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By Constance Rhind

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The article analyzes the impacts of legislated changes on both program recipients and federal costs. For example, it estimates the changes in the numbers of independent and dependent recipients which will result from the new legislation. It also analyzes the changes in award amounts received by students. Finally, the article discusses the effects of particular new provisions of the Pell Grant program on its cost. This article is drawn from the February 1993 Congressional Budget Office (CBO) Staff Memorandum "Pell Grants: The Effect of the Higher Education Amendments of 1992."

During the 1992–1993 school year, based on provisions in the Department of Education Appropriations Act of 1992, the Federal Pell Grant Program provided aid to about 4 million needy undergraduate students at an estimated cost of more than $6 billion.[1] It is the federal student aid program most closely targeted toward low-income students.

Effective with the 1993–1994 school year, the program changed significantly. The Higher Education Amendments of 1992 modified the program's eligibility and benefit rules, changing the numbers and types of students who receive aid. In addition, the Department of Education Appropriations Act of 1993 reduced somewhat the maximum allowable Pell award. This article compares and contrasts the new Pell Grant program with the old program in terms of rules, costs, and the mix of students served. Appendix A summarizes this discussion.

Both authorizing and appropriation legislation affect the Pell Grant program. The program's authorizing legislation establishes the rules under which the program operates and sets the maximum authorized award; the appropriation legislation, however, often lowers the maximum award to meet the government's overall goals for domestic discretionary spending. For example, in the 1992–1993 school year, the maximum authorized award was $3,100, but the maximum appropriated award was $2,400. Similarly, in the 1993–1994 school year, the maximum authorized award is set at $3,700, whereas the maximum appropriated award is $2,300. Given the changes stemming from the Higher Education Amendments and the $2,300 maximum award set by the 1993 Appropriations Act, the estimated total cost of the Pell Grant program for school year 1993–1994 is about $6 billion, with roughly 4 million students expected to receive awards.[2]

Describing the Old System

In the version of the Pell Grant program that operated through school year 1992–1993, students' eligibility for Federal Pell Grants and the size of their awards depended on three factors: the amount the government expected them and their families to contribute to their educational costs, the cost of attendance at the school they chose, and whether they attended full-time or part-time (see the next section).

The program used formulas to calculate the expected family contribution (EFC) for each applicant; these formulas are collectively known as "need analysis." The EFC is determined by what is essentially a progressive tax formula: need analysis "taxed" the income and assets of a family that were greater than the amounts assumed to be required for a basic standard of living. In so doing, it made adjustments for such characteristics as the size of the family, unusual medical expenses, the number of family members enrolled in postsecondary educational institutions, private elementary or secondary school tuition for the siblings of college students, and the amount of federal and state taxes the family paid.

"The rather stringent eligibility and award rules of the Pell program, as well as the level of the maximum award, have meant that most recipients have low family incomes."

The dependency status of students also influences their EFCs. Students are classified as either independent or dependent. Under the old Pell Grant program rules, independent students were those who met any of the following criteria: at least 24 years old; a veteran; married and not declared as a dependent on their parents' federal income tax return in the current year; having legal dependents other than a spouse; or single, not claimed as a dependent on their parents' income tax return in the previous two years, and having financial resources of at least $4,000 in each of those years. Except in special circumstances, other Pell applicants were classified as dependent. About 65% of the program's recipients in the 1992–1993 school year were independent students.

For a dependent student, the EFC consists of contributions by parents and the student. In contrast, the parents of an independent student are not expected to contribute to their child's educational costs. The spouse of an independent student, however, is expected to contribute.

A Pell Grant formula determined the EFCs for students applying for Pell Grants. In contrast, Federal Stafford Loans and campus-based aid used a different mechanism, known as the Congressional Methodology (CM), for their awards. One of the goals set by Congress for Reauthorization was to establish one system of need analysis for all federal programs that provide student aid. The Higher Education Amendments of 1992 achieved this goal by adopting a modified form of the CM for determining need in all types of federal student aid programs.

The old Pell Grant formula and the old CM are similar in concept but different in some specifics. Both methodologies base the expected contribution from parents for dependent students on the parents' income and assets. They determine discretionary income by allowing certain deductions from a family's total income, including those for expenses that are required (such as federal and state taxes), necessary (basic living expenses), related to acquiring income (employment allowance), or unusual (medical expenses and private school tuition). Discretionary income is typically lower under the CM than under the Pell Grant formula; for example, the CM, unlike the Pell Grant formula, deducts a family's Social Security taxes from its total income and generally provided a higher allowance for living expenses. Another way in which the systems are similar is that both methods consider a portion of the parents' net assets to be available to pay for the costs of postsecondary education.

Differences between the two methodologies arose in figuring the contribution to the EFC from income and assets. The Pell Grant formula applied separate "tax" schedules to discretionary income and available assets. The tax rate on discretionary income started at 11% for amounts up to $5,000 and rose to 25% for amounts over $15,000. The rate on available assets was a flat 5%. These amounts were added together to calculate the parents' contribution.

In contrast, the CM added discretionary income to the income supplement—that is, up to 12% of the available assets—to determine the adjusted available income. It then applied a single tax schedule to this amount to determine the parents' contribution to the EFC. The tax rate rose from 22% for adjusted available incomes below $9,300 to 47% for those above $18,700. For the majority of applicants, the CM generated a higher EFC than the Pell Grant formula in part because it required most students to contribute at least several hundred dollars toward their education. In contrast, the Pell Grant formula led to EFCs of zero for many students. Along with other changes, the modified form of the CM adopted in the Higher Education Amendments of 1992 eliminates the minimum student contribution.

Educational costs also affected the amount of Pell awards. The allowed cost of attendance comprised the actual tuition and fees plus an allowance for nontuition expenses. For the roughly 20% of recipients who live with their parents, this nontuition allowance was $1,800 in the 1992–93 school year; for all other students, it was $2,400. The allowed cost of attendance, therefore, depended on the decisions of students and their families: their choice of institution determined tuition and fees, and living at home or away from home determined the amount of the allowance for nontuition expenses.

After a student's EFC and allowed cost of attendance were calculated, the award level was determined by choosing the smallest of the following: the maximum award minus the EFC, 60% of the allowed cost of attendance, or the allowed cost of attendance minus the EFC. Students whose awards were calculated to be less than $200 received no grant. The first calculation affected about 80% of recipients; the second affected roughly 20% of recipients, mostly low-income students attending low-cost institutions; and the third affected less than 1% of recipients.

The maximum award for the 1992–1993 school year was set by the 1992 Appropriations Act at $2,400. Only students whose EFCs were less than $2,200 (the $2,400 maximum award minus the $200 minimum award) were eligible to receive a Pell Grant during this school year. An EFC of less than $2,200 generally corresponded to a family income of less than about $35,000 for dependent students and an income of less than about $20,000 for independent students.

Characterizing Pell Grant Recipients Under The Old Program

The rather stringent eligibility and award rules of the Pell program, as well as the level of the maximum award, have meant that most recipients have low family incomes. An estimated 72% of independent recipients in the 1992–1993 school year had incomes of $10,000 or less (see Table 1). Of those, most had financial conditions that resulted in EFCs of zero—that is, they were not expected to contribute anything toward their education. An additional 22% of independent recipients had incomes between $10,001 and $25,000. Because dependent students and their parents generally have higher incomes and more assets than do independent students and their spouses, dependent students were generally expected to contribute considerably more, and their calculated need for aid was correspondingly less. An estimated 36% of all dependent recipients had family incomes at or below $10,000, and about 75% had family incomes at or below $25,000.

Lower EFCs generally corresponded to higher Pell awards (see Table 2). For example, those independent recipients who were not expected to contribute to the cost of their education received an average award of $1,720; those who were expected to contribute between $1,001 and $2,200 received an average award of $680. The overall average award for an independent recipient was roughly $1,540. The average award for dependent recipients was $1,480; awards for these recipients range from $1,860 for those who were not expected to contribute to their educations to $750 for those who were expected to contribute more than $1,000.

In Table 2, the differences in the average awards by cell for independent and dependent recipients stem primarily from differences in

TABLE 1
Estimated Distribution of Pell Grant Recipients By Expected Family Contribution, Adjusted Gross Income, and Dependency Status, School Year 1992–1993 (As percentage)

	Adjusted Gross Income[a]				
Expected Family Contribution	**$0– $10,000**	**$10,001– $25,000**	**$25,001– $40,000**	**$40,000+**	**Total**
		Independent[b]			
$0	63	4	c	c	67
$1–$500	4	9	c	c	13
$501–$1,000	3	5	1	c	9
$1,001–$2,200	3	4	4	c	11
Total	72	22	6	c	100
		Dependent[b]			
$0	27	7	c	c	33
$1–$500	6	14	2	c	22
$501–$1,000	1	9	5	c	16
$1,001–$2,200	1	9	14	5	29
Total	36	39	20	5	100

Source: Congressional Budget Office estimates using 1989–1990 Pell Grant applicant data.

Note: The maximum award in this analysis is $2,400.

[a]Adjusted gross income (AGI) is that income used to calculate federal income taxes. The AGI for dependent students is the AGI of their parents, and the AGI for independent students is their own AGI.
[b]As defined under the old program.
[c]Less than 0.5 percent.

TABLE 2
Estimated Average Pell Grant By Expected Family Contribution, Adjusted Gross Income, and Dependency Status, School Year 1992–1993 (In dollars)

	Adjusted Gross Income[a]				
Expected Family Contribution	**$0– $10,000**	**$10,001– $25,000**	**$25,001– $40,000**	**$40,000+**	**All**
		Independent[b]			
$0	1,720	1,720	c	c	1,720
$1–$500	1,650	1,540	c	c	1,570
$501–$1,000	1,280	1,200	1,160	c	1,220
$1,001–$2,200	820	640	640	c	680
All	1,670	1,320	790	c	1,540
		Dependent[b]			
$0	1,850	1,900	c	c	1,860
$1–$500	1,910	1,830	1,780	c	1,850
$501–$1,000	1,470	1,470	1,460	c	1,470
$1,001–$2,200	800	840	730	610	750
All	1,810	1,520	990	660	1,480

Source: Congressional Budget Office estimates using 1989–1990 Pell Grant applicant data.

Note: The maximum award in this analysis is $2,400.

[a]Adjusted gross income (AGI) is that income used to calculate federal income taxes. The AGI for dependent students is the AGI of their parents, and the AGI for independent students is their own AGI.
[b]As defined under the old program.
[c]The size of the sample is too small to estimate the average award reliably.

the attendance status of these recipients. When the averages are calculated for full-time, full-year recipients, the average awards by cell of dependent recipients are closer to those of independent recipients (see Appendix B). The remaining differences in the averages by cell are attributable primarily to differences in the allowable cost of attendance.

Pell recipients attended one of three types of schools: public (60% of recipients), private (18%), and proprietary (23%) (see Table 3). Dependent recipients were more likely than independent recipients to attend private colleges and less likely to attend proprietary schools. Roughly the same percentage of both groups attended public colleges.

Although the vast majority of recipients are full-time students, a sizable minority of independent recipients attend school part-time. Most of the part-time recipients are half-time students. Congress appropriated funds for less-than-half-time students only in fiscal years 1989 and 1993.

Comparing the Old and New Pell Grant Programs

The new Pell Grant program changed the rules that determine the size of the awards, thereby expanding the amount of aid available to some families and limiting the amount available to certain others. For example, the new program expands aid to some families by excluding house and farm equity from the calculation of financial assets. It also permits financial aid administrators at postsecondary institutions to exercise discretion in calculating awards and allows less-than-half-time students to receive Pell Grants. The new law, however, tightens the definition

TABLE 3
Estimated Distribution of Pell Grant Recipients By Dependency Status, Type of Institution, and Attendance Status, School Year 1992–1993 (As percentage)

	Dependency Status[a]		
	Dependent	**Independent**	**Total**
	Type of Institution		
Public	64	57	60
Private	25	14	18
Proprietary[b]	12	29	23
Total	100	100	100
	Attendance Status		
Full Time	90	71	78
Three-Quarters Time	3	7	5
Half Time	8	22	17
Total	100	100	100

Source: Congressional Budget Office estimates using 1989–1990 Pell Grant applicant data.

[a]As defined under the old program.
[b]Private, for-profit institutions that typically provide job training.

NB: Numbers may not add to totals because of rounding.

of independent students. In addition, the maximum appropriated Pell award was reduced from $2,400, its level in the 1992–1993 school year, to $2,300 for the 1993–1994 school year.

The number of independent recipients in the new program is projected to decline by about 200,000—from 2.6 million to 2.4 million—from what it would have been under the old program (see Table 4).[3] More specifically, the number of independent recipients with incomes at or below $10,000 is expected to decline by 300,000 (from about 1.9 million to about 1.6 million) primarily because of the tightening of the definition of an independent student. The number of independent recipients with incomes greater than $10,000 is expected to increase. The distribution of dependent recipients is expected to remain largely unchanged.

Award Levels

Budgetary pressures resulted in a reduction in the maximum Pell award to $2,300 for the 1993–1994 school year. The new minimum award is $400, and students eligible for awards of between $200 and $399 receive $400. Under the new program, at the maximum appropriated award, all applicants who are expected to contribute less than $2,100 toward their education (generally dependent students with family incomes of less than about $30,000 and independent students with incomes of less than $20,000 or so) will be able to receive an award. In comparison, the EFC threshold was $2,200 in school year 1992–1993 using the old rules.

Definition of Independent Students

The new program tightens the definition of an independent student.

TABLE 4
Estimated Distribution of Pell Grant Recipients By Adjusted Gross Income and Dependency Status, School Year 1993–1994

	Adjusted Gross Income				
	$0– $10,000	$10,001– $25,000	$25,001– $40,000	$40,000+	All
	Number of Recipients (In thousands)				
	Independent				
Old Program	1,880	590	150	10	2,630
New Program	1,570	680	170	10	2,430
	Dependent				
Old Program	540	590	290	60	1,480
New Program	530	610	320	60	1,520
	Percentage Distribution				
	Independent				
Old Program	72	22	6	[a]	100
New Program	64	28	7	[a]	100
	Dependent				
Old Program	36	40	20	4	100
New Program	35	40	21	4	100

Source: Congressional Budget Office estimates using 1989–1990 Pell Grant applicant data.

Notes: Estimates for the old program use the old definition of independent students. Those for the new program use the new definition—that is, single, childless, independent students under age 24 will be considered dependent students.

The maximum award in this analysis is $2,300.

[a]Less than 0.5 percent.

NB: Numbers may not add to totals because of rounding.

Under the new rules, an independent student is one who meets any of the following criteria:

- At least 24 years old;
- A veteran;
- Married; or
- Having legal dependents other than a spouse.

The definition does not include a category of students previously classified as independent: single students age 23 or younger who were not claimed as a dependent by their parents for income tax purposes in the two years previous to their applying for a grant, and who had financial resources of at least $4,000 in each of those years.[4] This group comprises 290,000 students—roughly 10% of students classified as independent under the old law.

An estimated 25%—or 70,000—of these students who are no longer classified as independent are assumed to receive awards as dependent students under the new law. This group consists of students whose parents have few financial resources; consequently, they are assumed to receive awards similar to those given under the old definition.

The remaining 75% of these formerly independent students—about 220,000 people—are assumed to be ineligible as dependent students. The effect of their status on whether they actually enroll in postsecondary education is likely to be small, however, because their parents presumably will have sufficient resources to help finance their education. (They might, however, choose to attend different schools with somewhat lower costs.) This exclusion is expected to lead to estimated savings of about $250 million in fiscal year 1993 (school year 1993–1994), compared with the cost of the new program without this change.

"Excluding single, childless, independent students younger than age 24 from consideration, an estimated 50% of recipients are expected to receive within $100 of what they would have received under the old rules.

Need Analysis and Award Rules

The new law uses a modified version of the CM to calculate a student's need for a Pell Grant. Additional changes include removing house and farm equity from a family's "taxable" assets and extending the simplified needs test to a larger group of students. The new system also simplifies the award rules used to determine the amount of the Pell Grant.

Overall Effect

Excluding single, childless, independent students younger than age 24 from consideration (the group that will be newly classified as dependent students), an estimated 50% of recipients are expected to receive within $100 of what they would have received under the old rules (see Table 5).[5] An estimated 15% are expected to lose $100 or more, and an estimated 35% are expected to gain $100 or more. Most of those losing or gaining at least $100 are expected to receive within $500 of what their award would have been under the old rules.

About 25% of dependent students are expected to receive an award at least $100 smaller than the one they would have received under the old rules (about half of these students are expected to lose at least $500), 35% are expected to receive about the same award, and 39% are estimated to receive an award at least $100 larger than the award that would have been made in 1992 under the old program. The impact on single, childless, independent students age 24 or older is expected to be similar. About half of them are expected to receive within $100 of what they would have received under the old rules. An estimated 23% are expected to lose $100 or more (and about half of these students are expected to lose at least $500), and an estimated 28% are expected to gain $100 or more.

The changes are expected to have a smaller effect on the distribution of awards to married independent students and independent students with children. An estimated 72% of independent students with children and 51% of married students are expected to receive an award that is roughly the same size as the award that they would have received under the old program. Almost all of the others are expected to gain at least $100.

On average, single, childless, independent students age 24 or older are estimated to lose $50 when compared with the old program at a

TABLE 5
Estimated Distribution of Pell Grant Recipients By The Change in Award Under The Old Versus New Rules and By Dependency Status, School Year 1993–1994 (As percentage)

			Independent		
Change in Pell Award (In dollars)	All	Dependent	Single, Childless, Age 24 or Older	Single, with Children	Married
−2,300 to −1,000	2	4	4	[a]	1
−1,000 to −500	5	8	8	[a]	1
−500 to −100	8	13	12	1	4
−100 to 100	50	35	49	72	51
100 to 500	24	25	14	22	34
500 to 1,000	7	10	8	4	7
1,000 to 2,300	3	5	7	1	1
Total	100	100	100	100	100

Source: Congressional Budget Office estimates using 1989–1990 Pell Grant applicant data.

Notes: Single, childless, independent students younger than age 24 will be treated as dependent students in the new program. These students are excluded from the table because the data set includes no information on the financial resources of their parents; consequently, the estimate for this group is done "out of the model." Thus, all students included in this table had the same dependency status under the old law as under the new.

To show the effects of the new rules, the maximum award in this analysis is assumed to be $2,300 under both the old and new programs.

[a]Less than 0.5 percent.

NB: Numbers may not add to totals because of rounding.

maximum award of $2,300 (see Table 6). Single independent students with children are expected to gain an estimated $80, and married independent students are expected to gain an estimated $100. Students defined as dependent under both the new and the old definitions are expected to gain an average of $60.

House and Farm Equity

The new law excludes all house and farm equity from need analysis, whereas in the old program these assets were taxed. By not treating these assets like other assets, the total cost of the new program is estimated to increase by more than $100 million in fiscal year 1993, compared with the cost of the program without this provision. Furthermore, the cost of this provision is expected to grow over time as more families with large amounts of house equity learn that they may be eligible for Pell Grants.

Simplified Needs Test

In assessing need, the old program did not require consideration of the assets of applicants with family incomes of $15,000 or less who filed a 1040A or 1040EZ income tax form or who did not have to file a federal tax form. Applicants who opted for the simplified needs test did not provide information on house and farm equity or other assets (other real estate, financial investments, cash, savings accounts, and checking accounts).

TABLE 6
Estimated Average Awards for Pell Grant Recipients Under The Old and New Programs By Dependency Status, School Year 1993–1994 (In dollars)

Status	Old Program	New Program	Change
	Independent		
Single, Childless, Age 24 or Older	1,540	1,490	−50
Single, with Children	1,530	1,600	80
Married	1,370	1,480	100
	Dependent		
All	1,440	1,500	60

Source: Congressional Budget Office estimates using 1989–1990 Pell Grant applicant data.

Notes: Single, childless, independent students younger than age 24 will be treated as dependent students in the new program and are excluded from the table. Thus, all students included in this table had the same dependency status under the old law as under the new.

The maximum award in this analysis is assumed to be $2,300 under both the old and new programs.

NB: Numbers may not add to totals because of rounding.

The new program extends this provision to all applicants with family incomes of $50,000 or less who do not have to file a 1040 form; it also excludes the income of dependent students from family income for this test. Because the new program already excludes house and farm equity and few of the current applicants with incomes of $50,000 or less have other assets above the deductible amount, the estimated additional cost of extending the simplified needs test is less than $50 million in fiscal year 1993.

Another component of the new simplified needs test is its treatment of dependent applicants and independent applicants with children who have family incomes below the maximum level necessary to receive the maximum earned income tax credit, rounded to the nearest $1,000 ($12,000 in 1992), and who do not file a 1040 income tax form. These applicants are not required to contribute toward their education. An estimated 35% of these applicants have incomes below the $12,000 threshold in 1993, and approximately 80% of them would not be expected to pay anything even without this aspect of the simplified needs test. The estimated cost of this provision is $100 million in fiscal year 1993.

Award Rules

The new program also simplifies the rules used to award Pell Grants. In particular, the new award rules remove the limitation that students may not receive an award that is more than 60% of their cost of attendance—a rule that primarily affected poor students at low-cost schools. In the new program, at a maximum award of $2,300, the award for an eligible applicant is the lower of $2,300 minus the EFC or the total cost minus the EFC. (The total cost now equals tuition and miscellaneous expenses plus not less than $2,500 for students living off campus, not less than $1,500 for students living at home, or an institutionally determined allowance for room and board for students living in dorms.) The second award rule—the total cost minus the EFC—affects only a negligible number of students.

Discretion of Financial Aid Administrators

The authorizing language for the old Pell Grant program allowed financial aid administrators at postsecondary schools to exercise discretion in setting students' EFCs, provided the administrators documented their rationale. However, this discretion was not supported by funding in the appropriations act for any fiscal years except 1988 and 1993. For 1988, the total cost of the provision was $33 million, and it affected nearly 100,000 recipients. About 75% of this cost—most of which took place at public schools—was attributable to administrators' using the projected year's income instead of the prior year's income in the need analysis. Some administrators used their discretion to limit the awards or eligibility of some students.

The new Pell Grant program also allows for discretion by financial aid administrators to make individual adjustments to the cost of attendance or the values of the data items required to calculate the expected student or parent contribution (or both). The estimated cost of this provision is $40 million.

Eligibility for Less-Than-Half-Time Students

Under the old law, students with EFCs of less than $200 who attended school less than half time were authorized to receive Pell Grants, but funding for this provision was provided only in fiscal year 1989 and only for less-than-half-time students who had EFCs of zero. Fewer than 2,000 such students were awarded grants in that year.

In fiscal year 1993, all less-than-half-time students became able to receive Pell awards. Based on the experience of the program in fiscal year 1989, the estimated cost of this provision is small for the first year—$10 million. The cost is expected to rise rapidly thereafter, as schools and current and potential students become aware of the expanded availability of aid.

Notes

[1]The Pell Grant program is forward funded, in the sense that funds appropriated for a given fiscal year's budget are actually spent primarily during the next school year. For example, the funds appropriated for the 1993 fiscal year budget are spent mainly in the 1993–1994 school year.

[2]All costs are reported in terms of budget authority. Estimates in this paper use the 1989–1990 end of year sample file of Pell Grant applicants (hereafter referred to as the 1989–1990 Pell Grant applicant data).

[3]For a description of the estimating procedures used in these calculations, see Appendix C.

[4]In the old program, married students who were claimed as dependents on their parents' income tax returns were considered dependent students. Starting in the 1993–1994 school year, all married students were considered independent. This provision affects only about 2,000 applicants.

[5]The students who are newly classified as dependent are excluded from this analysis because the data set used here includes no information on the financial resources of their parents. Consequently, to estimate the cost of the new program, their awards must be approximated by "rules of thumb" rather than on the basis of specific financial information.

APPENDIX A
Comparing the Old and New Pell Grant Programs

Old Program	New Program
Award Levels	
The language of the appropriations act set the maximum award at $2,400 for school year 1992–1993. The minimum award was $200.	The language of the appropriations act sets the maximum award at $2,300 for school year 1993–1994. The minimum award is $400. Students who would receive between $200 and $399 will receive $400.
Award Rules	
Awards were determined by choosing the smallest of the following three calculations: ■ The maximum award minus the expected family contribution (EFC); ■ Sixty percent of the cost of attendance; or ■ The cost of attendance minus the EFC.	At a maximum award of $2,300, grants are determined by the lower of the following two calculations: ■ The maximum award minus the EFC; or ■ The total cost minus the EFC.
Need Analysis	
Pell Grant formula.	Modified Congressional Methodology.
Definition of an Independent Student	
An independent student was one meeting any of the following criteria: ■ At least 24 years old; ■ A veteran; ■ Married and not declared as a dependent on parents' federal income tax return in the current year; ■ Having legal dependents other than a spouse; or ■ Single, not claimed as a dependent on parents' income tax return in the previous two years, and with financial resources of at least $4,000 in each of those years.	An independent student is one meeting any of the following criteria: ■ At least 24 years old; ■ A veteran; ■ Married; or ■ Having legal dependents other than a spouse.
Treatment of House and Farm Equity	
"Taxed" at 5% after the first $30,000 of house equity and the first $100,000 of farm equity.	Not included in the need analysis for any family.
Simplified Needs Test	
Applicants with family incomes of $15,000 or less who filed a 1040(A) or 1040(EZ) income tax form or were not required to file any tax forms were able to exclude their assets from the need analysis.	Applicants with family incomes (excluding a dependent student's income) below $50,000 who do not have to file a 1040 income tax form may exclude their assets from the need analysis. Dependent applicants and independent applicants with dependent children who do not file a 1040 income tax form and whose family incomes fall below the (rounded) maximum level of income necessary to receive the maximum earned income tax credit ($12,000 in 1992) will have their EFCs set at zero.

Discretion for Financial Aid Administrators	
The authorizing language allowed financial aid administrators to use their discretion in calculating students' EFCs. The appropriations act removed this discretion every year except fiscal year 1988.	The authorizing language continues to allow financial aid administrators to use their discretion in calculating students' EFCs. The appropriations act allows this discretion in fiscal years 1993 and 1994.
Eligibility for Less-Than-Half-Time Students	
The authorizing language allowed some less-than-half-time students to receive awards. The appropriations act removed this provision every year except fiscal year 1989.	The authorizing language allows less-than-half-time students to be eligible for awards. The appropriations act allows such eligibility in fiscal years 1993 and 1994.

Source: Congressional Budget Office.

APPENDIX B
Estimated Average Pell Grant for Full-Time, Full-Year Recipients By Expected Family Contribution, Adjusted Gross Income, and Dependency Status, School Year 1992–1993 (In dollars)

	Adjusted Gross Income				
Expected Family Contribution	**$0–$10,000**	**$10,001–$25,000**	**$25,001–$40,000**	**$40,000+**	**All**
		Independent[a]			
$0	2,300	2,320	b	b	2,310
$1–$500	2,100	2,110	b	b	2,110
$501–$1,000	1,650	1,680	1,610	b	1,660
$1,001–$2,200	1,050	810	850	b	880
All	2,220	1,780	1,070	b	2,070
		Dependent[a]			
$0	2,240	2,240	b	b	2,240
$1–$500	2,170	2,090	2,000	b	2,110
$501–$1,000	1,670	1,650	1,620	b	1,640
$1,001–$2,200	920	930	800	660	820
All	2,150	1,720	1,090	720	1,670

Source: Congressional Budget Office estimates using 1989–1990 Pell Grant applicant data.

Note: The maximum award in this analysis is $2,400.

[a]As defined under the old program.
[b]The size of the sample is too small to estimate the average award reliably.

APPENDIX C
Estimating the Effects of the Higher Education Amendments Of 1992 Using CBO's Pell Grant Model

This appendix describes the simulation model and data base that the Congressional Budget Office (CBO) uses to estimate the distributional effects and federal costs of the Pell Grant program for both the 1993-1994 school year and future years.[1] Using detailed income, asset, and demographic data for individual students and their families and characteristics of the postsecondary schools that the students attend, the model is used to estimate how much students and their families would be expected to contribute to educational costs under the old and new versions of the program. The model also simulates program participation and estimates the amount of federal support necessary to fund the program, based on families' expected contributions, the award rules, and the maximum appropriated grant.

Describing the Data Base

The estimates in this staff memorandum are based on the Department of Education's sample of Pell Grant applicants and recipients for the 1989-1990 school year, the latest year for which complete data were available at the time of the reauthorization of the Higher Education Act in the summer of 1992.[2] The sample was drawn from all those who applied for Pell Grants and the vast majority of those who applied for other federal financial aid. The information in the data base includes those data that the Department of Education needed in the 1989-1990 school year to determine students' eligibility for Pell Grants and to calculate their awards: detailed measures of income and assets for students and their families, calculations of the families' expected contributions, and information about the schools the students chose to attend.

The data base contains information on roughly 180,000 applicants (including about 105,000 recipients)—or about 3% of the 6.2 million undergraduate students who filed valid Pell Grant applications.[3] The Department of Education imputed several pieces of information to each student's record, including data on living arrangements and, for nonrecipients, educational costs and full- or part-time enrollment status.

Before adjusting the data to represent future years, CBO used the information about the expected contributions of specific families to check that the model was correctly programmed. Because information was available for both the Pell Grant formula and the Congressional Methodology, CBO examined both systems of need analysis.

Adjusting the Data for Future Years

Because the data base represents the 1989–1990 school year, CBO adjusted many initial variables—including the number of applicants, their incomes and assets, and the cost of attending school—to estimate costs for the 1992–1993 and 1993-1994 school years. Because all eligible applicants do not actually receive Pell Grants, CBO also developed a method to determine which eligible individuals would participate in future years.

Each estimate involves several years. Because the Pell Grant program is forward funded, the fiscal year for which CBO estimates federal costs is the year before the school year in which the grants are used. In addition, the law requires that, in general, the determination of the expected family contributions (EFCs) use the families' incomes in the calendar year preceding the fiscal year under consideration. (The rationale is that this year is the latest for which complete data are available when students apply for aid.) For example, fiscal year 1993 funding will support Pell Grants in the 1993–1994 school year based on students' and families' incomes in calendar year 1992.

Projecting the Number of Applicants

The new program also simplifies the rules used to award Pell Grants.

CBO increased the number of Pell Grant applicants in the data base to take into account the actual expansion in the number of applicants that occurred between the 1989–1990 and 1990–1991 school years and the expected increase in later years. It estimated that about 8.3 million students would apply for Pell Grants in the 1993–1994 school year—an increase of 34% compared with 1989-1990. Because the numbers of independent and dependent applicants have been growing at different rates during recent years, CBO increased the numbers of independent and dependent students in its sample by different amounts over this period: 42% for independent students and 26% for dependent students.

Using Inflation Factors for Incomes, Assets, and School Costs

CBO adjusted family incomes, assets, and school costs for changes between the year for which the data were collected or imputed and the estimation year. For past years, CBO used actual changes in indexes to inflate these variables; for future years, it used its own economic assumptions. In each case, CBO used the index that pertains closely to the specific variable. For example, it adjusted family incomes by the change in personal income per household and adjusted tuitions similarly, using the relevant inflators for public, private, and proprietary schools and for two- and four-year colleges.

Determining Participation

To determine which eligible people would receive grants in future years, CBO divided the sample into three categories according to a person's status in 1989–1990: recipients, eligible nonrecipients, and ineligible individuals. CBO assumed that recipients and eligible nonrecipients would behave in the same way in future years as they did in 1989-1990. Recipients would always participate if eligible, and eligible nonrecipients would not participate, regardless of eligibility. For ineligible individuals, CBO assumed that if they became eligible under future proposed changes, the percentage of participants would be the same as the percentage of participants from among currently eligible applicants. This calculation was based on both income and dependency status variables. Overall, 82% of eligible dependent students and 73% of independent students are assumed to participate.

Appendix Notes

[1]The appendix is based on an April 1987 CBO Staff Working Paper, "Estimating the Federal Costs and Distributional Effects of Pell Grants." All costs are reported in terms of budget authority.

[2]The model is updated each year as new data become available.

[3]Approximately 71% of the valid applicants were eligible for grants, and about 76% of those eligible persons, or 3.3 million students, received aid in the 1989-1990 school year.