

April 14, 2011

Gaston Caperton
President
The College Board
45 Columbus Avenue
New York, NY 10023

Dear President Caperton:

At the request of the College Board, the signers of this letter have begun in-depth discussions about potential reform of the federal Pell Grant program. We share your conviction that a secure, predictable and well-funded program of federal subsidies for low- and moderate-income students is a vital foundation for efforts both to improve educational and economic opportunities in the United States and to increase the proportion of the labor force holding quality college credentials.

The substantial expansion of the Pell Grant program in scope, complexity and budget since its inception in 1972 generates a need for careful consideration of evidence about how the program affects outcomes for different groups of students. As experts in higher education finance, we are working to evaluate available evidence and develop a set of detailed creative recommendations that would simplify the program, improve its efficiency and strengthen its capacity over the long run.

Yet before any comprehensive analysis can be completed, we expect that the current budget pressure will lead Congress to consider cuts to the Pell Grant as part of the deficit reduction effort. It is critical that these short-term policy deliberations make full use of available evidence and insights to ensure that any budget reductions minimize the negative consequences for student attainment and educational opportunity. Accordingly, this memo presents our thoughts on potential cost-saving modifications to the Pell Grant program that Congress should consider if they resort to temporary fixes rather than the more fundamental program reform that deserves much more careful deliberation.

Background

The dramatic growth of total expenditures on Pell Grants in recent years is a function of both increased student demand and earlier changes in program generosity. The increase from \$14.2 billion (in 2010 dollars) in 2005-06 to an estimated \$34.4 billion in 2010-11 is the result of a combination of factors. The weak economy has both diminished the financial strength of students and families and induced many individuals who would otherwise have been in the labor force to enroll in postsecondary education. Legislated increases in the maximum Pell Grant, as well as other adjustments to eligibility criteria, have contributed to the increased number of recipients and the growth in award levels. In 2005-06, 5.2 million students received

average Pell awards of \$2,742, while in 2010-11 an estimated 9.2 million students are receiving an average of \$3,722.

Incentive Structures and Short-Term Policy Options

Modifications or cuts to the Pell Grant program should be made with a clear eye to facilitating access for students who are prepared to succeed in college and to encouraging students to complete their postsecondary studies in a timely fashion, without sacrificing the targeting of the funds to the students who need them the most. In the context of near-term budget reduction, we suggest that Congress consider the following options.

We are currently unable to provide good estimates of the potential cost savings of these strategies and we are aware that some of these modifications, taken individually, would only reduce total Pell expenditures by small percentages. That said, it would be a mistake to focus only on cutting the maximum award level when a number of these modifications could actually strengthen the incentive structure of the program and diminish the need for other cost-saving measures.

- 1) **Define full-time enrollment to correspond to on-time completion:** *Congress should consider adjusting the allocation of Pell Grants so that maximum awards correspond to incentives for students to complete degrees in a timely manner.*

Under current rules, students must be enrolled for at least 12 credit hours during a semester to qualify for a full-time Pell Grant. However, typical minimum institutional requirements necessitate enrolling for 15 credit hours per semester in order to complete a bachelor's degree in four years or an associate degree in two years.

Many students counted as "full-time" are enrolled for less than 15 credit hours. In 2007-08, according to the National Postsecondary Student Aid Study (NPSAS), about 42 percent of Pell recipients were enrolled for at least 12 but fewer than 15 credit hours. These students received about 44 percent of Pell Grant funds. In each of the three states for which we have examined more recent enrollment patterns, at least one-third — and as many as half — of the students are enrolled full-time for Pell purposes but are not attempting enough credits to earn a bachelor's degree in four years.

If the maximum Pell Grant were maintained at its current level with the definition of full-time changed, students enrolled for 12–14 credit hours would see cuts in their awards. To illustrate, a student enrolled for 12 hours might receive 80 percent of the maximum, or \$4,440.

Raising the level of enrollment intensity required for full-time status should both save money and change behavior. Evidence from West Virginia¹ indicates that many students respond to

1. Judith Scott-Clayton, 2009; http://faculty.tc.columbia.edu/upload/js3676/JSC_WVCollIncentives_FullDraft_Oct2009.pdf; forthcoming in *Journal of Human Resources* (Summer 2011).

similar financial incentives by increasing their credit hour enrollments. If this were to occur, the one-year savings would be less than those indicated by the figures cited here. However, these students would then graduate more quickly, reducing the total number of terms for which they would receive Pell funding.

Changing the enrollment intensity requirement also makes it possible to reconsider the decision to eliminate the “second Pell” provision. The recent budget agreement eliminates the year-round Pell provision, which was implemented as part of the Reauthorization of the Higher Education Act in 2009. The idea that students who have completed a year of full-time study over two semesters should be able to continue their studies over the summer is clearly consistent with the goal of providing incentives for timely degree completion. However, apparently because of flaws in the design of the new program, the cost far exceeds advance estimates. It is advisable that before continuing an addition of \$3–4 billion per year to this component of the Pell program, both the design and the effectiveness of the year-round Pell should be studied more carefully.

Under the current “second Pell” rules, a student could receive additional funds to take six credits over the summer after having received \$5,550 for taking 24 credit hours over two semesters. If “full-time” were defined as 15 credits per semester, a student could only receive \$5,550 by taking 30 credits over a calendar year, whether through enrolling in 15 credits for each of two semesters or 12 credits per semester plus six in the summer.

2) Limit years of eligibility: *Congress should consider reducing the number of years for which students can receive Pell Grants.*

Current law allows students to receive Pell Grants for up to the equivalent of nine years (18 full-time semesters) of undergraduate study. In 2007-08, about 3 percent of Pell recipients (182,600 students) had received Pell Grants for more than six years. Estimates suggest that limiting Pell eligibility to eight years would save about \$150 million a year and limiting eligibility to six years would save about \$800 million. Six or eight years would allow time for students who require remediation.

This move could provide a clear signal that the program is not designed to subsidize students indefinitely, but to support them to complete their degrees in a timely manner.

3) Provide greater distinction in award amounts among those students currently designated to automatically receive the maximum Pell award: *Congress should retain the transparency that accompanies automatic Pell Grant determination for those with very low incomes, while considering some reduction in benefit levels among the least needy in this range.*

Legislation in 2009 increased from \$20,000 to \$30,000 the income level below which dependent students and independent students with dependents qualify for an automatic zero Expected Family Contribution (EFC) and, if they are enrolled full time, a maximum Pell Grant. Approximately 1.3 million (16 percent of the total) recipients fall into this newly eligible

category. Many of these students would qualify for the same Pell Grant if their EFCs were calculated, but about two-thirds of all recipients (including 80 percent of independent students with dependents) now qualify for the maximum Pell Grant, whereas that percentage has historically been about half.

About 75 percent of Pell dollars now go to students with zero EFCs, making differentiating among these students critical. However, there is a significant advantage to having a simple system for determining eligibility for very low-income students.

Consistent with our commitment to simplifying the Pell formula, we support allowing these low-income applicants to have automatic EFCs instead of calculated EFCs. However, it would be possible to use additional “automatic EFC” categories. The automatic zero EFC might apply to all those with incomes below \$20,000, while there might, for example, be automatic \$500 and \$1,000 EFC categories for those with incomes between \$20,000 and \$30,000.

4) Alter the Pell eligibility formula without making the aid process more complicated for students: *If necessary, Congress should consider rolling back some recent adjustments to aid determination without sacrificing simplification.*

As policymakers consider how to cut costs, we urge them to keep the aid application process as simple and transparent as possible. Adding questions to the FAFSA or reinstating worksheets should be avoided, since we know that complexity in the aid process is most harmful to those students who have the highest need. In particular, reinstating the untaxed income components in Worksheet A would be a significant step backward in terms of simplifying the FAFSA application process and moving toward relying on IRS data. Any savings would come at a high cost in terms of the long-term effectiveness of the program.

Efforts to cut Pell spending should focus on altering how existing information is used to determine Pell awards, rather than on demanding more information of students and parents. Examples of cutting the cost of the Pell program without increasing the complexity faced by students include: lowering the income protection allowance (for all or certain groups), increasing the “taxes” on income and assets and reducing living allowances. All of these would be painful to students — but they would not bring with them the additional pain created by an increasingly complicated aid-application process. In the long term, far more consideration should be given to the best distribution of limited resources that avoids penalizing students for working when doing so is necessary for them to make ends meet.

5) Refine eligibility requirements: *Legislative and regulatory changes can limit Pell Grant eligibility to institutions committed to student success.*

Efforts are currently underway to develop regulations that would limit the availability of Pell Grants for students enrolled in institutions with particularly weak records of student success. Without weighing in on any particular approach to this problem, we would like to express support for the idea of limiting the availability of funding for programs that offer very poor

prospects to students. Minimizing the extent to which institutions and/or students can manipulate the system and divert dollars away from their necessary role of increasing meaningful educational opportunities is a necessary component of assuring the long-term viability of the program. Examining the role of ability-to-benefit tests in creating eligibility for students who lack a high school diploma or the equivalent might be included in this process.

Long-Term Policy Considerations

The near-term policy options we have examined here could be undertaken without major structural changes to the existing Pell system. More ambitious modifications are also worth considering but would require more extensive analysis and development of evidence than is feasible under the pressure of immediate budgetary decisions. For example, in our view, the transparency and simplicity of the Pell system could be improved through several of the recommendations offered in 2008 by the Rethinking Student Aid Study Group (four of whose members are signers of this document), including replacing the current Pell formula with a simple look-up table approach that eliminates the automatic connection between the maximum award level and the maximum income eligibility. We look forward to considering these and other options further in the months ahead.

An expanding body of research evidence linking college experiences, aid receipt and long-term outcomes provides an unprecedented opportunity to consider the impact of the Pell program on student success and on the behavior of colleges and universities. We hope that our longer-term inquiry will produce additional recommendations that will further improve the effectiveness of this important program in promoting greater college attainment, educational opportunity and economic growth.

Sincerely,

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