

# Rethinking Pell Grants

## In Brief

### Rethinking Pell Grants Study Group

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## Acknowledgments

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Charles Kurose, a consultant to the College Board, staffed the group, was responsible for much of the data analysis and research, and was indispensable to our work.

Kim Reuben and the staff of the Urban-Brookings Tax Policy Center modeled our proposals, generating estimates of their costs and distributional impacts. Jennifer Ma, consultant to the College Board, made important contributions to this work.

Anna Cielinski, formerly a graduate student at Georgetown University, conducted background research on labor force development programs for the Study Group. CLASP staff members gave generously of their time and provided useful information. Kathleen Payea also provided research support.

The proposals in this report reflect the views of the Study Group alone, but we had conversations with many people whose ideas contributed to our thinking. Our recommendations emerged from several meetings over the course of almost two years. We learned from each other, modified our views, and found much common ground. We are grateful to have had the opportunity to work together to develop these ideas that we hope will influence the direction of public policy.

The more detailed report, *Rethinking Pell Grants*, can be found at <http://advocacy.collegeboard.org/college-affordability-financial-aid/rethinking-pell-grants>.

This policy brief provides an overview of the recommendations of the Rethinking Pell Grants Study Group. The group's report outlines the following proposals designed to improve the program for young people growing up in low- and moderate-income families, while also better serving older adults returning to school to improve their labor market opportunities:

- A Pell Grant program that is easier for students and families to understand and access;
- A program of federally funded education accounts designed to provide children growing up in disadvantaged families with supplemental resources and their families with early information about financing postsecondary education;
- A new approach to tailoring Pell Grants to the needs of older students, many of whom are seeking specific occupational education that is frequently of shorter duration than a bachelor's degree, and for whom the current method of determining financial need is unreliable and inaccurate; and
- A program of institutional funding designed to support and provide incentives for the successful education and degree completion of Pell Grant recipients.

In addition, we describe how better coordination of the components of the financial aid system of which Pell Grants are a core part and improved attention to program design could make federal financial aid more effective for students and more sensitive to larger and emerging issues in higher education finance.

The Rethinking Pell Grants Study Group includes researchers with expertise in higher education finance, student aid, and workforce development; college administrators; and policy analysts. We share a concern for increasing meaningful educational opportunities that improve the lives of young people from disadvantaged backgrounds and of adults seeking satisfying and remunerative careers. We also recognize the importance of using limited government funds in an efficient and fair manner. We believe that a strong and effective federal Pell Grant program is vital to achieving these goals.

Convened by the College Board and funded by the Bill & Melinda Gates Foundation and Lumina Foundation, the group focused on designing a system that would use available funding as effectively as possible to achieve its goals. We do not address the question of the optimal level of funding for the program. The time is right to take a step back and review the entire structure and operation of the Pell Grant program to assure that taxpayer dollars support postsecondary students in a way that maximizes educational attainment and provides the greatest benefit to the larger society. Hasty and politically expedient cuts have the potential not just to interfere with progress toward the nation's educational goals, but also to undo the impressive accomplishments of this landmark program over the past 40 years. Equally, spending more on the Pell Program without a clear idea of how to use additional funds to best advantage is shortsighted. It is time for a more thoughtful and comprehensive approach.

Details of our recommendations, along with supporting evidence, are available in our full report, which can be found at <http://advocacy.collegeboard.org/college-affordability-financial-aid/rethinking-pell-grants>.

## **The Pell Grant Program Today**

As Table 1 indicates, the number of Pell Grant recipients, the average grant received, and total program expenditures have all increased dramatically in recent years. This rapid growth in the Pell Grant program is largely a result of the severe economic downturn, which increased demand for the program and led to legislative changes increasing the size of Pell Grant awards. Although this rapid growth is unlikely to continue, the scrutiny generated by these developments provides a valuable opportunity for rethinking the basic structure of the program.

**We must increase the effectiveness of the Pell Grant program in expanding opportunities for social mobility among young people growing up in disadvantaged households and communities. We must also ensure that the program successfully meets the needs of older adults for whom postsecondary education is the best route to productive and secure work lives.**

**Table 1**

Pell Grants over Time: Recipients, Total Expenditures and Average Award in 2011 Dollars, and Dependency Status of Recipients

	Number of Recipients (000s)	Total Expenditures (millions of 2011 dollars)	Average Grant	% Independent
1981-82	2,709	\$ 5,672	\$2,094	41.9%
1991-92	3,786	\$ 9,609	\$2,538	61.5%
2001-02	4,341	\$12,696	\$2,925	57.1%
2006-07	5,165	\$14,230	\$2,755	58.4%
2007-08	5,543	\$15,918	\$2,872	57.8%
2008-09	6,156	\$18,786	\$3,052	59.0%
2009-10	8,094	\$31,465	\$3,887	60.5%
2010-11	9,308	\$36,972	\$3,972	59.6%
2011-12	9,371	\$34,532	\$3,685	—

**Note.** Table 1 was created using data from *Trends in Student Aid 2012*.

When the program was developed in the early 1970s, the central idea was simply to provide the funds disadvantaged students needed to make it possible for them to enroll in college. In the intervening years, the share of recent high school graduates enrolling in college has increased from about half to over two-thirds. However, significant enrollment gaps remain among students from different socioeconomic backgrounds, and the gaps in completion rates are even larger.

With 26 percent of students who began their studies in 2006 at age 24 and younger and 44 percent of those who began at a later age having left school without a credential six years later (and with even lower completion rates among low-income students), it is important to ask whether a redesigned Pell Grant program could make a difference in those outcomes (Shapiro, Dundar, Chen, Ziskin, Park, Torres, & Chiang, 2012).

Key issues include:

- *The Pell Grant program is expected to serve multiple populations with very different educational and career goals.* In 2010, 44 percent of Pell Grant recipients were over the age of 24, including 25 percent who were over the age of 30. About 60 percent of Pell Grant recipients are considered financially independent, with their parents' circumstances not relevant to their Pell eligibility (U.S. Department of Education, 2012a).
- *Student success rates are too low.* Modifying the Pell program may not be the most important step for assuring that more of the students who start college complete degrees or certificates, but it has the potential to change both institutional structures and student behaviors in ways that improve outcomes.
- *Limited resources and political pressures increase the urgency of thoughtful policy reform.* Budget-cutting pressures have led to piecemeal changes to the Pell program. This process is likely to continue in the absence of thoughtful, evidence-based proposals for assuring that the good work of the Pell Grant program is maintained and the program's challenges are addressed.
- *The federal student aid system is unnecessarily complex.* Applying for aid is difficult and awards are unpredictable. A simpler application process and a more transparent system could increase students' awareness of their options, enhance student access, and increase attainment.
- *Too many students lack the information and guidance needed to make the best choices about what and where to study.* Many students have inadequate information about differences across programs and prospects for success. The current system leaves too many students without access to effective advising and with little to show for their investments of time and money.

- *Pell is not well coordinated with other federal and state subsidy programs.* While the Pell Grant program is the primary college financial aid program for low-income students, it is part of a larger landscape of programs designed to target the needs of disadvantaged populations. Pell Grants will never be ample by themselves to meet all of the financial needs of students, particularly those of older students with family responsibilities and few resources. It is important that students have the necessary information about other funding sources, that they not face legal or bureaucratic barriers to participating in federal or state income support programs, and that these alternative funding sources not have conflicting eligibility requirements making it more difficult than necessary for students to access the funds they require.
- *The system for determining financial need for the Pell Grant program is particularly unsatisfactory for older students.* Older students seeking labor force skills have come to depend on the Pell Grant program as their most reliable source of funding. However, allocating Pell Grant dollars on the basis of the previous year's income is not the best way to judge financial need or assure student success.
- *The diversity of students and their educational goals has increased substantially, reducing the probability that one program can adequately service the needs of all recipients.* The founders could not have known either how the balance among students seeking various forms of postsecondary education would shift over time, or how the educational requirements of the labor force would change. As more and more jobs require some form of postsecondary education, as funding for job training fails to keep up with the needs of workers and employers, and as more students without strong academic backgrounds continue their education beyond high school, there is good reason to reconsider whether today's students are as well-served as they should be by the program designed 40 years ago.

# The Recommendations of the Rethinking Pell Grants Study Group

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## One Program: Two Paths

*To best serve all recipients, from young high school graduates enrolling in bachelor's degree programs to older adults seeking short-term labor market preparation, the Pell Grant program should be restructured to eliminate the constraints of a one-size-fits-all program. The program should be divided into two components: Pell Y, serving young people through the age of 24, and Pell A, serving older adults returning to school.*

It is easy to see that the circumstances of 18-year-old high school graduates beginning their bachelor's degree programs at four-year residential colleges are quite different from the circumstances of 30-year-old single parents seeking short-term occupational certificates in order to find jobs paying a living wage. That there is a continuum of students between these examples does not diminish the need to differentiate, but it does make drawing lines more difficult.

Although there is no perfect answer, we propose differentiating between younger students and those over the age of 24. The current student aid system draws a line at age 24 for purposes of determining financial need, relying on information about parents' income and assets for younger students, but treating older students as financially independent. Extending the logic of using age to differentiate among student needs and eligibility has the potential to improve Pell's ability to serve all students well. An added advantage of proposing different program eligibility criteria for older and younger students, rather than seeking other criteria for categorizing students, is that the age line is a simple one to draw and is not subject to manipulation.<sup>1</sup>

There is considerable variation within age groups. Some younger students are currently considered independent because they are married, have dependents of their own, are veterans, or have other circumstances decreasing the likelihood that they can rely on parental support. Not all students seeking preparation for specific occupations are older, and more than one-third of students over age 24 are in bachelor's degree programs. However, a clear majority of these students are nearing the end of their undergraduate studies. While no federal aid program will accurately sort all students, drawing the line at age 24 seems to best group students by circumstance and goal.

*Older students' goals and choices of programs and institutions tend to differ from those of traditional-age college students.*

The choice of programs is of particular importance for students seeking specific occupational education, the most common goal for older students. Students enrolling in general education programs can usually change majors without losing all of their earlier credits. The same is unlikely to be true for many specific occupational programs. Most older students cannot afford the time required for academic exploration, which is one of the central goals of many younger college students.

The general patterns of enrollment, program and institutional choice, and completion, as well as the most prevalent barriers and needs differ significantly for older and younger students. The Pell Grant program should be tailored to support these differences.

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1. Under the current system, 24-year-old students are considered independent. We propose including 24-year-olds with younger students so that more of the students enrolling in college shortly after high school complete their studies before moving into the older category.



## Pell Grant Y: Grants for Young College Students

Pell Y, supporting recent high school graduates from low- and moderate-income families, would fund students based on the financial circumstances of their parents, with the goal of increasing social mobility over generations. The program should put students whose parents are able to make little or no contribution to financing college on a more equal footing with those whose parents can contribute to paying college expenses.

The program should be simpler than the current Pell program, both in terms of the application process and eligibility determination. Pell Y could be used at all types of institutions, whether recipients are seeking specific occupational education or more general degree programs.

To help students from low- and moderate-income backgrounds make informed choices about college enrollment, the federal government should work to improve the counseling related to college choice and financing, particularly in high schools with large numbers of students who qualify for the federal free and reduced-price lunch program.

The Pell Y program should be structured not only to provide funds allowing young people to enroll in college, but also to support their success in completing degrees and certificates in a timely manner. The program's goal is to increase educational attainment and social mobility, improving the lives of young people growing up in households with very limited resources.

### A Simpler System

#### Recommendations:

1. *For most aid applicants ages 24 and younger, base Pell Y eligibility on Adjusted Gross Income (AGI) and family size (as reflected in income tax exemptions). Provide simple look-up tables to allow students and parents to predict their aid awards well in advance of applying for aid and without regard to whether or not siblings are in college at the same time.*

A simple Pell formula would award the maximum grant to applicants with incomes below a certain level, such as the poverty line, with the grant amount declining until it reaches zero at a predetermined income level, such as 200 percent of the poverty line.

This approach would eliminate the current practice of making students from families with higher levels of income and assets automatically eligible for Pell Grants whenever the maximum Pell Grant is increased, instead allowing the maximum income for eligibility to be a separate policy question.

With the Pell Grant linked to the financial circumstances of the student's family without regard to whether siblings are concurrently enrolled, students from higher-income families would be eliminated from eligibility. This change would have no impact on students whose low family incomes make them eligible for the maximum grant.

An example of such a formula that does not measurably change either the total cost of the program or the grants received by most students from families with AGI low enough to remain eligible is included in the full Rethinking Pell Grants report. Simple modifications to the formula could either reduce expenditures or make the program more generous.

The system should make exceptions to the simple formula for families with negative AGI or other circumstances evident on their tax forms suggesting that their low AGI levels are not indicative of low financial resources.

2. *Obtain tax filers' information required for determining Pell Y eligibility directly from the IRS, eliminating both the need for applicants to provide additional financial information and the need for institutions to verify the data.*

Relying only on financial information from the IRS would make the application process much easier and many Pell-eligible students who do not now complete the Free Application for Federal Student Aid (FAFSA) would receive Pell Grants. A small number of those who currently apply but do not receive grants would become eligible because of the exclusion of the limited information about assets that is now part of the formula. Elimination of assets would have a very small impact on the awards for which the vast majority of students are eligible.

3. *Make students whose parents receive means-tested benefits from programs such as Temporary Assistance for Needy Families (TANF), Medicaid, Section 8 public housing benefits, or Supplemental Security Income (SSI), as well as students who are orphans and wards of the court, automatically eligible for the maximum Pell award. Others not required to file income taxes would provide simple income information to show eligibility.*
4. *Replace reliance on one year of income information with the average of three years of income information, with the most recent year being a year earlier than current practice.<sup>2</sup>*

Using three years of income data will limit the extent that aid eligibility is affected by short-term income fluctuations. Eliminating the requirement for using income information from the year immediately preceding enrollment has the advantage of allowing students to receive information about their financial aid earlier, enabling them to plan ahead. This change would not have a large impact on Pell eligibility for most students.<sup>3</sup> As is the case in the current system, students whose circumstances have recently changed significantly would have the opportunity for appeal.

5. *Adjust the maximum Pell Grant level automatically each year by the increase in the Consumer Price Index plus 1 percent. To ensure that students get the full benefit of the federal subsidy, Pell Grants should not be taxable.*

The proposed system would make Pell Grants more stable than they are under the current system, which is based on unpredictable congressional action. Setting growth at CPI + 1 percent acknowledges that college tuition consistently rises more rapidly than average prices in the economy, without expecting federal support to rise at a rate determined by the growth in prices.

6. *The federal government should communicate annually with families about the financial aid available to help pay for college.*

A good option would be to implement the proposal of the Rethinking Student Aid Study Group (2008) to send information annually to tax filers whose dependent children would be eligible for Pell Grants if they were of college age, as well as to participants in means-tested income support programs.

7. *The federal government, possibly in partnership with states and institutions, should develop a need analysis formula based on a broad set of data available from federal income tax forms. This formula would produce an Expected Family Contribution that could be used by states and institutions to distribute aid to families with higher incomes and more complex financial circumstances than Pell Grant recipients.*

An example of such a formula, along with its results applied to federal income tax data, can be found in the full Rethinking Pell Grants report. The specific elements of the formula could

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2. Current law bases eligibility for aid in the 2012-13 academic year on 2011 income, with 2011 referred to as "prior year." The proposed change would base eligibility for 2012-13 aid on an average of incomes in 2008, 2009, and 2010 (known as "prior-prior year"), allowing earlier determination of awards.

3. Dynarski et al. (forthcoming) estimate that basing 2008-09 Pell Grants on 2006 income instead of 2007 income would have increased the average Pell Grant by about \$60, with 66 percent of awards not changing at all and 78 percent changing by less than \$500.

be adjusted to generate expected contributions similar to those generated by the current Federal Methodology.

## Supporting Academic Success

While designed simply to provide funds to students and encourage their college enrollment, the structure of the Pell Grant program — like any other subsidy program — carries incentives for student choices and behaviors. Those incentives should be consciously designed to support student progress toward postsecondary credentials.

### Recommendations

1. *Students should be able to use their Pell Y funds at their own pace, registering for as many credits and as many terms per year as is appropriate for them.*

Under current rules, students can receive Pell Grants for two full-time semesters, but then cannot receive more funds if they enroll for a third term over the summer. The proposed system would eliminate that problem, allowing students to receive Pell Grants for all periods of enrollment, supporting timely progress without increasing the individual student's lifetime program cost.<sup>4</sup>

The current program does not provide additional funding when students enroll for more than 12 credit hours a semester. We propose that the program should instead fund students who enroll for more credit hours (or an alternative measure of student progress) more generously in order to facilitate their progress toward their goals. Financial constraints prevent many students from increasing their enrollment intensity, and this system will help to mitigate that problem.

2. *Make students eligible for Pell Grant Y for up to 125 percent of the number of credits required for the program in which they are enrolled.<sup>5</sup>*

Many students must take courses that do not count toward their degrees before they are ready for college-level work, and requiring students to succeed in all of the courses they attempt would be a severe impediment for many. On the other hand, funding students to stay in school longer and enroll in more credits than necessary to complete their programs carries high costs for them in terms of time out of the workforce and accumulated debt — in addition to putting pressure on government budgets and institutional capacity.

3. *Allow students to use Pell Grants to earn multiple associate degrees or certificates, but limit total eligibility for Pell Grants to 150 credit hours — the limit for a student whose first degree is a bachelor's degree.*
4. *Strengthen academic progress requirements to ensure that transfer students as well as continuing students have made progress toward their degrees or credentials before receiving additional Pell funds.*

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4. In 2009-10 and 2010-11, students could receive a "summer Pell Grant." The practice of allowing more than one full Pell Grant during an academic year was discontinued because of its high cost. Under the policy, students could receive more than \$5,550 even without completing a full 30 credits. The proposed program could avoid that problem.

5. The exact number of credits that could be covered by the program should be a matter for discussion as the details of the program are developed. Moreover, any provisions defined in terms of credits should be flexible enough to accommodate innovations in the way student progress is measured. See the full *Rethinking Pell Grants* report for more detailed discussion of reliance on credit hours as a unit of measure.

## Education Accounts for Low-Income Children

Early promises of college funding can have a measurable impact on college enrollment among low-income students. Federally funded college accounts could narrow some of the gaps between children growing up in low-income families and those growing up in more privileged circumstances. The availability of funds must be accompanied by clear and accessible information in order to make a significant difference in student behaviors.

### Recommendations

1. *The federal government should supplement the Pell Grant program by opening college accounts for 11- or 12-year-old children whose parents' financial circumstances would make them eligible for Pell Y Grants if they were college age.*

In order to assure that the most vulnerable students, whose parents do not have the means or the will to save for college, are included, no matching of the federal funds would be required.

2. *Children would receive annual deposits equal to a percentage of the Pell Y Grants for which they would be eligible if they were enrolled in college.*

The government would incur the cost when the funds were withdrawn, not when they were credited to the accounts. If the deposits were equal to 10 percent of the current average Pell Grant value, at current Pell Grant enrollment levels the cost of the program would be about \$3.7 billion per year. Limiting contributions to 5 percent of the Pell Grant value would cut the cost of the program in half.

3. *The funds in federal education accounts would accrue interest until the beneficiaries reach the age of 17 and would be available to pay college expenses — and only for this purpose — until the account holders pass the age of 24.*
4. *Children and parents should receive annual notification of the amount of funds available in their accounts — just as savers receive clear notification of the status of their accounts.*
5. *The federal government should run a pilot program of education accounts based on the proposed model to test its effectiveness and refine the details of the optimal structure.*

Because the effectiveness of the program could be significantly affected by details such as the age at which accounts are established, the size of the annual contributions, matching requirements, and the nature and form of the information provided to participants, it is important that the details not be locked in without reliable evidence on the characteristics of the program that will have the most impact on college enrollment and success.

# Pell Grant A: Grants for Older Adults

## Meeting the Needs of Older Adults

Although the Pell Grant program was designed with the needs of young people from low-income families in mind, it has grown to serve as the primary source of grant funds for adults seeking to enhance their workforce skills.

General funding for employment services and training for adults, youth, and dislocated workers has fallen by about 90 percent over the past three decades (Holzer, 2009). In sharp contrast to postsecondary education funding, the United States lags far behind other countries in funding for labor force development.<sup>6</sup>

The Pell Grant program should make it possible for disadvantaged adults and displaced workers to pay for needed education and training, but it cannot and should not provide levels of funding adequate to replace wages while students are in school. Unlike parents of younger students, older students have to choose between spending time in school and spending time at work, and they require supplementary income sources if they are to succeed.

Another critical issue is that the need analysis system, designed to measure the capacity of parents to contribute to their children's education, is not reliable for differentiating among older students. No modifications to the formula are likely to solve this problem, since both earnings before enrolling and earnings while students are in school are poor indicators of long-term financial strength.

Older adults seeking skills and credentials to improve their labor market opportunities have different needs than younger students. The current system provides no guidance or support for making an informed choice about appropriate institutions or programs or for overcoming the particular barriers adults with other responsibilities face as they progress through their programs.

Older students are less likely than younger students to earn postsecondary credentials and very few complete four-year degrees. With different enrollment patterns and facing additional barriers to success, students beginning their studies later in life are less likely to succeed than younger students.

- About half of the Pell Grant recipients who enrolled for the first time in 2003–04 at the age of 25 or older were no longer in school and had not earned a degree or certificate by 2009, compared to 37 percent of those who began at a younger age.
- Only 3 percent of the older Pell Grant students had earned bachelor's degrees by 2009, compared to a quarter of the younger students (NCES, 2009).

## Recommendations:

### Award Eligibility

1. *For students over the age of 24, eligibility for Pell Grant A should not be based on the traditional need analysis system. If they meet specified income requirements, adults seeking postsecondary education should have access through the Pell Grant program to a set amount of funding that makes it possible for them to pay tuition and fees and buy books and supplies.*

The need analysis system on which the allocation of Pell Grants is currently based was designed to measure the ability of parents to contribute to the educational expenditures of their children; it does not adequately distinguish among adults funding their own studies.

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6. In 2010, when the United States spent 0.1 percent of GDP on active labor market policies, OECD countries spent an average of 0.7 percent of GDP. Denmark spent the highest percentage of GDP (1.9 percent), and Mexico was the only country spending less than the U.S. (OECD, 2012).

Since the grants are intended to pay for tuition, fees, books and supplies, the amount of the grant should not be a function of household living costs. In order to encourage students to find cost-effective programs, their grants should not be a function of the price of the programs they select. To avoid a steep divide between those whose incomes are just low enough to qualify and those who just miss the cutoff for eligibility, there should be full funding and partial funding, following the example of the free and reduced-price lunch program.

2. *Pell A Grants should be available both to long-term disadvantaged adults and to those who are permanently dislocated from jobs they have held for a number of years.*

Older students who have little earning power and who live in households with very limited resources should receive Pell A Grants to pay for their education.

There are a variety of reasonable ways to define long-term disadvantage. The income cutoff should be based on the average of three years and might be set in terms of median household income or in relation to the poverty level.

In order to encourage rapid transition to new careers for permanently dislocated workers who lose their jobs for no cause after at least three years of tenure, for this group qualifying earnings for one year might be sufficient for Pell A eligibility.

3. *To qualify for Pell A Grants, adults would apply once — before beginning their programs. They would continue to receive funding as long as they made adequate progress in their programs.*
4. *As with the Pell Grant Y, students would be able to use their Pell funds at their own pace, registering for as many credits and as many terms per year as is appropriate for them. The award amounts would be based on the number of credit hours (or another unit of measuring progress) in which the student enrolls.*
5. *The total funding available to an individual would cover 125 percent of the credits required to complete the program in which she is enrolling.*

Adults without a bachelor's degree could receive Pell A Grants for more than one program, with the total not to exceed 150 credits (125 percent of the credits required for a bachelor's degree). Pell Grants received under the Pell Y program would be included in calculating eligibility.

6. *Pell Grant A awards should rise at the same rate as Pell Grant Y awards to assure that political pressures do not work against the needs of older students.*

One option would be to set the size of the Pell Grant A award for full-time students at an amount adequate to cover average educational expenses at community colleges, the sector where most older adults enroll. In 2012–13, that amount is \$3,131 for tuition and fees plus \$1,229 for books and supplies, or a total of \$4,360 — more than the current average grant for full-time independent students.<sup>7</sup>

Like the Pell Grant Y maximum, the Pell A maximum amount per credit would increase annually by the rate of general inflation plus 1 percent. To ensure that students get the full benefit of the federal subsidy, Pell Grants should not be taxable.

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7. In 2009-10 the average grant for full-time independent students was \$3,925, 74 percent of the \$5,350 maximum grant (U.S. Department of Education, 2012a).

## Supplementing Pell Funds

The purpose of the Pell A program is to provide both funding and guidance for older students. Students who are enrolling (or reenrolling) in college after a significant break have less access to guidance about educational choices than most younger college applicants. Moreover, students seeking specific occupational education have less leeway in choosing institutions, programs, and courses than do students enrolling in more general education programs.

1. *The federal government should encourage and/or provide incentives for states to allow students to use income support programs to improve their chances of succeeding in college. It should also review its own income support programs to assure that they do not discourage recipients from acquiring the necessary education and training.*

Assuring access to these programs at both the federal and state levels should be an integral part of the Pell Grant A program. Some programs deny funding to people who are in school, pushing them instead into low-wage, dead-end jobs. Treating full-time or close-to-full-time college enrollment for periods of time adequate for credential completion as a substitute for labor market participation is a critical part of Rethinking Pell Grants. For more information on student eligibility for income support programs, see Appendix D in our full report, which can be found at <http://advocacy.collegeboard.org/college-affordability-financial-aid/rethinking-pell-grants>.

2. *Schools enrolling Pell Grant A recipients should be required to provide them with information about completion rates, average loan indebtedness, loan default rates, and labor market outcomes for similar students in the relevant programs.*

The federal government has access to labor market data not easily available to institutions and should participate in the effort to assure that students have the best possible information helping them to predict the benefits they will receive from specific programs.

3. *Students receiving Pell A Grants should be required to avail themselves of the services of One-Stop Career Centers (or their successors) before enrolling. These services should be designed to help students formulate their goals and make informed choices about programs most likely to lead them to those goals in the context of local labor markets.*

The most effective occupational training programs have close links to local labor markets and provide information and guidance as students choose their paths. Receipt of Pell A Grants should be accompanied by guaranteed access to and required use of counseling by experts with no conflict of interest related to students' choices. This advising should take place both before students select their programs and while they are progressing through those programs.<sup>8</sup> Counseling should include reliable advice about the kinds of education and training needed to achieve competency in particular occupations and whether individual students are likely to be able to succeed in this training.

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8. For an evaluation of the counseling and career services provided at WIA-funded One-Stop Centers, see Heinrich, Mueser and Troske (2008) and Perez-Johnson, Moore and Santillano (2011).



The One-Stop Centers associated with the Workforce Investment Act can provide the basis for a better-developed system of local guidance for adults seeking to improve their labor market prospects. The services currently provided by these centers are uneven and capacity is limited. They should be strengthened, standardized, and provided with supplemental funding to serve Pell Grant students. Moreover, they should be more focused on providing access to postsecondary education and training, rather than just matching people to job openings (Strong, 2012).

The federal government should provide supplemental funding for career assessment and counseling services. Evidence indicates that investing in these services greatly improves the effectiveness of programs that provide funding for training for unemployed adults. Benefits resulting from better choices made by students would include increased earnings and tax revenues and reduced unemployment compensation; the benefits would be likely to significantly outweigh the costs (Jacobson, 2009).

In 2010–11, there were approximately 4.1 million Pell recipients ages 25 and older, about 1.8 million of whom were first-year students (U.S. Department of Education, 2012a).<sup>9</sup> Providing each of these potential Pell Grant A recipients entering postsecondary education with \$500 in additional One-Stop services would require about \$900 million in federal funding — a sum of money that would have an outsized impact on the efficacy of the tens of billions of dollars in total program expenditures.

4. *Students receiving Pell Grant A awards and the institutions in which they are enrolled should be required to participate in academic and career guidance programs to assure that students are progressing toward credentials that will be of value in their local labor markets.*

In order for their students to receive additional Pell disbursements, institutions should have to provide evidence that the students are progressing successfully toward credentials. Current requirements for Satisfactory Academic Progress leave considerable discretion to institutions, resulting in uneven effectiveness. Moreover, they do not follow students as they move from one institution to another, so they do not require students to make progress before receiving additional Pell funding at a different institution.

In order to receive the next disbursement, students should also be required to get updated career guidance. For example, after students complete their first year of study they might be required to have a counseling session that assesses their progress, their potential to complete the credential, and the current labor market demand for that credential. Counseling would be available through a combination of institutional resources and One-Stop Centers or the more effective structures developed to replace them.

5. *The design of the support services provided to – and required of – Pell Grant A recipients should be developed over time and based on findings from the evaluation of pilot programs.*

There is a growing body of research on the effectiveness of occupational training programs and support services, and a number of researchers and organizations have proposed innovative programs for improving the success rates of adults seeking to improve their marketable skills (Edelman, Holzer, Seleznow, Van Kleunen, & Watson, 2011; Soares, 2010; Jacobson, LaLonde, & Sullivan, 2011; Strong, 2012). This evidence should provide the basis both for the initial basic design of the Pell Grant A program and for pilot programs around the country to develop effective local strategies.

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9. NCES (2008) data indicate that about 42.8 percent of Pell Grant recipients ages 25 and older in 2007-08 were first-year students.



## Comparing Pell Grant Y and Pell Grant A

Pell Grant A is designed to meet the unique needs of older students and to improve their ability to succeed in their chosen education or training programs. Students enrolling in college shortly after they finish high school tend to have the time and the inclination to explore alternative educational paths. Many of these students choose residential colleges. Many take a variety of courses and postpone declaring a major. Most do not have children to support and have little labor market experience. College for younger students is about growing up at the same time that they develop their intellectual skills and focus their career aspirations.

The Pell Grant A program differs in important ways from the Pell Grant Y program.

- The allocation of Pell Grant A will not be based on a traditional need analysis system. Because current financial circumstances do not provide a reliable basis for fine distinctions among adult students, students will be eligible for a full grant, a half grant, or no grant.
- Eligibility for Pell Grant A will be determined once, before a student enters a postsecondary program, with funding to continue through the course of study, rather than being recalculated each year.
- In order to receive Pell Grant A awards, students will be required to participate in precollege counseling to assist them in choosing institutions and programs of study.
- Receipt of supplementary services to improve access to income support programs to assist with living costs will be an integral part of the Pell A program.
- Pell Grant A recipients will be required to complete institutionally provided academic and career counseling programs intermittently over the course of study.

It is important to note that Pell Y will serve younger students in specific occupational programs well, while Pell A will support older students in general education and baccalaureate programs.

Because the average grant for older students will be similar to that under the current system, there will be no significant cost implications. As is the case with any policy change, there will be some winners and some losers. Full-time students currently receiving the maximum Pell Grant will receive slightly less in grant aid, but will benefit from the additional services available to them. Many of those whose earnings while in school make them ineligible for aid will receive grants under the new system. Increases in the accessibility of income support programs for students will increase the ability of older Pell Grant students to support themselves and their families while they pursue postsecondary education.

## Institutional Incentives as a Tool in Federal Student Aid Policy

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In order to foster student success, the Pell Grant program must focus on ensuring institutional support for students in addition to improving student opportunities, choices, and incentives.

Colleges with similar student bodies and similar levels of per-student funding differ significantly in their success in moving disadvantaged students toward success. The proposed program is designed to recognize the more successful institutions, to support their efforts, and to encourage other colleges to strive for similarly strong performance. Giving these “premium performers” public recognition will help guide students to enroll at these institutions. The federal government should publicize the eligibility status of institutions to help students make sound choices about where to enroll.

Careful design of a program of institutional support and incentives to increase educational opportunities for low- and moderate-income students must be grounded in reliable evidence, much of which remains to be collected.

### Recommendations:

1. *The Pell Grant program should be supplemented by a new program to support institutions in providing services to all Pell recipients with the goal of improving the rates at which students progress and attain their educational goals.*

The system should reward institutions for educating low-income students successfully, but minimize the potential unintended consequences of enrolling Pell Grant students as a revenue-maximizing strategy, awarding credentials of diluted quality, or excluding low-income students because of their lower odds of completing degrees.

This program would change institutional incentives, increasing the priority they place on the success of low-income students, and provide additional funding to allow them to achieve their goals.

2. *The institutional incentives program should provide subsidies to institutions based on the Pell Grants received by their students who earn a specified number of credits (or other units measuring academic progress) or who progress to second-year status or beyond, who transfer from two-year to four-year institutions, or who complete degrees or certificates requiring more than one year of full-time study.*
3. *Institutions should be rewarded for the success of their Pell Grant recipients, and should be allowed discretion in determining the most constructive use of the funds.*

The government should not attempt to prescribe the strategies most appropriate for each institution in fostering the success of Pell Grant recipients. The government should, however, support evaluation of these strategies and dissemination of information about successful approaches.

4. *Participation in the Pell institutional incentives program should be limited to institutions that meet a set of requirements more stringent than the accreditation threshold for participation in Title IV student aid programs.*

Possible eligibility criteria might include provision of comprehensive information about student outcomes in specific programs; minimum thresholds for graduation rates, debt repayment by former students, and employment and earnings outcomes;<sup>10</sup> and/or a revised version of the current 90/10 rule, which would require that a minimum percentage of the students pay the majority of their expenses without student aid.

5. *This proposal would direct the federal funding currently devoted to campus-based aid programs (Supplemental Educational Opportunity Grants and Federal Work-Study) toward institutions instead of directly to student aid.*

The total cost of the program would depend on the dollars awarded per Pell recipient. In 2011-12, the federal government allocated \$1.7 billion for SEOG and Federal Work-Study awards (College Board, 2012). This amount would allow institutions to receive institutional incentive grants worth at least 8 percent of the amount their students (excluding first-year students) receive in Pell Grants. The cost of the program would depend on the number of Pell Grant students who enroll in institutions meeting the eligibility criteria and on the success of the program in increasing student success.

6. *A portion of the funding for the institutional incentives program should be devoted to funding experiments designed to improve the success rates of low-income students. Funds should be awarded on the basis of both the potential for program success and the design of high-quality evaluation of the experiments.*

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10. Any comparison of graduation rates across institutions or to a national standard must be adjusted to account for the characteristics of the incoming students to avoid creating incentives for institutions to reject students who have the potential to succeed — but lower-than-average probabilities of completing their programs.

## A Coordinated Student Aid System

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While the Rethinking Pell Grants study group has focused on the Pell Grant program rather than on other components of the student aid system that might benefit from reform, we recognize that Pell's effectiveness depends on its integration into the larger student financing system. Pell Grants increase college affordability by lowering the net price low- and moderate-income students must pay wherever they enroll. Either increases in the published price or decreases in other forms of aid concurrent with Pell increases can cancel out the benefit of the additional grant aid.

### **Tuition**

The preponderance of empirical evidence suggests that at least outside of the for-profit sector, increases in Pell Grants are not responsible for any significant portion of the rapid increase in published tuition prices (Cook & Hartle, 2012; Archibald & Feldman, 2010). Moreover, restraining published price increases by diminishing the aid provided to low-income students to pay those prices might ease the strain on the pocketbooks of middle- and upper-income students, but would surely restrict access for those with more limited means. Nonetheless, it is wise to assure that program design minimizes any potential impact on tuition. For example, awarding students an extra dollar of federal aid whenever their institutions raise prices by a dollar would likely be counterproductive.

### **State and Institutional Grant Aid**

Decreases in grant aid from other sources for needy students also have the potential to thwart the intent of the Pell Grant program. Reductions in state or institutional grant aid to Pell Grant recipients in response to increased generosity of the program become transfers to these entities rather than to students.

Encouraging grant aid targeted at students with financial need at the state and institutional levels is critical to the success of the Pell Grant program. We recommend that evaluation of the effectiveness of the Pell Grant program include monitoring of this issue.

### **Federal Education Tax Credits and Tuition Deductions**

Postsecondary students currently benefit from about \$18.8 billion in a combination of federal education tax credits and tuition deductions (College Board, 2012). This subsidy is equal to almost half of the annual Pell Grant expenditures. Unlike Pell Grants, however, these subsidies are not targeted at low- and moderate-income students. As a result, considering only Pell Grants provides a distorted view of how the federal government is distributing its subsidies to college students.

Redesign of the federal tax credits is beyond the scope of this project. However, we recommend diminishing the extent to which the tax credit policies counteract the design of the Pell program.

## Conclusion

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The Rethinking Pell Grants Study Group is committed to strengthening the Pell Grant program to improve educational outcomes for low-income young people from disadvantaged backgrounds and for adults seeking to improve their labor market opportunities. Maintaining a strong Pell Grant program that provides substantial subsidies to a wide range of postsecondary students without the means to pay for their education and training is critical to the future of our economy. Both equity and efficiency considerations dictate that we make it possible for all motivated students who can benefit to have access to postsecondary education and to be supported in ways that encourage them to attain their educational goals.

In order to achieve these aims, it is vital that we carefully consider the most effective program design. Pell Grants cannot solve all of the problems facing students in selecting, enrolling in, and completing their postsecondary programs, and student aid is unlikely to be the most important lever in increasing college completion rates. However, thoughtful modifications can improve the Pell Grant program for both students and taxpayers.

An important component of designing stronger student aid programs, improving the choices students make, and reinforcing institutional efforts to increase student success is making better information easily available. Despite growing efforts in this direction, prices, student aid policies, graduation rates, student debt levels, and employment outcomes all remain too mysterious to prospective students. Increased transparency will not solve the problems of access and success, but it has the potential to contribute measurably to the solution.

It is also critical that we use this opportunity for systemic reform to institute a regular program of evaluation of the student aid system. Does the Pell Grant program effectively increase access, persistence, attainment, completion rates, and other outcomes of interest for various types of students? What modifications are most likely to make it more effective? The collection and analysis of data on program innovations and outcomes is a prerequisite for developing and maintaining a student aid system that meets the nation's goals. As Congress and the administration pursue new student aid policies to improve educational opportunities, it is important to ensure evaluation of all innovations and support for ongoing student aid research.

Proposals for reforming the Pell Grant program and other components of the student aid system frequently focus on incremental change. The Rethinking Pell Grants Study Group has taken a different approach. We understand that it will be difficult for many people to support fundamental changes like thinking separately about the needs of older and younger students, as our approach does. We are convinced, however, that in order to achieve the goal of providing broad access to meaningful educational opportunities that improve people's lives, it is critical that we think creatively.

The cost of all of the policy recommendations discussed here depends on the specific funding levels adopted. The formula simplification model described for Pell Y would not have to change the overall cost of the program. But slight modifications consistent with the design principles could either increase the generosity of the program or reduce its overall cost. The estimates provided for the cost of education accounts for low-income children and for incentives to institutions are similarly dependent on the precise approach taken. Ample funding is a prerequisite for the success of any program. The program designs we propose should increase the return on the investments of both taxpayers and students.

The Pell Grant program has a long history of increasing educational opportunities for low-income students. In the future, it must continue to support access to postsecondary education, while fostering increased success for both the disadvantaged young people and the adults seeking the degrees and certificates that can improve their lives and their contributions to society.

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