering some vocational programs.
Tighten Academic Requirements for Continuing Eligibility	Would achieve savings by excluding students who are the least successful in postsecondary study and appear the least likely to succeed in future study; some students would study harder to avoid losing eligibility.	Would affect some students who have a temporary setback.
Eliminate Grants to Students Enrolled in Classes for Fewer Than Six Credit Hours	Would achieve savings by excluding students who take too few courses to make substantial progress toward completing a program; students might take more courses to avoid losing eligibility.	Could affect students who might make steady progress toward completing a program while taking fewer than six credit hours per term.
	Reduce Grant Amounts	
<i>All Options in This Category</i>	Would yield federal budgetary savings.	Would reduce the resources available to some or all low-income students to pursue postsecondary education (although institutions could choose to mitigate some of the reductions by shifting some of their aid resources to Pell grant recipients).
Reduce the Maximum Grant to \$4,860 in 2014–2015	Would achieve savings by uniformly reducing grant amounts for all recipients.	Would make no distinctions on the basis of financial need, academic ability, or course load.
Eliminate Inflation Indexing of the Maximum Grant	Would achieve savings by uniformly reducing grant amounts for all recipients; the gradual reduction in buying power of the maximum grant would give recipients time to adjust.	Would make no distinctions on the basis of financial need, academic ability, or course load; most of the savings would be delayed and thus more likely to be reversed by future policy changes.
Increase the Credit Hour Requirement for the Maximum Grant	Some students would increase their course load to avoid receiving a smaller grant.	Some students might take on course loads larger than they can handle.

Continued

Table 4. **Continued**

Summary of Arguments For and Against Options to Change the Pell Grant Program

Option	For	Against
	Increase Grant Amounts	
All Options in This Category	Would increase the resources available to some low-income students to pursue postsecondary education (although institutions could choose to offset some of the increase by shifting some of their own aid resources away from Pell grant recipients).	Would increase federal costs.
Raise the Maximum Grant to \$6,400 in 2014–2015	No significant arguments beyond the general one above.	Some less-well-prepared students might be induced to enroll.
Increase and Extend the Inflation Adjustment for the Maximum Grant	Would better maintain the buying power of grants over time.	Some less-well-prepared students might be induced to enroll.
Provide Supplemental Grants to Certain Students	Would direct more assistance to students who are best prepared for postsecondary study, to those most likely to complete their programs, or to those majoring in areas of perceived national need.	Would require institutions to track students' grades and majors more closely; aid would focus particularly on students who were more likely to pursue postsecondary education without a supplemental grant.
	Simplify Eligibility Criteria and the Grant Application	
All Options in This Category	Would make financial aid applications easier to complete, and more eligible students would apply; verifying applications would be simpler for the Department of Education.	Simpler applications and eligibility would decrease the directing of aid to lower-income students.
Change the EFC Formula to Require Less Financial Information	No significant additional arguments beyond the general one above.	No significant additional arguments beyond the general one above.
Use Federal Poverty Guidelines to Determine Grant Eligibility and Amounts	Eligibility would be clear enough to influence early choices about college preparation.	No significant additional arguments beyond the general one above.

Source: Congressional Budget Office.

Note: EFC = expected family contribution.

not reduced as much or larger if it was lowered even more. For example, if the EFC ceiling was reduced to zero—that is, if a student would not be eligible for a grant if his or her EFC was greater than zero—the 35 percent of recipients whose EFC was above that amount would lose eligibility, and total spending on Pell grants would average about \$10 billion less per year over the period than it would be under current law.

Tighten Academic Requirements for Initial Eligibility, Effective 2018–2019. Under current law, a student first enrolled in postsecondary education after July 1, 2012, must have graduated from high school, obtained a GED, or completed a state-recognized home-schooling program

in order to qualify for a Pell grant. Despite that requirement (and similar requirements applicable to earlier groups of students), a significant proportion of first-year grant recipients must enroll in remedial classes to be ready for postsecondary study, and those students are less likely to complete their coursework, thus undercutting a chief goal of the Pell grant program.

To reduce that risk, policymakers could tighten academic standards for initial eligibility, perhaps matching those set by the National Collegiate Athletic Association (NCAA), which requires first-year athletes to have completed four years of high school English, three years of mathematics at the level of algebra 1 or higher, two years of science,

Table 5.**Average Annual Effects of Various Options for the Pell Grant Program**

Option	Percentage of Recipients Whose Grant Amounts Would Change	Average Amount of Change (Dollars)	Percentage of Recipients Who Would Gain or Lose (-) Eligibility	Average Amount of Grant Gained or Lost (Dollars)	Change in Program Cost (Billions of dollars)
Reduce the Number of Grant Recipients					
Tighten Means-Testing					
Reduce the EFC ceiling to \$3,850 ^a	0	n.a.	-6	1,200	-0.7
Reduce the EFC ceiling to zero ^a	0	n.a.	-35	3,100	-10.0
Tighten Academic Requirements for Initial Eligibility, Effective 2018–2019 ^b	0	n.a.	-7	4,200	-3.0
Tighten Academic Requirements for Continuing Eligibility	0	n.a.	-4	4,100	-1.5
Eliminate Grants to Students Enrolled in Classes for Fewer Than Six Credit Hours	1 ^c	1,400	-3	1,400	-0.3
Reduce Grant Amounts					
Reduce the Maximum Grant to \$4,860 in 2014–2015	97	-700	-3	900	-6.8
Eliminate Inflation Indexing of the Maximum Grant	99	-300	-1	1,000	-2.9
Increase the Credit Hour Requirement for the Maximum Grant	60	-400	0 ^c	n.a.	-2.3
Implement a Combination of Options to Reduce the Number of Grant Recipients and Reduce Grant Amounts					
Tighten Means-Testing by Reducing the EFC Ceiling to Zero and Implement All Other Options Above ^a	60	1,200	-40	3,100	-20.0
Increase Grant Amounts					
Raise the Maximum Grant to \$6,400 in 2014–2015	100	500	0 ^d	n.a.	5.3
Increase and Extend the Inflation Adjustment for the Maximum Grant	100	500	0 ^d	n.a.	5.2
Provide Supplemental Grants to Certain Students	11	1,000	0	n.a.	1.1
Simplify the Eligibility Criteria and the Grant Application					
Change the EFC Formula to Require Less Financial Information	20	350	2	1,500	1.0
Use Federal Poverty Guidelines to Determine Grant Eligibility and Amounts	30	250	-3 ^e	^e	-1.4

Sources: Congressional Budget Office.

Notes: Estimates are for changes relative to CBO's projections under current law. Except as noted, the estimates are for the period spanning award years 2014–2015 to 2023–2024. CBO estimates that under current law, annual spending for the program would average \$38.1 billion per year over the period, that the average number of recipients would be 9.4 million, and that the average grant amount would be \$4,000.

EFC = expected family contribution; * = between -1 percent and zero; n.a. = not applicable.

- a. The EFC ceiling is the largest EFC that a student can have and still remain eligible for a Pell grant.
- b. Average annual effects from the time the option takes effect through award year 2023–2024. The option's effects would increase over time as the fraction of applicants who are subject to the policy increases; by 2023–2024, about 10 percent of recipients would have lost eligibility.
- c. The option would not increase grant amounts directly, but CBO estimates that about 1 percent of recipients would increase their enrollment to six or more credit hours to maintain eligibility and as a result also receive larger grants.
- d. These options would not affect eligibility, but CBO estimates that the number of grant recipients would change slightly (by 1 percent or less) because more (or fewer) eligible students would apply for grants as grant amounts increased (or decreased).
- e. Net effect: 7 percent of recipients would lose grants averaging \$2,200 per year; 4 percent of recipients would be newly eligible, receiving grants averaging \$2,300 per year.

and two years of social studies. It also requires students to have taken either the SAT or the ACT college admission test and to meet threshold scores that depend on GPA: A student with a very low GPA must earn a higher score on the SAT or ACT to obtain eligibility; one who has a low SAT or ACT score must have a higher GPA. Under this option, the NCAA's standards for first-year athletes would be in effect for any Pell grant applicant born in 2000 or later; students who are already of high school age or older would not be affected.

On the basis of survey data collected from beginning postsecondary students, CBO estimates that about 40 percent of first-year Pell grant recipients who recently finished high school would not have met the NCAA's standards.²¹ CBO expects that if the Pell grant program imposed similar standards, some students would choose different courses in high school to meet the requirements. (Their expected response is reflected in CBO's cost estimate.)

CBO estimates that, averaged over the 2018–2023 period, such a policy would eliminate about 7 percent of grants and produce savings of about \$3 billion per year. Those effects would increase over time as more students became subject to the requirements, but because many Pell recipients are older, it would take many years before essentially all students became subject to the requirements. By award year 2023–2024, when about half of postsecondary students would be subject to the tighter standards, the number of grants awarded would be about 10 percent below CBO's projection under current law. In the long term—perhaps by 2035—the decline in the number of eligible students would reach 20 percent.

Tighten Academic Requirements for Continuing Eligibility. The current rules for the Pell grant program require students to make satisfactory academic progress toward a degree or certification to maintain eligibility from one year to the next. The Department of Education requires schools to establish standards by which to measure satisfactory progress, but it does not specify many details of those standards, and some policymakers believe that some institutions may be too lax. Because records of

students' academic progress are not transferable, a student who is academically ineligible to continue to receive grants at one institution could transfer to another and begin anew. As a solution, policymakers could impose tighter uniform standards for continuing grants—for example, they could require returning students to have a GPA of at least 2.0 on a 4-point scale (or comparable grades under another system).

On the basis of the data from the same survey of postsecondary students cited above, CBO estimates that about 12 percent of Pell grant recipients who have continued to a second year, and progressively smaller percentages of those who have continued into a third or subsequent year, would not have met that GPA standard. CBO estimates that, on average, over the next 10 years, a revised policy for continuing eligibility would eliminate about 4 percent of grants and result in annual savings of about \$1.5 billion.²²

Eliminate Grants to Students Enrolled in Classes for Fewer Than Six Credit Hours. Under current law, students who are enrolled for fewer than six credit hours of classes can receive grants of up to one-quarter of the maximum.²³ (Those students are not eligible for federal student loans.) This option would require all Pell grant recipients to enroll in classes for at least six credit hours per semester (or the equivalent in other credit hour systems).²⁴

CBO expects that 1 percent of students would increase their course loads in response to the new requirement and therefore would receive larger grants and could make faster progress toward completing a postsecondary program. (Part-time students are less likely than full-time students to finish a program, perhaps in part because of the longer period during which external events can pose

21. CBO's tabulations were based on data for 2003–2009 from the Beginning Postsecondary Student Longitudinal Study. Those data are available at National Center for Education Statistics, "QuickStats" (accessed August 27, 2013), <http://go.usa.gov/THNh>.

22. CBO expects that if the Pell grant program imposed such standards, some students would work harder to maintain the required GPA. CBO has not attempted to estimate the size of such a response, and CBO's cost estimate does not include an adjustment for one.

23. The Department of Education defines a credit hour in a semester as one hour of classroom instruction plus two hours of student work outside the classroom each week for about 15 weeks.

24. CBO did not apply this option to programs that require students to complete a certain number of clock hours (as opposed to credit hours) or to demonstrate achievement in a competency-based curriculum.

obstacles.) CBO also estimates that 3 percent of Pell grant recipients under current law would not apply for a grant or would be excluded because of failure to meet the requirement, resulting in average annual savings of \$0.3 billion over the next 10 years.

Reduce Grant Amounts

Another approach to reducing the program's costs would be to cut grant amounts—for example, by reducing the maximum grant starting next year, ending inflation indexing, or tightening the relationship between the student's course load and grant amount.

Reduce the Maximum Grant to \$4,860 in 2014–2015.

Under current law, the maximum grant for 2014–2015 will be \$5,730 by CBO's estimate, more than 40 percent above that in the 2006–2007 award year. Under this option, the government would reduce the maximum grant to \$4,860 for the 2014–2015 award year. The maximum grant would keep pace with consumer prices through the 2017–2018 award year (reaching \$5,175 in that year) and then remain constant (as under current law).

This option would cause about 3 percent of students to lose eligibility (because the EFC ceiling, which is tied to the maximum grant, would drop by about \$800), and all grants would be uniformly smaller by an average of about \$700. Despite that, the average grant would be greater than it was in 2008–2009. This option would affect all applicants, regardless of financial need, preparation for postsecondary education, or academic progress. CBO estimates that this option would result in average annual savings of about \$6.8 billion over the 10-year period.²⁵

Eliminate Inflation Indexing of the Maximum Grant.

Under current law, the maximum grant amount will increase from \$5,645 in 2013–2014 to keep pace with inflation, as measured by the CPI-U, through 2017–2018. CBO projects an average increase of 2 percent per year. Under this option, those increases would not occur, and the maximum grant would stay at \$5,645 through 2023–2024. The average grant would be about \$300 less over the period from 2014–2015 through 2023–2024.

25. One way lawmakers could implement the combination of this option with the option that would eliminate inflation indexing of the maximum grant would be to eliminate the add-on to the maximum grant of \$4,860 that has been set by appropriation. See Box 1 on page 6 for more information on the two components of the program's funding.

The purchasing power of the grant would erode gradually, giving students, families, and institutions time to adjust. Despite the lack of indexing, until 2018–2019, the real value of the grant would still be greater than it was in 2008–2009. Like the option to reduce the maximum grant, this option would affect all students, regardless of need, academic readiness, or postsecondary progress. CBO estimates the result would be savings averaging about \$2.9 billion per year over the 10-year period.

Increase the Credit Hour Requirement for the Maximum Grant. Under current law, students must be enrolled in classes for at least 12 credit hours per semester (or the equivalent in other credit hour systems) to be eligible for the maximum Pell grant; students taking fewer credit hours receive smaller grants.²⁶

Under this option, a student would need to enroll in classes for at least 15 credit hours to receive the maximum grant; amounts would be reduced proportionately for smaller course loads (a student taking 12 credits would receive 12/15—four-fifths—of the full amount, for example). Students who successfully complete 15 hours per semester generally can complete an associate's degree in two years or a bachelor's degree in four.

Under this option, CBO expects, some students would increase their course loads to qualify for larger grants and make faster progress toward a degree or certificate, but about 60 percent would still take courses with fewer than the full number of credits. On average, annual grants to those students would be \$400 smaller, for estimated average savings of \$2.3 billion per year over the 10-year period.

A variation on this option that would promote larger course loads without reducing grant amounts (or program costs) would be to increase the maximum grant to boost the amount for students who enroll in courses for more than 12 credit hours with no reduction in the grants for those taking 12 credits or fewer. Another approach to tightening the enrollment requirements would exclude remedial classes—or any class that does not confer credit toward a degree or certificate—from the calculation of credit load.

26. CBO did not apply this option to programs that require students to complete a certain number of clock hours (as opposed to credit hours) or to demonstrate achievement in a competency-based curriculum.

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

To achieve greater savings, policymakers could combine two or more of the options listed above. The greatest savings would accrue from combining the option to reduce the EFC ceiling to zero with the other six options for reducing the number of grant recipients and the grant amounts, although the resulting savings would be less than the sum of the savings from all options separately: Reducing the number of recipients would diminish the impact of shrinking the grants, and reducing the size of the grants would dampen the effect of curtailing the number of recipients. CBO estimates that the seven-option combination would reduce the number of grant recipients by 40 percent and result in average savings of \$20 billion per year over the next 10 years.

Increase Grant Amounts

To address the concern that the cost of college is beyond the means of many families—even with Pell grants and other forms of student aid—and perhaps to encourage low-income students to make particular educational choices, larger grants could go to low-income students by one of several means. They might include raising the maximum grant next year, increasing the rate by which the maximum grant is indexed for inflation, or providing supplemental grants to students who have completed a rigorous high school curriculum or who choose a given field of study.²⁷ However, to the extent that the options would increase the funds students have available to pay for postsecondary education, some institutions—particularly those with higher percentages of Pell grant recipients—might raise tuition or reallocate financial resources to other groups of students. (Institutions also could face decisions about whether to accept more crowded classes or spend more to increase capacity.)

27. Boosting the size of Pell grants or making all forms of financial aid more widely available could have a limited effect on students' decisionmaking about postsecondary education if they do not understand their options or if the application process is onerous. High-achieving, low-income students who were given specific information on their application process and on colleges' net costs—and whose application fees were waived without the need to complete paperwork—were more likely to apply to and enroll in selective colleges than were peers who were not offered such assistance. See Caroline Hoxby and Sarah Turner, *Expanding College Opportunities for Low-Income High-Achieving Students*, Discussion Paper 12-014 (Stanford Institute for Economic Policy Research, March 2013), <http://tinyurl.com/cwfu8ca>.

Raise the Maximum Grant to \$6,400 in 2014–2015. To make postsecondary education more affordable for low-income students, the maximum Pell grant for 2014–2015 could be raised to \$6,400, an amount that would pay about 75 percent of the average in-state tuition at public four-year colleges. (After that year, the maximum would increase to keep pace with inflation, according to the CPI-U, through 2017–2018 as under current law.) To make such a change without increasing the number of grant recipients, policymakers also could keep the EFC ceiling on its current upward path—rising with inflation (from \$5,157 in 2014–2015) through 2017–2018, and then holding steady. CBO estimates that, over the period, such a change would increase the average grant for all recipients by about \$500 per year and would raise the program's annual outlays by an average of \$5.3 billion. Those costs could be reduced by combining this option with one or more options that would tighten eligibility.

Increase and Extend the Inflation Adjustment for the Maximum Grant. Over the past three decades, tuition and fees have risen considerably faster than overall consumer prices—by 4.3 percent per year, on average, for public four-year colleges and by 3.1 percent per year for public two-year colleges, for example. That growth is attributable in part to reductions in some state funding for postsecondary education; to increases in institutions' spending on technology and student services; and, in some cases, to increases in capital spending on residence halls, recreation facilities, and other types of infrastructure.²⁸ Another factor is the rising cost of the everyday “inputs” to postsecondary education, particularly the salaries of faculty, administrators, and other staff. According to one index, over the past three decades, those costs have grown at an average rate of 1 percentage point faster than consumer prices.²⁹

28. See Robert B. Archibald and David H. Feldman, *Why Does College Cost So Much?* (Oxford University Press, 2011); and Ronald G. Ehrenberg, *Tuition Rising: Why College Costs So Much* (Harvard University Press, 2000).

29. See the Common Fund, “About HEPI” (accessed August 27, 2013), <http://tinyurl.com/cjuzk9j>; and National Center for Education Statistics, Institute of Education Sciences, Digest of Education Statistics, 2011 Tables and Figures, Table 34, Gross Domestic Product Price Index, Consumer Price Index, Education Price Indexes, and Federal Budget Composite Deflator, Selected Years, 1919 Through 2010 (November 2011), <http://go.usa.gov/TH6H>.

Under current law, the maximum grant is indexed to the CPI-U through 2017–2018, with no indexing thereafter. To help the grants keep pace with costs, policymakers could change the formula to index the grant to the CPI-U plus one percentage point and make that change permanent beginning with award year 2014–2015. The result would be gradual increases in the amount of both the maximum grant and the average grant. As is the case with the option to raise the maximum grant, the EFC ceiling could be maintained as it is under current law to prevent an increase in the number of students who become eligible. Over a 10-year period, CBO estimates, grant amounts would increase by an average of \$500 annually and annual outlays for Pell grants would rise by an average of \$5.2 billion. However, over time, the effect on the average grant and the associated costs would grow. By 2023–2024, the average grant would be more than \$1,000 higher and the annual increase in outlays would reach \$13 billion.

Provide Supplemental Grants to Certain Students. In 2007, lawmakers authorized Academic Competitiveness Grants (ACGs) and National Science and Mathematics Access to Retain Talent (SMART) grants. ACGs were supplemental awards of up to \$750 or \$1,300 per year for first- or second-year students, respectively, who were eligible for Pell grants and who had completed a rigorous high school academic program. SMART grants of as much as \$4,000 per academic year were available to third- and fourth-year low-income students in bachelor's degree programs in mathematics, certain fields of science, and certain foreign languages.³⁰ Appropriations were provided for the ACGs and SMART grants for fiscal years 2006 through 2010 but not in subsequent years.

If the two programs were reauthorized and funds were appropriated to provide grants to everyone who met the eligibility criteria, CBO estimates, about 11 percent of Pell grant recipients would receive ACGs or SMART grants, averaging about \$1,000. Average annual costs over the next 10 years would rise by about \$1.1 billion.

Simplify Eligibility Criteria and the Grant Application

Some observers assert that the Pell grant program is not as effective as it could be because the program's eligibility

30. See Department of Education, Office of Postsecondary Education, "Academic Competitiveness and National SMART Grants" (March 22, 2010), <http://go.usa.gov/jj2H>.

rules are too complicated and thus applicants can find it difficult to complete the FAFSA.³¹ One option for streamlining the process would involve modifying the EFC formula to simplify the FAFSA; another would eliminate the current formula for calculating the EFC in favor of defining eligibility in terms of federal poverty guidelines. Depending on how they were structured, those two options could increase or decrease federal costs in the near term. To the degree that those policies clarified the rules of eligibility and made applications simpler, federal costs would rise over the long term because more students would be encouraged to apply for Pell grants.

Change the EFC Formula to Require Less Financial Information. More low-income students might be encouraged to apply for Pell grants if completing the FAFSA was simpler—for example, if the EFC formula was modified to require only information on income that is reported on federal income tax returns and that could be transferred easily from those returns.

Under the current formula, in 2013–2014 an EFC of zero is automatically assigned to applicants whose family AGI is below \$24,000 (that amount will be adjusted for inflation in subsequent years). For such applicants, the process is simple: They report information from a single line on the federal tax form. (The online version of the FAFSA allows applicants to transfer some information directly from tax forms.) However, applicants whose family AGI falls between \$24,000 and \$50,000 must supply information about some sources of income that are not subject to federal income tax and not reported on tax returns, and those whose family AGI is above \$50,000 must report information about certain assets that also is not reported on tax returns.

If lawmakers eliminated the requirement that applicants supply information on additional income sources and assets that are not recorded on income tax returns, the number of grants would increase by 2 percent, on average, CBO estimates. The new recipients would include

31. See Susan Dynarski, Judith Scott-Clayton, and Mark Weiderspan, *Simplifying Tax Incentives and Aid for College: Progress and Prospects*, Working Paper 18707 (National Bureau of Economic Research, January 2013), www.nber.org/papers/w18707; and Susan M. Dynarski and Judith E. Scott-Clayton, "Complexity and Targeting in Federal Student Aid: A Quantitative Analysis," in James Poterba, ed., *Tax Policy and the Economy*, vol. 22 (University of Chicago Press, 2008), pp. 109–150, <http://papers.nber.org/books/pote08-1>.

some applicants who gained eligibility because they did not have to report certain kinds of income and some who would be eligible under current law but would not apply because filling out the application was too burdensome. The annual grant to newly eligible students would average \$1,500 over the period, CBO estimates. About 20 percent of the grants that would be made under current law would increase by \$350, on average, because the modified formula would exclude some categories of household income or assets from the EFC calculation. CBO estimates that the new grants and the larger grants together would increase the annual outlays over the next 10 years by an average of \$1 billion. That increase could be eliminated by combining this option with cost-saving options, such as the one to reduce the eligibility limit.

Even under this option to limit financial reporting on the FAFSA to AGI alone, Pell grant applicants whose family AGI did not fall within the range to automatically qualify for an EFC of zero typically would not know whether they were eligible until they received notification from the Department of Education. For such families, the current EFC formula involves subtracting a specified “income protection allowance” and then multiplying the remaining income by a specified fraction, even for the simplest case of a single, independent student. For married students, dependent students, and families with more than one postsecondary student, the calculations are more complex.

If the FAFSA could be completed entirely with information transferred from an income tax return, the number of applications for Pell grants would increase and so would the number of potential recipients of other forms of financial aid that rely on the FAFSA. Many of the new applicants probably would be eligible for federally subsidized student loans—thus raising the dollar volume of loans in that program. Many of the new applicants probably would meet the financial eligibility criteria for aid programs administered by the institutions themselves (which also require the FAFSA), including Supplemental Education Opportunity Grants, Perkins Loans, and the Federal Work-Study Program. However, colleges ration such aid because students qualify for far more aid than is available. Thus, simplifying the financial reporting requirements for the FAFSA could boost the population of students who are eligible for campus-based aid without having any direct effect on the amount of aid provided.

Use Federal Poverty Guidelines to Determine Grant Eligibility and Amounts. Pell grants are now awarded on the basis of the EFC formula, which considers a family’s income, assets, household size, and the number of students enrolled in postsecondary education. Under this option, the government would instead confer eligibility on the basis of the federal poverty guidelines—a measure of household poverty that considers a family’s size and state residency—which would allow most applicants to determine eligibility quickly by comparing family size and AGI with the guidelines.³² In CBO’s illustrative option, students whose family AGI is not more than 150 percent of the poverty guideline would receive the maximum grant, applicants with an AGI between 150 percent and 250 percent of the poverty guideline would receive smaller grants, and those whose AGI was above 250 percent of the guideline would be ineligible. Although this method would consider the size of a household, it would not take into account the number of members of that household who were enrolled in post-secondary institutions, so no consideration would be given to a family’s educational expenses for more than one postsecondary student at a time.

Under this system, the number of grant recipients during the next 10 years would fall by an average of 3 percent, CBO estimates, and annual outlays would fall by an average of \$1.4 billion. Those estimates reflect a pair of effects: About 7 percent of students who would receive grants under current law would not do so under the option, but other students, corresponding to 4 percent of current-law recipients, would gain eligibility, so the net effect would be a 3 percent reduction in the number of grants. All of those results would be different if other values were chosen for the eligibility criteria.

The use of the federal poverty guidelines to determine financial need would produce results somewhat different from those yielded by the simplified FAFSA, reflecting differences in the adjustments for family size in the two approaches. Students in one-person families—that is, unmarried, independent students with no dependents—would tend to get larger grants under the approach based on federal poverty guidelines (as specified above) than under the simplified FAFSA, whereas the reverse would be true for students in families of two or more people.

32. See Department of Health and Human Services, “2013 Poverty Guidelines: One Version of the [U.S.] Federal Poverty Measure” (accessed August 27, 2013), <http://go.usa.gov/2uu9>.

Of applicants in one-person families, the approach based on the federal poverty guidelines would give larger grants to 32 percent of students and smaller grants to less than 1 percent, compared with the approach based on a simplified FAFSA, CBO estimates. Conversely, 22 percent of applicants in families of two or more would get larger grants using the simplified FAFSA, whereas 4 percent would get smaller grants.

Alternatives to the Program

To pursue the goal of encouraging students from low-income families to enroll in and complete postsecondary programs, the federal government could adopt one or more new types of financial aid offerings:³³

- Loans that are forgiven once classes are successfully completed,
- Grant commitments to middle and high school students,
- Federal grants to supplement states' grant programs, or
- Grants to fund occupational training.

In general, federal costs for programs based on those four approaches could be higher or lower than the costs of the Pell grant program, depending on how they were implemented. The descriptions of the approaches below focus on how they would work and on some factors that would affect their costs; general advantages and disadvantages of each are summarized in Table 6.

Forgivable Loans

Under current law, Pell grant recipients who fail to complete classes can be placed on what is known as financial

aid probation and ultimately lose eligibility for the program, although they do not necessarily face immediate financial consequences.³⁴ If the Pell grant program was restructured as a lending program, loan forgiveness could be an incentive for students to complete all their classes. Under such an approach, a student would receive a federal direct loan at the beginning of a term that would be forgiven at the end so long as the student completed all classes successfully. If circumstances beyond the student's control made that impossible, the institution might be permitted to extend the time or, under some circumstances, the loan might be forgiven altogether.

The net effect of this approach on federal outlays could be positive or negative, depending on the size of the average loan compared with the average Pell grant, the loans' interest rates, and the balance of several possible responses from students and instructors. The fact that some loans would be repaid would tend to reduce federal costs, as would any reduction in program participation by students who would find a forgivable loan less appealing than a grant.³⁵ But students who accepted forgivable loans might be more likely to complete their classes, and, as a consequence, could stay enrolled for a longer period, thus increasing costs.³⁶ This approach would provide a strong incentive for students to stay enrolled, but it also could lead instructors to inflate students' grades and provide students with an incentive to take less challenging classes.

34. Students who withdraw from one or more classes during a term, but not from the institution, see no reduction in their grant amounts. Students who withdraw completely during a term generally are not required to return their Pell grants but may be required to return other federal aid. Institutions also can face financial consequences. When students withdraw early in the term, the institution may be required to return some funds to the Department of Education; institutions may bill students for those repayments but there is no federal requirement to do so.

35. For additional information, see Alisa F. Cunningham and Deborah A. Santiago, *Student Aversion to Borrowing: Who Borrows and Who Doesn't* (Institute for Higher Education Policy, December 2008), <http://tinyurl.com/bn233rq>.

36. See Reshma Patel and Lashawn Richburg-Hayes, *Performance-Based Scholarships: Emerging Findings From a National Demonstration* (MDRC, May 2012), <http://tinyurl.com/cdx9zvc>; and Judith Scott-Clayton, "On Money and Motivation: A Quasi-Experimental Analysis of Financial Incentives for College Achievement," *Journal of Human Resources*, vol. 46, no. 3 (Summer 2011), pp. 614–646, <http://tinyurl.com/lkv6hnz>.

33. For further discussion of some of these approaches, see Sandy Baum and others, *Rethinking Pell Grants* (College Board Advocacy and Policy Center, April 2013), Appendix A, pp. 47–49, <http://tinyurl.com/lg64nzc>, *Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid, Report of the Rethinking Student Aid Study Group* (College Board, September 2008) <http://tinyurl.com/l27o4mo> (PDF, 1,171 KB), letter to Gaston Caperton, President of the College Board (April 14, 2011), <http://tinyurl.com/d9knhnn> (PDF, 352 KB), and "The Future of Pell Grants: 6 Views," *Chronicle of Higher Education*, Commentary (March 20, 2011), <http://tinyurl.com/c8st567>.

Table 6.

Summary of Arguments For and Against Alternatives to the Pell Grant Program

Approach	For	Against
Forgivable Loans	Would give students more incentive than the current program does to complete classes. Would produce budget savings to the extent that some loans are not forgiven and some students do not enroll in postsecondary education.	Would give students less incentive than the current program does to enroll in postsecondary education. Some students, particularly those who leave school without completing classes, could have more debt than they anticipated.
Grant Commitments to Middle and High School Students	Would provide low-income families with earlier and clearer information about the assistance available to help them pay for postsecondary education. Could change perceptions of affordability and perhaps induce more preparation for postsecondary education.	Would tend to provide less aid to families that become low-income (for example because of a parent’s loss of a job) when their students are in high school or already in postsecondary education.
Supplements to the States’ Grant Programs	Would reduce duplication of effort between federal and state grant programs. States could set most eligibility standards to match their circumstances, considering, for example, the mix of public and private institutions, demographics, and economic conditions.	Would provide less aid to students who want to study out of state. Students in some states who wanted to enroll in short vocational programs or in distance education might receive less aid than they would from a Pell grant. Depending on the details of the federal policy, some states might choose to offset the federal grants by shifting their own funds to other purposes.
Occupational Training Grants	Would assist students who currently are ineligible for the program because they already hold a bachelor’s degree or have chosen courses that cannot be funded under the current program’s rules.	Would assist some students at educational institutions not subject to the same federal oversight requirements as those participating in the current program. Would not cover expenses other than tuition.

Source: Congressional Budget Office.

A loan forgiveness program would be significantly more complicated to administer than the current Pell grant program is, both for the federal government and for institutions, because it would involve tracking class completion and require a process for review when students fail to complete courses.

Grant Commitments to Middle and High School Students

Under current law, a student’s eligibility for Pell grants is determined on the basis of a family’s AGI for the previous year, reflecting the assumption that federal aid can have the biggest impact on families whose current income is insufficient to pay for postsecondary education. However, some analysts support an alternative theory that low rates of college enrollment and completion by students from low-income families have more to do with insufficient preparation for postsecondary education, perhaps because

those students perceive that postsecondary study is academically or financially unattainable.

An alternative to the Pell grant program based on that theory would create what are often called college savings accounts for middle and high school students in low-income families. The accounts would represent grant commitments by the government beginning in middle school and growing each year until the student reached college age.³⁷ Advocates for such accounts believe that they could improve the educational outlook for

37. This option is based on a proposal in Sandy Baum and others, *Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid*, Report of the Rethinking Student Aid Study Group (College Board, September 2008) <http://tinyurl.com/l27o4mo> (PDF, 1,171 KB); and on “The Future of Pell Grants: 6 Views,” *Chronicle of Higher Education*, Commentary (March 20, 2011), <http://tinyurl.com/c8st567>.

low-income students and encourage low-income parents to increase their engagement in their children's education, conceivably by stressing the importance of doing well in school, monitoring their children's progress, and helping their children to overcome obstacles to preparing for college.³⁸

The amount that the government committed to help pay for postsecondary education in the future would be recorded each year and would depend on family income (perhaps being tied to AGI or set on the basis of information collected by the government in determining eligibility for free and reduced-price school meals). The amount recorded in the accounts would be adjusted annually for inflation, perhaps offsetting some increases in educational costs; and families would receive annual statements projecting the amount available when the student turns 18. The funds would be disbursed and outlays recorded in the budget when the student enrolled, as is the case for Pell grants. The amount of money recorded in the accounts would be available until the student reached a certain age, perhaps as young as 25 or as old as 65.

The details of the transition from the Pell grant program to a system of accounts for paying for education expenses, which could take several decades, would be important. If, for example, accounts were established for all 12-year-olds, students who were 13 or older could continue to apply for Pell grants for at least the subsequent 20 years. Establishing accounts and making larger commitments on behalf of 13- to 15-year-old students might speed up the transition, although the period during which the accounts could influence those students to prepare for postsecondary education would be shorter than it would be for 12-year-olds.

38. A program in Kentucky makes annual GPA-based awards to high school students. See Kentucky Higher Education Assistance Authority, KHEAA-Administered Programs, "Kentucky Educational Excellence Scholarship" (accessed August 27, 2013), www.kheaa.com/website/kheaa/kees?main=2. Michigan and Oklahoma provide matching funds for some college savings accounts (known as 529 plans) of low- and middle-income families. The Canadian government makes deposits into accounts for children from low-income families that continue as long as families continue to qualify.

Whether replacing Pell grants with such accounts would increase or decrease federal costs would depend in part on the transition, but more important would be the formula used to determine the government's commitments. If that formula was designed to keep average benefits similar to those projected for Pell grants, families that did not qualify for the accounts until their students were in their later high school years or already in postsecondary education would tend to qualify for less aid than they would under the current Pell grant program, and those who qualified much earlier would qualify for more aid than they would under the current program.

Supplements to States' Grant Programs

More than 4.1 million students in 2009–2010 received a combined total of \$9.4 billion dollars in state grants to fund their postsecondary education.³⁹ All 50 states and Washington, D.C., have such programs. For example, in 2009–2010, 220,000 students in California received a total of \$1 billion under the Cal Grant program; New York's Tuition Assistance Program granted about \$900 million to 330,000 students; and Pennsylvania's State Grant Program gave more than \$400 million to about 170,000 students. The programs' structures vary, in part because each state has particular circumstances and policy goals. To encourage top students to attend in-state institutions, for example, many states operate both merit-based and need-based programs.

As an alternative to the Pell grant program, the federal government might establish matching or block grant programs to supplement states' need-based grants. One such program has already been created: In 1972, lawmakers authorized the Leveraging Educational Assistance Program (formerly the State Student Incentive Grant Program) to provide matching funds for states' programs for need-based postsecondary grants. (Funding for that program declined significantly in the late 1990s; since fiscal year 2010, the program has not been funded.)

Occupational Training Grants

The rules of the Pell grant program prohibit grants for occupational training that is not part of a certificate or degree program, thus excluding many adult education

39. Sandy Baum and others, *Beyond Need and Merit Aid Programs: Strengthening State Grant Programs* (Brookings Institution, May 2012), Appendix B, <http://tinyurl.com/l4lzc6>.

classes, evening classes at colleges, and online courses. In addition, some institutions that offer occupational certification may be unwilling to incur the costs and obligations of participating in federal financial aid programs. And some students in occupational training programs are ineligible to receive Pell grants because they already have a bachelor's degree.

As a supplement or alternative to the Pell grant program, the government could fund grants specifically for occupational training. Various restrictions could control costs and give applicants incentives to make informed choices about the best types of programs to pursue. For example, assistance could be limited to tuition, to a maximum amount per credit hour, or to a maximum amount per recipient. To create additional incentives for applicants to commit sufficient time and energy to their education, the program could reimburse students upon completion instead of upon enrollment.

The advantages and disadvantages of occupational training grants would depend on the program's design. One likely advantage is that tuition for occupational education can be much less than that charged for other programs.⁴⁰ One possible disadvantage is that new programs might be created that did not meet the same educational standards that are now applied to currently participating institutions in the Pell grant program.

40. One study demonstrated that tuition was 78 percent higher at for-profit institutions participating in federal student aid programs under title IV of the Higher Education Act (which includes the Pell grant program) than it was at similar, nonparticipating institutions. See Stephanie Riegg Cellini and Claudia Goldin, *Does Federal Student Aid Raise Tuition? New Evidence on For-Profit Colleges*, Working Paper 17827 (National Bureau of Economic Research, February 2012), www.nber.org/papers/w17827.

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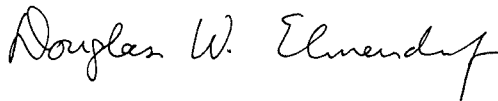
About This Document

This report was prepared at the request of the Ranking Member of the Senate Committee on the Budget. In keeping with the Congressional Budget Office's (CBO's) mandate to provide objective, impartial analysis, the report makes no recommendations.

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