

# RETHINKING PELL GRANTS

April 2013

**The Rethinking Pell Grants Study Group proposes altering the Pell Grant program to more effectively meet the different needs of young people growing up in low- and moderate-income families and of older adults returning to school to improve their labor market opportunities.**

## Background:

- Forty-four percent of Pell Grant recipients were over the age of 24 in 2010-11 — up from 22 percent 30 years earlier.
- Success rates are lower for students who begin their studies at ages.
  - Only 3 percent of the Pell Grant recipients who enrolled for the first time in 2003-04 at the age of 25 or older had earned bachelor's degrees six years later, compared to 25 percent of Pell recipients who first enrolled when they were age 24 or younger.
  - About half of Pell Grant recipients who began their studies in 2003-04 when they were age 25 or older were no longer in school and had not earned a degree or certificate by 2009; during the same time period, 37 percent of younger Pell Grant recipients had not earned a credential and were no longer enrolled.
- Most older students are seeking preparation for specific occupations, and the Pell Grant program is their most reliable source of funding. Funding for job training has been slashed in recent years, and the United States spends a much lower percentage of GDP on labor-market policies than other countries do.
- The Pell Grant program should serve younger and older students in both specific occupational and general education programs, but its design should recognize the basic differences in educational patterns between age groups.

## Single Program: Two Paths

### How the Pell Grant A path can better meet the needs of older adults:

- Eligibility should be based on an income threshold, with information obtained directly from the IRS and with no detailed need analysis formula.
- To avoid a steep divide, there should be partial grants for those who just miss the eligibility cutoff.
- Eligible students should receive funding for their entire program of study without having to reapply each year.
- Recipients should receive high-quality academic and career advising from an independent third party to help them select the best program of study.
- Recipients should receive ongoing academic and career advising from the institution after enrolling.
- Supplementary services to improve access to state and federal income support programs to assist with living costs should be provided to all Pell Grant A recipients.

### How the Pell Grant Y path can better meet the needs of younger students:

- All financial information required to determine eligibility should be obtained directly from the IRS. This would require a move to “prior prior year” income. Income verification would no longer be necessary.

- In most cases, eligibility for students ages 24 and younger should be based only on parents' adjusted gross income (averaged over three years) and family size. Simple look-up tables should make predicting awards easy.
- Simplifying the eligibility system would enable the federal government to communicate annually with families about financial aid and college prices, beginning when children are young.
- The federal government should supplement the Pell Grant Y program by opening college accounts for 11- or 12-year-old children whose parents' financial circumstances would make them eligible for Pell Grants if they were of college age.
  - Early and ongoing information about the funds in these accounts would strengthen student and parent aspirations and expectations about being able to pay for college.
  - The funds in these education accounts should be available for the sole purpose of paying for postsecondary education, and could be used any time before the account holders turn 25.

**The Pell Grant program should be designed to better support progress and success for all students.**

- For both older and younger students, Pell award levels should be a function of the number of credits (or another measure of progress) for which students are enrolled. Unlike the current system, which provides more funding to students who spread their studies out over time and makes year-round study difficult, the proposed system would allow students to complete their course work as quickly as is feasible for them.
- Students should be eligible for Pell Grants for up to 125 percent of the number of credits required for the program in which they are enrolled.
- Satisfactory academic progress requirements should be strengthened to ensure that transfer students as well as continuing students have made progress toward their degrees or credentials before receiving additional Pell funds.

**A program of direct funding to institutions should be designed to provide both greater incentives and greater means for institutions to successfully educate all Pell Grant recipients.**

- 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.
- The funding currently devoted to campus-based aid programs (Supplemental Educational Opportunity Grants and Federal Work-Study), should go to institutions that successfully educate Pell Grant recipients. The institutions would have the discretion to use these federal funds for multiple strategies to improve student success, including, but not limited to, financial aid.

**The proposed changes to the Pell Grant program need not add to the cost of federal student aid.**

- The proposed changes to Pell Grant awards would be essentially revenue neutral, although the structure would accommodate either more generous or less generous funding.
- Providing the required guidance services for the Pell Grant A program would cost about \$900 million per year, but would likely result in higher success rates for students receiving grants.
- The cost of the education accounts for low-income children would depend on the level of funding chosen, but would likely be between \$2 billion and \$4 billion per year.
- The institutional incentives program could be funded with the dollars now distributed through the Federal Campus-Based Aid programs.