

# Window of Opportunity: Targeting Federal Grant Aid to Students with the Lowest Incomes

BY COURTNEY MCSWAIN

WITH ASSISTANCE FROM ALISA F. CUNNINGHAM, WENDY ERISMAN, PH.D., AND JAMIE P. MERISOTIS

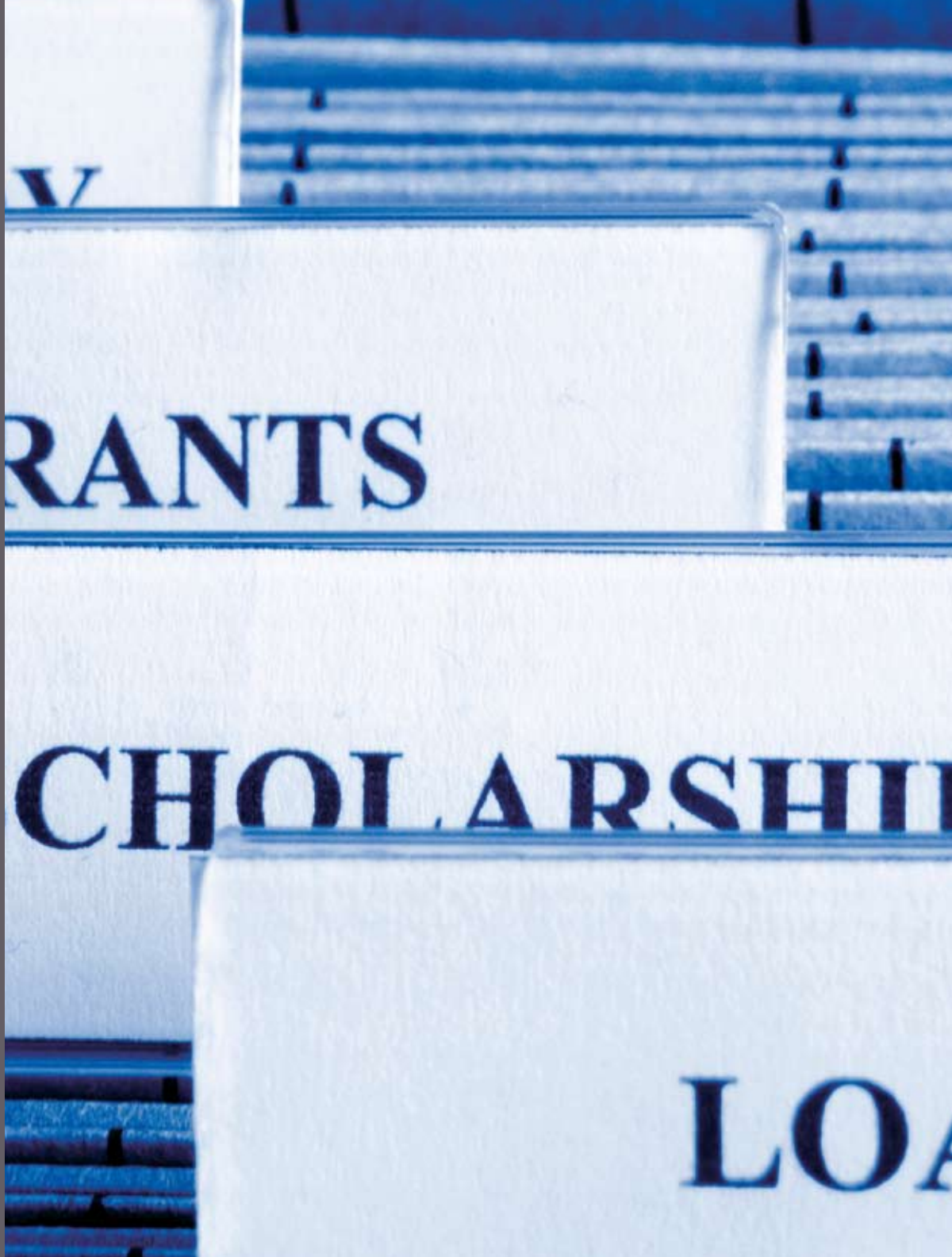
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# Executive Summary

One of the most important questions facing policy leaders today is how America can strengthen investments for student financial aid to serve those most in need of support. Financial barriers often constitute a huge obstacle for individuals from low-income backgrounds in pursuit of higher education. Over the course of the last 60 years, the federal government has created ways to ensure that higher education access is not predicated on one's financial condition because of the benefits that higher education participation produces for our nation's economy and our democracy.

The federal Pell Grant represents one of the most important mechanisms developed for the assurance of financial access to postsecondary opportunities. But the ability of the Pell Grant to serve as a true foundation of financial aid for low-income students has steadily declined. As a result, low-income students must come up with ever increasing amounts of money to meet postsecondary expenses, in light of the constrained resources and the stalled or declining earnings that low-income families have been experiencing over the past 30 years.

It is important to take policy steps that will strengthen the ability of the Pell Grant program to serve as a true foundation of financial aid so that costs do not prevent qualified students from enrolling in postsecondary education. One step in the right direction is the significant increase in aid the Pell Grant program recently implemented through the College Cost Reduction and Access Act of 2007. Nonetheless, the purchasing power of the Pell Grant is still

woefully inadequate to meet students' needs, even as college prices increase and federal budget pressures grow.


This report discusses the ability of specific policy options in strengthening the Pell Grant program to meet the significant financial needs of low-income students. These policy options include:

- Raising the appropriated maximum Pell Grant award;
- Raising both the minimum and appropriated maximum Pell Grant awards; and
- Adjusting federal need analysis to allow for a negative expected family contribution (EFC).

These policy options offer different approaches to better targeting aid to the lowest income students. Raising the maximum Pell Grant award provides a boost to all eligible students and broadens the pool of applicants. Raising the minimum award along with the maximum targets aid to those with the lowest incomes, but large increases in the minimum award reduce the number of recipients and exclude students who receive small grants from the program.

One promising policy option for maintaining awards for all eligible students while being sensitive to those who have the most difficulty meeting postsecondary expenses is changing need analysis rules to allow for the calculation of a negative EFC. If, for example, during the 2007–08 award year a minus \$750 EFC were allowed for those with qualifying circumstances, the calculation of a student’s Pell Grant award would have equaled:

$$\begin{aligned} & \text{Maximum appropriated award-EFC}=\text{award} \\ & \text{or} \\ & \$4,310+\$750=\$5,060 \end{aligned}$$

This approach offers a narrowly targeted way to deliver significant aid to the poorest students. It is critical that the momentum created by the boost in Pell Grant aid delivered through the College Cost Reduction and Access Act of 2007 be maintained to ensure that the program will help equalize postsecondary opportunities. Policymakers can capitalize on the current momentum regarding student financial aid policy—even if they cannot achieve large-scale overhauls, they can take small, narrowly targeted policy steps that can significantly increase support for the nation’s most deserving students through the Pell Grant program. 

## Pell Grant Recipients Paying for College: Data Highlights

The experiences of Pell Grant recipients enrolling in and paying for college display the economic hardship that postsecondary expenses take on low-income students, particularly those with the most constrained financial resources. Financial aid data describing the experiences of Pell Grant recipients show that:

- In 2005–06, the vast majority of the nearly 5.2 million Pell Grant recipients had family incomes of \$40,000 or less. Further, 40 percent of traditionally-aged dependent students had annual family incomes of \$20,000 or less as did 69 percent of non-traditional students who were financially independent while enrolled.
- Most Pell Grant recipients have an EFC, which measures the ability of families to pay postsecondary expenses, of no more than a few thousand dollars. In 2005–06, 52 percent of all Pell Grant recipients had an EFC of zero, signaling the severe financial constraints that these students experience. Over half of the families of traditionally-aged dependent Pell

Grant recipients with a zero EFC had yearly incomes less than \$15,000, as did three-quarters of financially independent Pell Grant recipients with a zero EFC in 2005–06.

- In 2005–06, nearly half of all Pell Grant recipients faced a total price of attendance over \$15,000. Like many students, Pell Grant recipients must rely on multiple financial aid sources, including grants and loans, to cover the full cost of college attendance. But the available financial aid sources still leave low-income students with large amounts of remaining need. Together, all aid sources used by Pell Grant recipients amounted to a little over 60 percent of the average price of attendance.
- Thus, the average Pell Grant recipient was left with slightly over \$4,500 in remaining need. For zero EFC Pell Grant recipients, the average remaining need amount equaled nearly \$5,000.

# Introduction

The federal government has an extensive history of investing federal resources in financial assistance and other programs that have expanded higher education opportunities for persons outside the wealthy elite. This long involvement is predicated on the belief that when access to higher education does not depend on the ability to pay high costs, society benefits from a more educated citizenry and better prepared workforce. Just as important, equalizing higher education opportunities goes a long way to promote social equity and further our nation's democracy.

One of the most important policy questions facing leaders today is how we can strengthen and target this investment to help those most in need of financial assistance enroll in college. We know that financial barriers often constitute a huge obstacle for students from low-income backgrounds in pursuit of higher education. We also know that when cost barriers are reduced through financial aid—especially grant aid—postsecondary opportunities are broadened, delivering a host of social benefits, such as lower poverty and unemployment rates, decreased demand on public welfare programs, higher tax revenues, and higher rates of civic participation and volunteer work (Baum and Payea 2004).

To broaden postsecondary opportunities, federal policymakers have, over the past 60 years, created ways to ensure that higher education access is not predicated on financial condition. One of the primary vehicles for college access is the federal Pell Grant program, which was established in 1972 during the reauthorization of the Higher Education Act (HEA) of 1965. Originally called the Basic Opportunity Grant and later renamed after Senator Claiborne Pell of Rhode Island, the program's early legislative champion, the Pell Grant has long been the foundation of financial aid for low-income students (Wolanin 1998).

Offered to students who have limited economic resources, the Pell Grant has been essential for opening college doors to millions of low-income students. However, rising postsecondary

prices have reduced the purchasing power of the Pell Grant—the maximum award currently covers only about 32 percent of a public four-year institution's average tuition, fees, room, and board for a full-time dependent student; 20 years ago, the same award would have covered 52 percent of these costs (College Board 2007). Coupled with broader economic conditions that have stalled or even decreased the earnings of people at lower income levels, the ability of the Pell Grant and other financial aid programs to ensure that needy students will be able to enroll in college and stay there is threatened (King 2003).<sup>1</sup>

Rising prices have affected students across the entire income spectrum, and policy trends over the past 10 years reflect the anxiety of middle- and upper-income families about the affordability of college (Institute for Higher Education Policy [IHEP] 2005).<sup>2</sup> While these are serious policy concerns, it is important that the federal government remain committed to ensuring that financial aid programs also keep up with economic trends that may lead low-income students to forgo college enrollment altogether.

<sup>1</sup> According to analyses conducted by the American Council on Education, the real incomes of families in the lowest income quintile decreased by 6 percent between 1973 and 2001. By comparison, families in the middle quintile experienced real income growth of 8 percent and those in the highest quintile experienced real income growth of 43 percent during the same period (King 2003).

<sup>2</sup> For example, the rate of growth among federal and state aid programs not based strictly on financial need—such as academic or merit-based grants, tax incentives, and unsubsidized loans—has outpaced the growth in need-based aid (IHEP 2005).



Recently, we have seen encouraging signs that a policy window has opened that will enable leaders to refocus the student financial aid debate toward strengthening federal investments that assist low-income students. New resources have been infused into federal student aid programs, such as in the passage of the College Cost Reduction and Access Act in 2007. Among its many provisions, much-needed funds were appropriated to raise the maximum Pell Grant award to \$5,400 by the 2012–13 award year—up from \$4,310 for 2007–08 (U.S. Public Law 110-84 2007; National Association of Student Financial Aid Administrators [NASFAA] 2007).

In early 2006, moreover, Congress approved the Academic Competitiveness Grant (ACG) and the National Science and Mathematics Access to Retain Talent (SMART) Grant, which allow Pell Grant recipients to receive additional aid if they have met certain academic requirements and, in the case of SMART Grants, are pursuing degrees in areas of specific national interest, such as science and mathematics. Appropriations for the ACG and SMART Grants have been set at \$4.5 billion for 2006–11, delivering a wealth of new resources for low-income students (U.S. Department of Education, Office of Postsecondary Education [OPE] 2007a). However, it remains to be seen whether tying the delivery of this aid to academic requirements and specific fields of study will substantially increase the number of qualified low-income students who enroll in college.

New investments shine a light on the state of federal student aid—especially grant aid—and on how future investments will be structured to support those with the greatest economic need. Policymakers are taking the opportunity to deliberate on large-scale structural changes that might increase the effectiveness of the overall student financial aid system.<sup>3</sup> Although these efforts are important to uncover innovative ideas that will enhance the long-term vision for federal investments in student financial aid, this brief takes a different approach, offering a look at actionable steps that will enhance the ability of federal grant aid, through the Pell Grant system, to reach more low-income students and provide a greater flow of aid to recipients.

In this brief, we discuss the original goals of the Pell Grant program—to serve as the foundation of aid for low-income students and as assurance that postsecondary opportunities are not beyond the reach of the economically vulnerable. We also look at the experiences of Pell Grant recipients enrolling in and paying for college, with a particular emphasis on the large amount of financial need that is not met by available aid sources. Finally, we offer specific policy approaches to strengthen the Pell Grant program that could be incorporated into higher education legislation currently being deliberated in Congress. ☞

<sup>3</sup> For example, at a 2006 hearing before the Senate Finance Committee, higher education analyst Susan M. Dynarski described the idea of combining all federal grant and student aid tax provisions into one all-encompassing tax credit program that would be refundable even for those with no tax liability (Lederman 2006).

# Overview of the Federal Pell Grant Program

Senator Claiborne Pell (D-RI) was the early champion for a federal grant program that would be available to all low-income students in the United States (Wolanin 1998). In his original concept, Pell sought to create a program that would guarantee students a foundation of assistance for enrolling in college that was indexed to their economic need. By starting with a maximum amount an eligible student could receive and subtracting some measure of the student's ability to pay for college, the assistance program could target the greatest amount of aid to the lowest income students (Wolanin 1998).

The result was the Basic Educational Opportunity Grant (later renamed after Senator Pell). It was designed as a voucher paid directly to students and targeted most of its benefits to students from lower income families by subtracting a measure of ability to pay from a set maximum award (Wolanin 1998). The measure of ability to pay was, and remains, the expected family contribution (EFC). The EFC is a calculated amount of self-help a student or student's family can be reasonably expected to contribute toward postsecondary education, given their economic circumstances. Thus, the Pell Grant rule is maximum (appropriated) Pell Grant award minus EFC equals award (see box 1).

Because Pell Grant recipients have different EFCs, not all receive the maximum award. Award amounts also vary according to the number of classes a student enrolls in during the year, with part-time students receiving lower amounts than those enrolled full time. During the 2005–06 award year, the maximum award was \$4,050 and the average award was \$2,456 (OPE 2006). Students most likely to receive the maximum award are those with a

calculated zero EFC, that is, those who have the least ability to pay postsecondary expenses from their own resources. But even these students don't always receive the maximum award.<sup>4</sup> In 2005–06, 45 percent of Pell Grant recipients with a zero EFC received the maximum award of \$4,050 (OPE 2006).<sup>5</sup>

Even when students receive the maximum Pell Grant in a given year, the amount is frequently not enough to cover a substantial portion of the price of college attendance. Moreover, even when the Pell Grant is combined with other forms of financial aid, the lowest income students are frequently left with unmet need that they must cover by other means, such as earnings from employment or personal loans. And while all students enrolled

<sup>4</sup> Pell Grant awards may be lowered for some students based on attendance patterns.

<sup>5</sup> It is important to note that not all low-income students, including those with a zero EFC, receive a Pell Grant; in 2003–04, 58 percent of students in the lowest income quintile did not receive a grant. Low-income students may not receive a grant for various reasons, including the fact that many do not apply for federal financial aid (perhaps because they believe their income is too high to qualify for aid). Still, a quarter of full-time and nearly a fifth of half-time students who did not apply for federal financial aid in 2003–04 were likely eligible to receive a Pell Grant (American Council on Education [ACE] 2006).

in college today contend with postsecondary expenses that can be overwhelming, the burden on low-income students is often much higher than that of their middle- and upper-income counterparts.

The changing demographics of the undergraduate student population, a group which is becoming more “nontraditional” in its composition, means that the traditional concept of how students manage college expenses is outdated. Income must be considered in the context of other student circumstances, which have changed considerably since the implementation of the Pell Grant program. Since 1970, the student population has changed drastically with larger proportions of undergraduate students who are 25 or older, enrolled part time, or attending a two-year college. Today, nearly three-quarters of enrolled undergraduates exhibit some nontraditional characteristics (Choy 2002).<sup>6</sup> These students are often considered to be financially independent and struggle to pay postsecondary expenses along with other expenses, such as housing and childcare (Choy 2002). Further, they do so with lower annual incomes than those of dependent students’ families (Choy 2002). In 2003–04, for example, the average family income for independent students was slightly over \$36,000, compared with slightly over \$70,000 for parents of dependent students (U.S. Department of Education, National Center for Education Statistics [NCES] 2004).

These differences are important to keep in mind. The experiences of dependent and independent students can vary strikingly owing to differing enrollment and demographic characteristics. It

is particularly important to remember the unique circumstances of nontraditional students when looking at Pell Grant recipients, 60 percent of whom are independent students (OPE 2006). In this section of the brief, we take a look at the characteristics of Pell Grant recipients to glean insight into their payment experiences. We rely on two primary data sources:

- *U.S. Department of Education, Federal Pell Grant Program End-of-Year Report for 2005–06.* The Office of Postsecondary Education compiles an annual report for the federal Pell Grant program. This report provides historical data on the administration of the program and offers a descriptive look at recipients, including their family incomes, EFC, and educational costs for Pell Grant recipients in a given year (OPE 2006).
- *U.S. Department of Education, National Postsecondary Student Aid Study (NPSAS) 2003–04.* The NPSAS, administered by the Department of Education’s National Center for Education Statistics (NCES), surveys a nationally representative sample of postsecondary students at all levels enrolled in institutions of all types. We use NPSAS data to describe the financial aid experiences of Pell Grant recipients in 2003–04, with particular attention to the types of aid recipients receive outside the Pell Grant program (NCES 2004).

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<sup>6</sup> The traditional undergraduate student is considered to be one who enrolls in college immediately after high school, attends full time, is financially dependent upon his or her parents, and does not work while enrolled, or works part time (Choy 2002).

## BOX 1: The Pell Grant Award Rule

The goal of the Pell Grant program is to target the largest amounts of grant aid to students from low-income backgrounds. In determining a student's eligibility to receive a Pell Grant, two key elements are used: the student's EFC and the maximum Pell Grant award established by Congress in a given fiscal year. The basic award formula subtracts the EFC from the maximum award. When Congress increases the maximum award for the Pell Grant program, essentially all awards are increased by the same dollar amount, and the recipient pool expands to include more families with higher incomes. In 2007, the College Cost Reduction and Access Act (CCRAA) made major changes to the funding of the Pell Grant program. The Appropriations Committees will continue to appropriate discretionary funding to provide a maximum award specified in the annual Appropriations Act, but the CCRAA also provides additional mandatory funding for each fiscal year to augment the discretionary funding and fund a higher maximum award (U.S. Public Law 110-84 2007).<sup>7</sup>

The EFC was introduced in 1972 to serve as a measure of a family's ability to pay postsecondary expenses from its own resources (Wolanin 1998). An EFC is calculated for each student, using a formula that takes into account the income, available assets, living expenses, federal income tax liability, retirement needs, and other expenses for the student and his or her family (Stedman 2003). Special formulas are used according to the student's dependency level and whether he or she is caring for any dependents other than a spouse (Stedman 2003).<sup>8</sup>

For students who are financially dependent on their parents, the resources of both student and parents are used to determine the EFC (Stedman 2003). The EFC is an important calculation to determine a student's eligibility to receive any federal student

aid, including a Pell Grant. In general, a student's EFC must be less than the overall price of attending college (Choy 2004). Students with EFCs that exceed the price of attending college are not eligible for Pell Grants but may receive other types of aid not based on financial need (Choy 2004). Students with low family incomes are likely to have low EFCs; those with the lowest incomes often have a calculated EFC of zero, signaling that they are the most constrained in their ability to pay for college.

Along with a student's EFC, the appropriated maximum Pell Grant award is an important consideration for a student's eligibility and the award amount. The appropriated maximum Pell Grant award represents the highest amount of Pell Grant aid an eligible student may receive in a given year; it is delineated in the annual appropriations legislation that provides funding for the U.S. Department of Education (Stedman 2003). The appropriated maximum specified in annual appropriations legislation is not the same as the authorized maximum specified in the HEA. The authorized maximum in the HEA is the limit for an appropriated maximum amount; however, there is no guarantee that the authorized maximum will ever be reached. For example, in 2003–04, the authorized maximum specified in the HEA was \$5,800, while the appropriated maximum for the year was \$4,050. Recently, the Pell Grant has received a boost from the spending bills for the 2007 and 2008 fiscal years. Appropriations legislation for FY 2007 set the maximum Pell Grant award for 2007–08 at \$4,310, and the budget for FY 2008 appropriated funds to increase the maximum Pell Grant award over the next five years to reach \$5,400 by the 2012–13 award year (U.S. Public Law 110-84 2007; NASFAA 2007).<sup>9</sup>

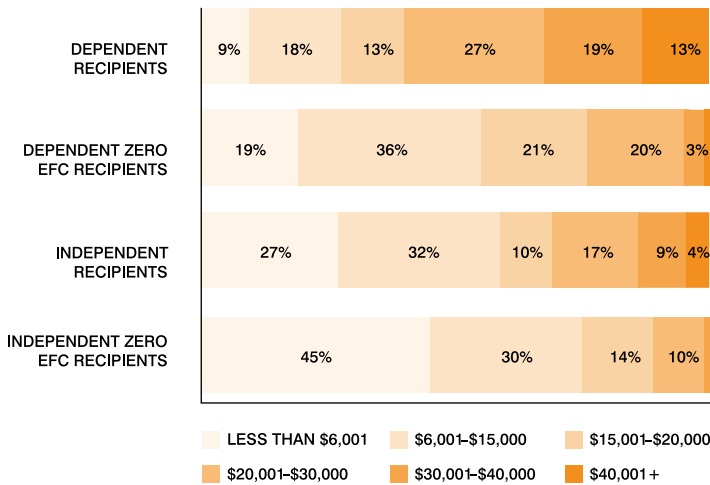
<sup>7</sup> In most cases, this formula establishes an eligible student's award; however, an award also may be determined by subtracting the EFC from the price of attendance (the sum of tuition and nontuition expenses for attendance at a given institution, adjusted for full- or part-time attendance). This formula was established to prevent any Pell Grant from exceeding the overall price of attendance (Stedman 2003). Before September 2007, students also were subject to a "tuition sensitivity" rule that lowered the maximum award for students attending very low-tuition schools. This rule was repealed in the College Cost Reduction and Access Act of 2007 (U.S. Public Law 110-84 2007; NASFAA 2007).

<sup>8</sup> For financial aid purposes, students ages 18–23 who are enrolled in undergraduate-level course work are considered to be financially dependent. Undergraduate students who are 24 or older, married, taking care of dependents other than a spouse, a veteran of the U.S. Armed Forces, or an orphan or ward of the court are considered to be financially independent. Financial aid officers may consider students younger than 24 years financially independent at their discretion; in 2007, more leeway was afforded in qualifying younger students as financially independent. All students enrolled in graduate courses are considered to be financially independent (NCES 2004).

<sup>9</sup> The minimum award eligible students may receive is \$400; however, students must qualify to receive at least \$200 in order to receive any Pell Grant aid. Students who qualify for an award amount of \$200–\$399 are automatically bumped up to \$400. Those who qualify for less than \$200 do not receive an award (Stedman 2003).

FIGURE 1

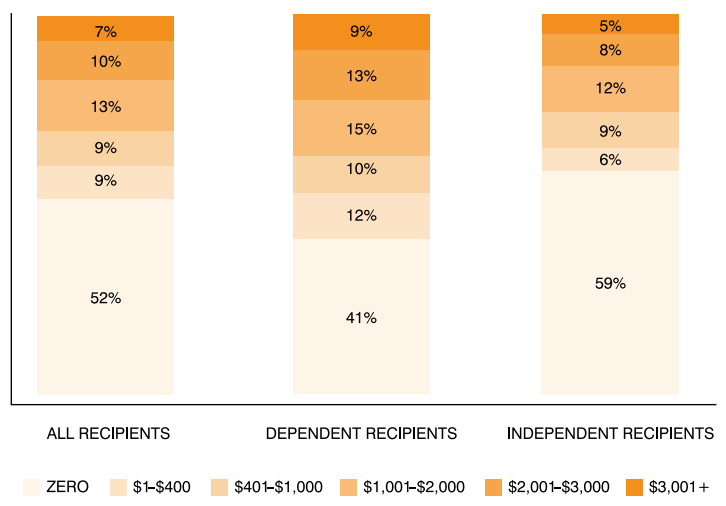
### Family Income for All Pell Grant Recipients and Zero EFC Pell Grant Recipients, 2005–06



NOTE: ONE PERCENT OF DEPENDENT ZERO EFC RECIPIENTS HAVE INCOMES OF \$40,001 OR MORE. ONE PERCENT OF INDEPENDENT ZERO EFC RECIPIENTS HAVE INCOMES BETWEEN \$30,001 AND \$40,000.  
SOURCE: U.S. DEPARTMENT OF EDUCATION, FEDERAL PELL GRANT PROGRAM END-OF-YEAR REPORT, 2005–06

FIGURE 2

### EFC for All Pell Grant Recipients, 2005–06



SOURCE: U.S. DEPARTMENT OF EDUCATION, FEDERAL PELL GRANT PROGRAM END-OF-YEAR REPORT, 2005–06

### Demographic Characteristics

As shown in **FIGURE 1**, the vast majority of the nearly 5.2 million Pell Grant recipients in 2005–06 had family incomes of \$40,000 or less, and many had incomes less than \$20,000 per year. Independent students were far more likely to have the lowest incomes—over a quarter had family incomes of \$6,000 or less (OPE 2006). **FIGURE 1** also shows the annual incomes of students with a calculated zero EFC—those considered to have the least ability to pay postsecondary expenses on their own. In 2005–06, 41 percent of dependent Pell Grant recipients and 59 percent of independent recipients had a calculated EFC of zero (**FIGURE 2**). Reflecting their limited resources, over half of dependent recipients with a zero EFC had yearly incomes less than \$15,000, as did close three-quarters of independent recipients with a zero EFC (OPE 2006).

Many Pell Grant recipients belong to populations that experience barriers to college enrollment correlated with income but also related to other social and cultural factors (**FIGURE 3**). For example, the Pell Grant recipient population includes large proportions of racial and ethnic minorities; these students continue to face opportunity gaps compared with White, non-Hispanic students. Pell Grant recipients also are more likely to be first-generation college students; as such, they may lack essential “college-going” information associated with navigating the bureaucracy of postsecondary enrollment and may be less exposed to financial aid and admissions information. And Pell Grant recipients are more likely to face other social and cultural

barriers that can be compounded by low family incomes, such as being the single caretaker of children or coming from a family whose first language is not English (Wolanin 2003).

It is important to consider these demographic characteristics, along with family income, to understand the students who are being helped by the Pell Grant program. Racial and ethnic minorities, first-generation college students, single parents, and others who disproportionately depend on Pell Grants to provide financial help with the cost of higher education may also be the target of other outreach programs that try to ameliorate barriers to higher education access. The financial strength of the Pell Grant program can help these students enroll; ideally, the program works in concert with policies that address other barriers these students face.

### Price of Attendance

All students who enroll in postsecondary education today contend with tuition and fees that have risen faster than inflation. Within just the past 10 years, the published tuition and fees at public four-year colleges and universities rose by 4.4 percent annually after inflation adjustment (College Board 2007). And tuition and fees are only part of the cost. Finding money for books, transportation, and living expenses—either on or off campus—often presents a challenge for the poorest students. In 2007–08, the average student budget at a public two-year institution was slightly over \$13,000; at a public four-year institution, the average student budget was slightly over \$17,000 for a

FIGURE 3

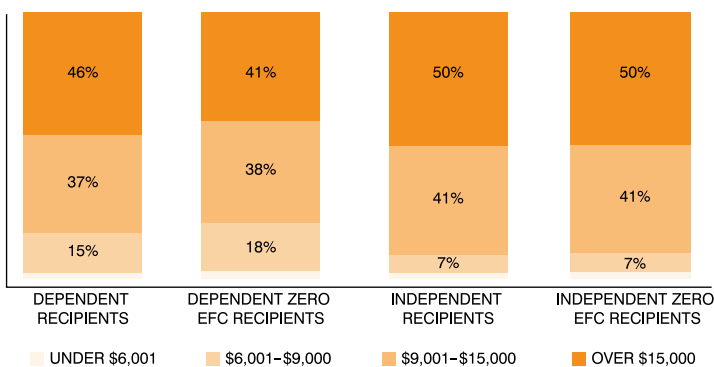
Selected Demographic and Enrollment Characteristics of Pell Grant Recipients, 2003–04

	ALL DEPENDENT UNDERGRADUATES	DEPENDENT RECIPIENTS	DEPENDENT ZERO EFC RECIPIENTS	ALL INDEPENDENT UNDERGRADUATES	INDEPENDENT RECIPIENTS	INDEPENDENT ZERO EFC RECIPIENTS
<b>RACE</b>						
White	67%	45%	30%	59%	50%	45%
Black or African American	10%	22%	29%	18%	26%	30%
Hispanic or Latino	12%	20%	27%	13%	16%	17%
Asian	6%	7%	9%	5%	2%	3%
American Indian/Alaska Native	1%	1%	1%	1%	1%	1%
Native Hawaiian/Pacific Islander	1%	0%	1%	0%	0%	0%
Other	1%	2%	2%	1%	1%	2%
More than one race	2%	2%	2%	2%	2%	2%
<b>GENDER</b>						
Male	47%	42%	42%	38%	30%	27%
Female	53%	58%	58%	62%	70%	73%
<b>AGE</b>						
15–23	100%	100%	100%	14%	20%	26%
24–29	0%	0%	0%	34%	39%	38%
30 or above	0%	0%	0%	52%	40%	36%
<b>PARENT'S HIGHEST EDUCATION</b>						
High school diploma or less	25%	41%	50%	42%	47%	48%
Some college/Associate's degree	24%	26%	24%	24%	24%	23%
Bachelor's degree	26%	19%	14%	17%	13%	13%
Advanced degree	24%	10%	8%	13%	10%	9%
Don't know	2%	3%	5%	4%	6%	7%
<b>ENGLISH AS SECOND LANGUAGE</b>						
Percent of students whose primary language is other than English	11%	20%	25%	13%	12%	13%
<b>MARITAL AND DEPENDENT CARE STATUS</b>						
Independent, no dependents	n/a	n/a	n/a	46%	32%	26%
Independent, with dependents, unmarried	n/a	n/a	n/a	23%	39%	51%
Independent, with dependents, married/separated	n/a	n/a	n/a	31%	29%	24%

SOURCE: U.S. DEPARTMENT OF EDUCATION, NATIONAL CENTER FOR EDUCATION STATISTICS, NATIONAL POSTSECONDARY STUDENT AID STUDY 2003–04

FIGURE 4

## Total Price of Attendance for Pell Grant Recipients, 2005–06



NOTE: TWO PERCENT OF PELL GRANT RECIPIENTS HAD A TOTAL PRICE OF ATTENDANCE LESS THAN \$6,001.  
SOURCE: U.S. DEPARTMENT OF EDUCATION, FEDERAL PELL GRANT PROGRAM END-OF-YEAR REPORT, 2005–06

resident student, slightly over \$18,000 for a commuter student, and nearly \$28,000 for an out-of-state student (College Board 2007).

All students face rising prices, but low-income students are particularly hard hit. **FIGURE 4** shows the postsecondary prices faced by Pell Grant recipients in 2005–06. Nearly half of all Pell Grant recipients faced a total price of attendance over \$15,000 (OPE 2006). Even after allowing for grant aid, the net price to attend college is a larger proportion of low-income families' resources compared with those of their middle- and upper-income counterparts. For example, in 2005, the net price of attendance at a public four-year college or university required 73 percent of the family income for those in the lowest income quintile, up from 57 percent in 1992 (National Center for Public Policy and Higher Education 2006).<sup>10</sup> Even attendance at a public two-year college—often chosen by low-income students for affordability—required 58 percent of the family income of the lowest income quintile in 2005, up from 50 percent in 1992 (National Center for Public Policy and Higher Education 2006). By comparison, students in the middle-income quintile spent 23 percent of their family income, on average, on the net price of attendance at a public four-year institution in 2005, and the highest income quintile spent 9 percent on average (National Center for Public Policy and Higher Education 2006). Thus, the Pell Grant has lagged not only behind college price increases but also behind increases in the real incomes of those who rely most on the grant.

<sup>10</sup> In this analysis, net price equaled tuition, room, and board minus financial aid.

## BOX 2: College Cost Reduction and Access Act of 2007

In September 2007, the College Cost Reduction and Access Act was signed into law by President George W. Bush as part of the 2008 fiscal budget reconciliation process. The law made a myriad of changes in federal student aid programs, both loan and grant programs. Many of these provisions affect the Pell Grant program, which delivers the largest volume of federal grant aid to low-income students. The following are some of the major provisions that will affect the future administration of the Pell Grant program.

### *Eliminates the tuition sensitivity provision*

Title I of the Act eliminates the use of the tuition sensitivity rule in determining the amount of grant aid available to eligible Pell Grant recipients. In the past, the amount of aid to Pell Grant recipients was reduced for those attending very low-tuition institutions. This provision was usually applied when a student's tuition fell below \$675 (Stedman 2003).

### *Increases the maximum Pell Grant for FY 2008 through FY 2013*

Title I of the Act reauthorizes the Pell Grant program through FY 2017 and designates appropriated funds to increase the amount

of the maximum available award by \$490 for the 2008–09 and 2009–10 award years; \$690 for the 2010–11 and 2011–12 award years; and \$1,090 for the 2012–13 award year.

*Raises the income limit for a student to qualify for an automatic zero EFC to \$30,000 from the previous limit of \$20,000.* This provision allows students from families with incomes of \$30,000 or less to automatically qualify for a zero EFC, increasing their eligibility for the maximum Pell Grant award.

The College Cost Reduction and Access Act legislates additional changes to the formula used to determine a student's economic need for federal financial aid, such as increasing the Income Protection Allowance, the amount that students are able to earn without lowering their eligibility for federal aid. The Act also reduces the interest charged on student loans through the Federal Family Education Loan and Direct Loan programs and creates a new challenge grant to stimulate the development of public and private partnerships that will work toward increasing access to postsecondary education (See NASFAA 2007 for full summary).



FIGURE 5

Selected Financial Aid Received by Pell Grant Recipients, 2003–04

	DEPENDENT RECIPIENTS	DEPENDENT ZERO EFC RECIPIENTS	INDEPENDENT RECIPIENTS	INDEPENDENT ZERO EFC RECIPIENTS
<b>SELECTED NEED-BASED GRANTS</b>				
Percent receiving federal Pell Grant	100%	100%	100%	100%
Average Pell Grant	\$2,573	\$3,346	\$2,436	\$2,913
Percent receiving federal Supplemental Educational Opportunity Grant (SEOG)	24%	31%	22%	29%
Average SEOG	\$892	\$823	\$552	\$550
Percent receiving institutional need-based grant	25%	22%	12%	12%
Average institutional need-based grant	\$3,544	\$3,134	\$1,553	\$1,495
Percent receiving state need-based grant	37%	35%	23%	24%
Average state need-based grant	\$2,382	\$2,491	\$1,613	\$1,704
<b>SELECTED NON-NEED BASED/OTHER GRANTS</b>				
Percent receiving institutional non-need or merit-based grant	16%	12%	6%	5%
Average institutional non-need or merit-based grant	\$3,780	\$3,689	\$2,246	\$2,160
Percent receiving institutional tuition/fee waiver	3%	2%	2%	2%
Average amount of institutional tuition/fee waiver	\$2,302	\$1,859	\$2,178	\$1,701
Percent receiving state non-need or merit-based grant	5%	4%	2%	2%
Average state non-need merit-based grant	\$1,960	\$2,077	\$1,285	\$1,327
Percent receiving outside (private or employer) grants	13%	9%	8%	7%
Average outside (private or employer) grants	\$1,889	\$2,031	\$1,994	\$1,842
<b>SELECTED WORK-STUDY</b>				
Percent receiving institutional work-study	3%	2%	1%	2%
Average amount of institutional work-study	\$2,100	\$2,161	\$2,383	\$2,570
Percent receiving federal work-study	19%	18%	6%	8%
Average amount of federal work-study	\$1,735	\$1,785	\$1,923	\$1,849
<b>SELECTED LOANS</b>				
Subsidized Stafford	55%	48%	57%	55%
Average subsidized Stafford	\$3,235	\$3,123	\$3,208	\$3,086
Unsubsidized Stafford	15%	14%	43%	40%
Average unsubsidized Stafford	\$2,979	\$3,315	\$3,296	\$3,166
Perkins	13%	10%	5%	5%
Average Perkins	\$1,969	\$1,976	\$1,958	\$1,997
PLUS	6%	4%	n/a	n/a
Average PLUS	\$6,725	\$6,048	n/a	n/a
Private loan	8%	6%	5%	4%
Average private loan	\$5,186	\$4,371	\$4,670	\$4,764

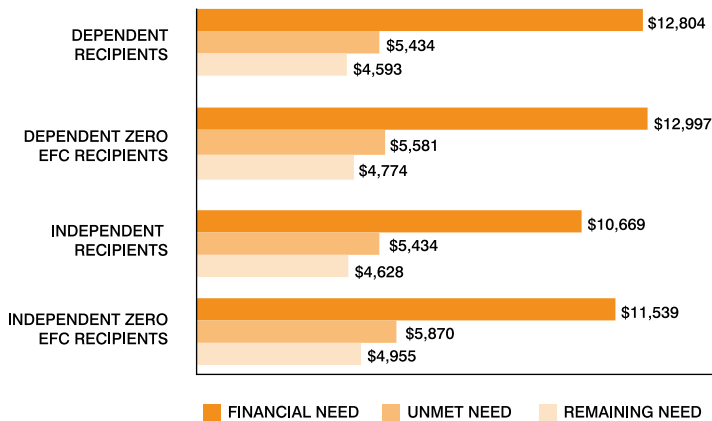
NOTE: AVERAGES ARE FOR THOSE WHO RECEIVE SELECTED AID.

SOURCE: U.S. DEPARTMENT OF EDUCATION, NATIONAL CENTER FOR EDUCATION STATISTICS, NATIONAL POSTSECONDARY STUDENT AID STUDY 2003–04



FIGURE 6

## Financial Need, Unmet Need, and Remaining Need for Pell Grant Recipients, 2003–04



NOTE: FINANCIAL NEED EQUALS THE PRICE OF ATTENDANCE MINUS THE EFC. UNMET NEED EQUALS THE PRICE OF ATTENDANCE MINUS EFC, ALL GRANTS, AND OTHER FEDERAL NEED-BASED AID. REMAINING NEED EQUALS PRICE OF ATTENDANCE MINUS EFC AND AID FROM ALL SOURCES.

SOURCE: U.S. DEPARTMENT OF EDUCATION, NATIONAL CENTER FOR EDUCATION STATISTICS, NATIONAL POSTSECONDARY STUDENT AID STUDY 2003–04

### Financial Aid and Remaining Need

Like many students, Pell Grant recipients must rely on multiple financial aid sources, including grants and loans, to cover the full cost of college attendance. But the available financial aid sources still leave low-income students with large amounts of remaining need that they must meet through work, credit cards, or personal loans, which cannot always be comprehensively tracked by financial aid data. As **FIGURE 5** shows, in 2003–04, in addition to an average Pell Grant award of \$2,500, recipients also depended on other need-based grant programs, work-study, and loans (NCES 2004).

Slightly more than a quarter of Pell Grant recipients received aid from other major grant programs such as the federal Supplemental Educational Opportunity Grant (SEOG), state need-based grants, and institutional need-based grants. Recipients with a calculated zero EFC were slightly more likely to receive a SEOG than all Pell Grant recipients (29 percent compared with 22 percent), but the two groups received need-based grants from institutional and state sources at similar levels (NCES 2004). These need-based grant programs serve meaningful proportions of the low-income population, but given the importance of grant aid for these students, it is surprising that the majority do not receive additional grant aid from these programs. In only one instance do more than a third of recipients receive any additional need-based grant aid from these three sources: 37 percent of dependent Pell Grant recipients received a state need-based grant, compared with a smaller proportion (23 percent) of independent students (NCES 2004). Only small percentages of recipients receive work-study aid, which is also based on financial need.<sup>11</sup>

Marginal proportions of Pell Grant recipients receive other grants that are not strictly based on financial need. Of the selected non-need-based and other types of grants shown in **FIGURE 5**, Pell Grant recipients most often received non-need-based or merit-based grant aid from postsecondary institutions. However, only 10 percent of all Pell Grant recipients and only 8 percent of zero EFC recipients received an institutional non-need-based or merit-based grant. In both instances, dependent recipients were more likely to receive a non-need-based grant from an institution than were independent students.

Pell Grant recipients were far more likely to depend on loans than on additional grants or work-study aid outside their Pell award. Slightly more than half of all Pell Grant recipients received a subsidized Stafford loan, and nearly a third received an unsubsidized Stafford loan. A far greater proportion of independent Pell Grant recipients received an unsubsidized Stafford loan, which is not based on financial need. Together, all aid sources used by Pell Grant recipients amounted to a little over 60 percent of the average price of attendance. Thus, the average Pell Grant recipient was left with slightly over \$4,500 in remaining need. For zero EFC Pell Grant recipients, the average remaining need amount equaled nearly \$5,000 (**FIGURE 6**).

From the available data, we can see that the Pell Grant is an essential source of financial assistance for low-income students. But the grant's ability to significantly reduce the financial burden for these students is diminishing. These data are for students who do, in fact, enroll. Thus, we know that they were able to find the additional \$4,500–\$5,000, on average, to cover the costs remaining after they received financial assistance from other sources. It is more difficult to determine how many students fail to enroll altogether because of unmet need or, after enrolling, are unable to stay in college. One analysis concludes that unmet need deters significant proportions of college-qualified students from low-income families from taking entrance exams and enrolling in four-year colleges or universities. (Advisory Committee on Student Financial Assistance 2002).<sup>12</sup>

It is important to take policy steps that will strengthen the ability of the Pell Grant program to serve as a true foundation of financial aid, reducing the unmet need low-income students face so that costs do not prevent qualified students from enrolling in postsecondary education. 🌟

<sup>11</sup> This reflects the amount of work-study received, not necessarily offered.

<sup>12</sup> In this analysis, authors considered unmet need to equal the price of attendance minus the EFC and all grant aid. Low-income students were those whose family incomes were less than \$25,000 per year. According to the authors, unmet need amounted to the "family work-loan burden," or the amount that families had to cover through work, borrowing, and family savings. The authors estimated that the work-loan burden for low-income families constituted 68 percent of the price of attendance at a typical four-year college (Advisory Committee on Student Financial Assistance 2002).

# Policy Steps to Target Pell Grant Aid

The previous section discussed the goals of the Pell Grant program and the need to strengthen the ability of Pell Grant aid to meet the significant financial needs of low-income students. Multiple proposals have been presented for exactly how to deliver more aid through the program. Some of these proposals would involve significant structural changes, such as front-loading the Pell Grant award to deliver larger amounts of aid for first- and second-year students or making the Pell Grant a true entitlement program that is fully funded at the authorized levels.<sup>13</sup> The policy window has not been favorable for passing legislation that would restructure the program in either of these ways, but the current environment seems favorable for proposals that offer specific steps to narrowly target grant aid to the lowest income students.

Using data from the U.S. Department of Education's Pell Grant Cost Estimation Model, we take a look at three policy steps aimed at strengthening the purchasing power of the Pell Grant, including raising the maximum award, raising the minimum award, and altering the financial need analysis process to allow for the calculation of a negative EFC. These steps would, in effect, deliver additional aid to the lowest income Pell Grant recipients.

## Raising the Appropriated Maximum Pell Grant Award

As noted previously, the 2007 College Cost Reduction and Access Act delivered a much-needed boost to the appropriated maximum award for eligible recipients—the maximum Pell Grant will reach \$5,400 by the 2012–13 award year. By raising the maximum award, the program increases the amount of aid available to all Pell Grant recipients, including those with the lowest

incomes. Raising the maximum award also expands the pool of eligible recipients and includes students with higher incomes. Take, for instance, the scenarios presented in **FIGURE 7**, based on multiple proposals for raising the maximum Pell Grant award offered by members of the 110th Congress in 2007. Among the many amounts proposed, members introduced legislation to raise the maximum to: \$4,810, \$5,100, \$5,800, and \$6,000. Using the Pell Grant Cost Estimation Model, one can see that the average award increases substantially with each maximum award increase (**FIGURE 7**).

The Pell Grant award rule implies that raising the maximum award includes students with higher incomes, as indicated by the average EFC. Once a student is deemed eligible for federal

<sup>13</sup> In 2003, the Institute for Higher Education Policy prepared a report—*Reauthorizing the Higher Education Act: Issues and Options*—that detailed the pros and cons of policies such as front-loading (Wolanin 2003).

FIGURE 7

Impact of Increasing Maximum Pell Grant Award for Academic Year, 2007–08

MAXIMUM AWARD SCENARIOS FOR ACADEMIC YEAR 2007–08	TOTAL NUMBER OF ELIGIBLE APPLICANTS	ELIGIBLE APPLICANTS' AVERAGE EFC	TOTAL NUMBER OF RECIPIENTS	RECIPIENTS' AVERAGE EFC	AVERAGE AWARD	MINIMUM AWARD	TOTAL EXPENDITURES
Current maximum award \$4,310	7,019,157	\$811	5,307,172	\$792	\$2,621	\$400	\$13,939,241,193
12% Increase / \$4,810 (from \$4,310 maximum)	7,267,790 +4%	\$932 +15%	5,351,392 +1%	\$821 +4%	\$2,970 +13%	\$400 +0%	\$15,918,193,062 +14%
18% Increase / \$5,100 (from \$4,310 maximum)	7,409,466 +6%	\$1,005 +24%	5,357,290 +1%	\$825 +4%	\$3,180 +21%	\$400 +0%	\$17,062,656,722 +22%
35% Increase / \$5,800 (from \$4,310 maximum)	7,719,784 +10%	\$1,174 +45%	5,365,088 +1%	\$831 +5%	\$3,686 +41%	\$400 +0%	\$19,803,739,093 +42%
39% Increase / \$6,000 (from \$4,310 maximum)	7,804,361 +11%	\$1,223 +51%	5,366,913 +1%	\$833 +5%	\$3,829 +46%	\$400 +0%	\$20,578,823,591 +48%

NOTE: THESE NUMBERS DO NOT REFLECT OFFICIAL BUDGET ESTIMATES.  
SOURCE: U.S. DEPARTMENT OF EDUCATION, PELL GRANT COST ESTIMATION MODEL

need-based financial aid, the EFC must still be low enough to qualify for a minimum award of \$200 (which is then automatically increased to \$400) for the student to receive a Pell Grant. Arithmetically, when the maximum award is increased, students with higher EFCs are able to receive small awards, thus increasing the eligible recipient pool. In the maximum award scenario of \$6,000, the estimated number of eligible applicants increases by 11 percent and the estimated average EFC for eligible applicants increases by 51 percent (OPE 2007b).

Increasing the maximum award delivers a boost in aid to all Pell Grant recipients, increases the pool of eligible students, and increases the potential for relatively higher income students to receive small awards. These small awards may be an important resource to defray costs for students from middle-income families. However, raising the maximum Pell Grant award, by itself, does not reach the policy goal of targeting increased grant support to the lowest income students. Increasing the maximum award delivers the same dollar increase in grant aid to all Pell Grant recipients. Moreover, increasing the maximum award may prove difficult in times of tight budgets. One mechanism that has been considered to target Pell Grant aid is to raise the minimum award along with the maximum award.

Raising Both the Minimum and Maximum Pell Grant Awards

Raising the minimum award has the opposite effect of raising the maximum award—it cuts some students out of the program while better targeting assistance to those with low incomes and possibly increasing their grant amounts (Stedman 2003).

FIGURES 8, 9, AND 10 show what would happen if the true minimum award—with no \$200 bump—were increased up to \$1,000, given the maximum award scenarios of \$4,310, \$5,100, and \$6,000. For each maximum award scenario, the minimum award is raised in intervals up to \$1,000. The primary effect is to decrease the total number and average EFC of eligible applicants and recipients. The decrease in average EFC for both applicants and recipients is especially large, signaling that students at the higher end of the EFC spectrum are being cut out of the program with each minimum award increase. There is also a small increase in the average award for students, likely driven by the decrease in the total number of recipients (OPE 2007b).

FIGURE 8

## Impact of Increasing Minimum Pell Grant Award for Appropriated Maximum of \$4,310 for Academic Year, 2007–08

MINIMUM AWARD SCENARIOS FOR ACADEMIC YEAR 2007–08	TOTAL NUMBER OF ELIGIBLE APPLICANTS	ELIGIBLE APPLICANTS' AVERAGE EFC	TOTAL NUMBER OF RECIPIENTS	RECIPIENTS' AVERAGE EFC	AVERAGE AWARD	TOTAL EXPENDITURES
\$400 (\$200 qualifying minimum) Law for 2007–08 award year	7,019,157	\$811	5,307,172	\$792	\$2,621	\$13,939,241,193
\$400 (true minimum)	6,903,942	\$759	5,251,280	\$759	\$2,646	\$13,920,807,638
\$450 (true minimum)	6,872,729	\$746	5,233,042	\$749	\$2,654	\$13,914,321,617
% change from \$400 true minimum	-0.45%	-1.71%	-0.35%	-1.32%	0.30%	-0.05%
\$500 (true minimum)	6,842,721	\$733	5,214,050	\$738	\$2,662	\$13,906,871,937
% change from \$400 true minimum	-0.89%	-3.43%	-0.71%	-2.77%	0.60%	-0.10%
\$550 (true minimum)	6,812,888	\$720	5,194,310	\$727	\$2,671	\$13,898,347,421
% change from \$400 true minimum	-1.32%	-5.14%	-1.08%	-4.22%	0.94%	-0.16%
\$600 (true minimum)	6,780,865	\$707	5,172,403	\$716	\$2,680	\$13,887,856,209
% change from \$400 true minimum	-1.78%	-6.85%	-1.50%	-5.67%	1.28%	-0.24%
\$800 (true minimum)	6,648,489	\$655	5,079,105	\$667	\$2,719	\$13,833,713,620
% change from \$400 true minimum	-3.70%	-13.70%	-3.28%	-12.12%	2.76%	-0.63%
\$1,000 (true minimum)	6,512,015	\$604	4,977,283	\$618	\$2,759	\$13,759,048,953
% change from \$400 true minimum	-5.68%	-20.42%	-5.22%	-18.58%	4.27%	-1.16%

NOTE: THESE NUMBERS DO NOT REFLECT OFFICIAL BUDGET ESTIMATES.  
SOURCE: U.S. DEPARTMENT OF EDUCATION, PELL GRANT COST ESTIMATION MODEL

As a cost-saving mechanism, increasing the minimum award does not appear to have a large effect. For example, if the maximum award were raised to \$5,100 with a true minimum (no bump) of \$400, the overall expenditures would equal slightly over \$17 billion. Raising the minimum award as high as \$1,000 would only decrease costs by 0.32 percent from what they would be under the \$400 minimum. As the maximum award increases, the cost-saving effect of raising the minimum award also decreases (OPE 2007b). In sum, raising the minimum award has a significant impact on targeting aid to the lowest income students, although this comes at the cost of cutting out students who receive smaller awards, which may be critical to their ability to meet postsecondary expenses. A third policy option would allow a significant increase in grant aid to flow to the lowest income Pell Grant recipients while maintaining awards for all others.

### Adjusting Federal Need Analysis to Allow for a Negative EFC

Currently, need analysis rules stipulate that a student's EFC cannot equal less than zero. A negative number is frequently derived from the EFC formula, however. At present, a family's contribution from their available resources can be as low as minus \$750. In instances when a negative number is derived,

the amount is converted to zero by the Pell Grant processor.<sup>14</sup> Students with a zero EFC are eligible to receive the maximum award; thus, increases in the maximum award deliver a necessary boost to these recipients. It is important, however, to consider additional ways to reach those with the lowest incomes, because they cannot rely on their own economic resources to pay for college.

Allowing a student to have a negative EFC would be a targeted and effective way to increase the Pell Grant for the lowest income recipients. If, for example, a minus \$750 EFC were allowed for those who qualify, the calculation of the maximum appropriated award minus the EFC would result in an additional \$750 of aid flowing directly to students with the most limited resources. This would be a significant benefit for the poorest students. For the 2007–08 award year, for example, the elimination of the prohibition against a negative EFC would have resulted in an effective maximum Pell Grant of \$5,060 (\$4,310 + \$750) for exception-

<sup>14</sup> Specifically, the formula for calculating a student's EFC results in a calculated Adjusted Available Income (AAI) that indicates the amount available for postsecondary expenses. This amount is calculated for dependent students and their parents and for independent students on the basis of adjusted gross income, assets, and other economic indicators. A negative AAI is automatically converted to zero. This conversion would have to be adjusted to derive an estimation of the impact of allowing a negative EFC. See the 2007–08 EFC formula at: <http://ifap.ed.gov/eannouncements/attachments/0708EFCFormulaGuide.pdf>.

FIGURE 9

## Impact of \$5,100 Maximum Pell Grant Award and Increasing Minimum Award for Academic Year, 2007–08

MINIMUM AWARD SCENARIOS FOR ACADEMIC YEAR 2007–08	TOTAL NUMBER OF ELIGIBLE APPLICANTS	ELIGIBLE APPLICANTS' AVERAGE EFC	TOTAL NUMBER OF RECIPIENTS	RECIPIENTS' AVERAGE EFC	AVERAGE AWARD	TOTAL EXPENDITURES
\$400 (true minimum)	7,302,322	\$950	5,352,189	\$822	\$3,183	\$17,060,929,741
\$450 (true minimum)	7,273,405	\$936	5,349,895	\$820	\$3,184	\$17,060,084,710
% change from \$400 true minimum	-0.40%	-1.47%	-0.04%	-0.24%	0.03%	0.00%
\$500 (true minimum)	7,245,474	\$922	5,346,967	\$818	\$3,185	\$17,058,908,906
% change from \$400 true minimum	-0.78%	-2.95%	-0.10%	-0.49%	0.06%	-0.01%
\$550 (true minimum)	7,217,409	\$909	5,342,790	\$816	\$3,188	\$17,057,207,747
% change from \$400 true minimum	-1.16%	-4.32%	-0.18%	-0.73%	0.16%	-0.02%
\$600 (true minimum)	7,188,352	\$895	5,338,548	\$814	\$3,190	\$17,055,282,899
% change from \$400 true minimum	-1.56%	-5.79%	-0.25%	-0.97%	0.22%	-0.03%
\$800 (true minimum)	7,073,574	\$842	5,313,479	\$800	\$3,202	\$17,040,637,234
% change from \$400 true minimum	-3.13%	-11.37%	-0.72%	-2.68%	0.60%	-0.12%
\$1,000 (true minimum)	6,956,508	\$792	5,267,675	\$776	\$3,224	\$17,007,061,523
% change from \$400 true minimum	-4.74%	-16.63%	-1.58%	-5.60%	1.29%	-0.32%

NOTE: THESE NUMBERS DO NOT REFLECT OFFICIAL BUDGET ESTIMATES.  
SOURCE: U.S. DEPARTMENT OF EDUCATION, PELL GRANT COST ESTIMATION MODEL

ally needy students. And because there are fewer students with zero EFCs than total Pell Grant recipients—2.7 million zero EFCs versus about 5.2 million total recipients (OPE 2006)—this option would be considerably less expensive than increasing the maximum award by \$750 overall. Thus, limited federal funds would be targeted to those with the least financial resources. To implement this approach, the following modifications would be required in the need analysis and program language:

- *Removal of statutory language prohibiting a negative EFC.* The HEA stipulates that a student's EFC "...shall not be less than zero." The removal of this clause would authorize the calculation of a negative EFC for purposes of determining a Pell Grant.
- *Modification of the EFC formula for independent students with no dependents other than a spouse.* The current EFC formula for dependent students and independent students with dependents other than a spouse calculates a negative EFC as low as minus \$750 (which is then converted to zero). Language would need to be added to the statute for the formula for the independent student with no dependents other than a spouse to limit the negative EFC to a similar amount.

- *Adjustment for the number of persons in a household who are attending college.* The current formulas divide the initial EFC by the number of household family members in college. This essentially divides the EFC among the number of family members attending college and increases the award for each student. This works well when the EFC is a positive number. When the EFC is negative, however, this approach unintentionally divides the negative EFC by the number in college, increasing the EFC and reducing the Pell Grant award. Therefore, statutory language will need to be modified to ensure that a negative EFC is not divided by the number of family members in college.
- *Modification of the allowance for student income.* The current EFC formula for dependent students provides for an additional allowance against student income when the parental adjusted available income is negative.<sup>15</sup> If a negative EFC approach were to be considered, it would be sound to use only negative parental adjusted available income less than minus \$3,409 as the additional offset against student income, because this amount results in a negative \$750 contribution.

<sup>15</sup> In this instance, a parent's negative adjusted available income is converted into a positive number and subtracted from the student's income. See the 2007–08 EFC formula at: <http://ifap.ed.gov/eannouncements/attachments/0708EFCFormulaGuide.pdf>.

FIGURE 10

## Impact of \$6,000 Maximum Pell Grant Award and Increasing Minimum Award for Academic Year, 2007–08

MINIMUM AWARD SCENARIOS FOR ACADEMIC YEAR 2007–08	TOTAL NUMBER OF ELIGIBLE APPLICANTS	ELIGIBLE APPLICANTS' AVERAGE EFC	TOTAL NUMBER OF RECIPIENTS	RECIPIENTS' AVERAGE EFC	AVERAGE AWARD	TOTAL EXPENDITURES
\$400 (true minimum)	7,709,152	\$1,169	5,364,568	\$831	\$3,831	\$20,578,027,732
\$450 (true minimum)	7,685,369	\$1,156	5,364,072	\$831	\$3,831	\$20,577,852,451
% change from \$400 true minimum	-0.31%	-1.11%	-0.01%	0.00%	0.00%	0.00%
\$500 (true minimum)	7,659,352	\$1,141	5,363,327	\$830	\$3,832	\$20,577,572,956
% change from \$400 true minimum	-0.65%	-2.40%	-0.02%	-0.12%	0.03%	0.00%
\$550 (true minimum)	7,635,703	\$1,128	5,362,490	\$830	\$3,832	\$20,577,231,248
% change from \$400 true minimum	-0.95%	-3.51%	-0.04%	-0.12%	0.03%	0.00%
\$600 (true minimum)	7,610,796	\$1,115	5,361,206	\$829	\$3,833	\$20,576,639,510
% change from \$400 true minimum	-1.28%	-4.62%	-0.06%	-0.24%	0.05%	-0.01%
\$800 (true minimum)	7,507,579	\$1,061	5,353,860	\$825	\$3,838	\$20,572,720,129
% change from \$400 true minimum	-2.61%	-9.24%	-0.20%	-0.72%	0.18%	-0.03%
\$1,000 (true minimum)	7,402,389	\$1,009	5,342,269	\$819	\$3,844	\$20,564,326,499
% change from \$400 true minimum	-3.98%	-13.69%	-0.42%	-1.44%	0.34%	-0.07%

NOTE: THESE NUMBERS DO NOT REFLECT OFFICIAL BUDGET ESTIMATES.  
SOURCE: U.S. DEPARTMENT OF EDUCATION, PELL GRANT COST ESTIMATION MODEL

- *Estimating negative EFC for students who are automatic zero applicants.* The College Cost Reduction and Access Act increased automatic zero EFC thresholds to include students who have adjusted gross income or W-2 wages less than \$30,000 (previously, the threshold was \$20,000). Most applicants with incomes below \$20,000 would end up with a minus \$750 EFC in a full calculation; however, for those whose incomes fall between \$20,000 and \$30,000, the EFC is likely to be closer to zero. In a scenario in which a negative EFC is allowed, an estimating scale could be developed to determine the eligibility of these applicants for a negative EFC. Alternatively, the reported income of students in the \$20,000–\$30,000 category could be put through a simplified means test—a shorter analysis process that does not take student or parental assets into account.<sup>16</sup> This would allow an estimated EFC for these students to go as low as minus \$750 but no higher than zero.

These policy options offer different approaches to reaching the goal of better targeting aid increases to the lowest income students, and each option has advantages and disadvantages. Raising the maximum Pell Grant award provides a boost to all eligible students and broadens the pool of applicants, thus enabling more students to receive small awards. But continued increases in tight budget environments may be hard to sustain, and an ever-widening pool of eligible students could cause

difficulties in reaching the students most in need of grant aid. Raising the minimum award along with the maximum award is one way to target aid, but large increases in the minimum award would result in significant numbers of students not receiving an award at all. Changing the need analysis process to more accurately reflect the true extent of financial hardship by allowing the calculation of a negative EFC is a way to maintain awards for all eligible students while being sensitive to those who have the most difficulty meeting postsecondary expenses.

### Targeting New Investments to Low-Income Students

Finally, it is important that new investments in federal grant aid be constructed so the aid is available to the students who need it most. Two new federal grant programs created in 2006—the Academic Competitiveness Grant (ACG) and the National Science and Mathematics Access to Retain Talent (SMART) Grant—are tied to the Pell Grant program in how they are delivered; however, they are constrained by eligibility requirements that call into question the ability of low-income students to access these new resources.

<sup>16</sup> Currently, to qualify for the SNT, a student's (and his or her parents' or spouse's, if married) adjusted gross income must not be greater than \$50,000. Additionally, the student (or parents or spouse) must have been eligible to file an IRS 1040A or 1040EZ, or must not have filed an income tax return for the previous year (Mercer 2006).



Both the ACG and the SMART Grant awards provide additional aid to some Pell Grant recipients. To receive an ACG or a SMART Grant, a student must be eligible to receive a Pell Grant. In addition, ACG awards are given to first- and second-year undergraduate students who have completed a rigorous secondary school curriculum as defined by the U.S. Department of Education or the individual state. For second-year grant eligibility, students must have a GPA of 3.0 for the first academic year. Eligible students can receive an ACG of up to \$750 for the first year and up to \$1,300 for the second year. SMART Grants are available to third- and fourth-year students who are majoring in a high-needs math, science, or foreign language degree program and have maintained a cumulative GPA of at least 3.0 (OPE 2007a). Eligible students can receive a SMART Grant of up to \$4,000 for each of the third and fourth years of study.

Although these grants can deliver significant boosts in aid, the first year of implementation has been marked by disagreements over who can actually receive the awards and equity concerns surrounding their distribution. Because eligibility for SMART Grants is based on enrollment in courses that lead to specific degrees, confusion has abounded concerning students who are enrolled in eligible majors but not enrolled in an eligible course in a given semester, perhaps because they are completing general education requirements or because space limitations inhibit enrollment in a certain course (Lederman 2007).

There are also major concerns about distribution of the awards. Because ACG awards are granted in part on the basis of completion of a rigorous course of study in high school, poor students without access to rigorous course work may not qualify. And institutions that enroll large proportions of low-income students—such as open enrollment institutions—are less likely to have students who qualify for the awards (Field 2007a; Guess and Lederman 2007). Distribution of the ACG and SMART Grant awards varies widely across institution types and states. In 2006–07, financial aid administrators at the Georgia Institute of Technology estimated that fewer than a quarter of Pell Grant recipients qualified for one of the new grants and many who did lost eligibility for 2007–08 because they did not meet enrollment requirements (Guess and Lederman 2007).

Not enough data are available yet to declare the success or failure of the new grant programs; in particular, whether they are having any influence on the enrollment decisions of low-income students. But it is important to quickly address any implementation problems that render these grants inaccessible to low-income students and leave large amounts of federal aid untapped by those who could greatly benefit from it. ☞

# Targeting Future Investments to Restore the Core Purpose of the Pell Grant Program

“[This Act] means that a high school senior anywhere in this great land of ours can apply to any college or any university in any of the 50 states and not be turned away because his family is poor.”

—President Lyndon B. Johnson, signing the Higher Education Act in 1965 (cited in Wolanin 1998)

The Pell Grant program is a legacy of the original Higher Education Act, which established the federal government’s role in ensuring that access to higher education was not predicated on economic status. The program has served a historic function in providing financial support for low-income students. Today, as the need for postsecondary training increases, so does the financial burden on low-income students pursuing a college degree.

The recent attention to student financial aid programs signals a growing concern among policymakers about higher education access for low-income students. It is critical that the momentum

created by the boost in Pell Grant aid delivered through the College Cost Reduction and Access Act of 2007 be maintained to ensure that the program will help equalize postsecondary opportunities. While new grant programs such as the ACG and SMART Grant awards are increasing aid to some Pell Grant students, the fundamental purpose of the Pell Grant—to serve as the true foundation of aid—is vulnerable. Policymakers can capitalize on the current momentum regarding student financial aid policy—even if they cannot achieve large-scale overhauls, they can take small, narrowly targeted policy steps that can significantly increase the flow of aid to the lowest income students through the Pell Grant program. ☞



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