CollegeBoard
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RETHINKING PELL GRANTS

Rethinking Pell Grants Study Group

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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.

A summary of this report, *Rethinking Pell Grants in Brief,* can be found at http://advocacy.collegeboard.org/college-affordability-financial-aid/rethinking-pell-grants.

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Introduction

Forty years after Congress established Pell Grants (originally named Basic Educational Opportunity Grants), the program is widely recognized as bringing postsecondary education into reach for many low- and moderate-income students. Yet even with a highly visible national agenda of increasing the number of adults in the United States with college credentials, concerns about the future of this core program are growing. The sharp increase in total Pell expenditures during the recent economic crisis focused attention on the program as a potential area for budget savings, while disappointing completion rates among those who enroll in college have led to questions about whether the program uses taxpayer dollars as effectively as it might.

This report presents the recommendations of the Rethinking Pell Grants Study Group for strengthening the Pell Grant program and increasing the benefits it provides both to students and to society as a whole. The Study Group includes academic 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.

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.

Convened by the College Board and funded by the Bill & Melinda Gates Foundation and Lumina Foundation, the Study Group focused on designing a system that would use available funding as effectively as possible. We do not address the question of the optimal level of funding for the program. We believe the time is right to review the entire structure and operation of the Pell Grant program to ensure 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.

After providing a brief description of the current environment for Pell Grants and the evidence supporting the need for reform, this report summarizes the problems our recommendations are intended to address and then details the components of our proposed Pell Grant program.

We outline 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;
- 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 improved attention to program design and better coordination of the components of the financial aid system of which Pell Grants are a core part could make federal financial aid more effective for students and more sensitive to larger and emerging issues in higher education finance.

Why Now?

In 1976-77, its fourth year, the Pell Grant program had reached maturity and provided $5.8 billion in grants averaging about $3,000 (in 2011 dollars) to 1.9 million college students. For just over 60 percent of these students, eligibility was based on the financial circumstances of their parents, who were deemed unable to provide the support necessary to make college a reasonable possibility for their children (Table 1).

The program grew gradually to provide $18.8 billion in grants (in 2011 dollars) averaging $3,052 to 6.2 million students in 2008-09. About 60 percent of the recipients were considered independent of their parents and did not have the resources to pay for their own education or training.

By 2011-12, as a result of a combination of circumstances arising out of the extreme economic downturn, 9.4 million students (37 percent of all undergraduates) received $34.5 billion in Pell Grants averaging $3,685. Legislation in 2009 made the program provisions more generous at the same time that millions of families saw their incomes declining and their savings disappearing. In addition, many workers found their labor market opportunities limited and returned to school to improve their skills.

None of these circumstances represented sharp changes in long-term trends, but they coincided with mounting determination to reduce the federal deficit, with particular pressures on the small part of the budget not dedicated to defense, Social Security, Medicare, and interest on the national debt. The Pell Grant program cannot escape increased scrutiny under these conditions.

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 (in 2011 dollars)	% Independent
1973-74	176	$243	$1,381	13.3%
1976-77	1,944	$5,838	$3,003	38.3%
1981-82	2,709	$5,672	$2,094	41.9%
1986-87	2,660	$7,139	$2,684	53.9%
1991-92	3,786	$9,609	$2,538	61.5%
1996-97	3,666	$8,317	$2,269	57.6%
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*.

Access and Success

It is time to rethink the Pell Grant program so that it continues to emphasize the provision of funds to those for whom access to postsecondary education requires public subsidy, while ensuring that it does as much as possible to support the success of these students in meeting their educational goals. 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 49 percent in 1972 to 68 percent in 2010 (National Center for Education Statistics [NCES] 2012). However, significant enrollment gaps remain among students from different socioeconomic backgrounds, and the gaps in completion rates are even larger.

With 26 percent of all students who began their studies in 2006 at ages 24 and younger and 44 percent of those who began at a later age having left school without a credential six years later (and 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).

Why Change a Program that Works?

There is no doubt that many students view Pell Grants as having made college possible for them. Furthermore, there is no doubt that if the program were cut significantly, many students would be forced to reconsider their college plans. But the evident value of the program does not obviate the need to examine it carefully, to ask whether a program designed 40 years ago is structured in the best way for today's population, and to seek ways to increase the return on this critical investment.

Key issues include:

- *The Pell Grant program is expected to serve multiple populations with very different educational and career goals.* The percentage of Pell Grant recipients who are over the age of 24 doubled, from 22 percent in 1980, to 44 percent in 2010. Since 1990, about 60 percent of Pell Grant recipients have been considered financially independent, with their parents' circumstances not relevant to their Pell eligibility (U.S. Department of Education, 2012a).

Dependent and Independent Students

The current Pell Grant allocation system relies on the Federal Methodology for determination of student and family ability to pay for education. For dependent students, ability to pay is calculated based on information about the financial circumstances of both the student and the student's parents, as reported on the Free Application for Federal Student Aid (FAFSA). For independent students, the calculation is based on the financial circumstances of the student and, if applicable, the student's spouse. The financial circumstances of the student's parents are not considered.

Age 24 is a dividing line for dependency determination — and for considering parents' financial circumstances in the awarding of Pell Grants and other federal student aid.

Students are considered independent if they:

- Turn 24 before January 1 of the academic year for which they are seeking aid;
- Are married;
- Are graduate students;
- Are on active military duty or are veterans of the U.S. Armed Forces;
- Have children or other dependents who receive more than half of their support from them;
- Are or have been orphans, foster children, or wards of the court; or
- Are emancipated minors or unaccompanied homeless youth.

- *Student success rates are too low.* The Pell Grant program was designed to make it possible for low-income students to pay for college, without meaningful attention given to supporting student success. 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 enhance student access, increase students' awareness of their options, and increase attainment.
- *Too many students lack the information and guidance needed to make the best choices about what and where to study.* The Pell Grant program is designed as a simple voucher program, providing students with funding that can be used in a wide array of programs and institutions. This flexibility works well for many students, but an effective system requires adequate 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. This problem is particularly severe for older students who have been away from the educational system for many years.
- *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 enough 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 ensure student success for this population.
- *The diversity of students and their educational goals has increased substantially, reducing the probability that one program can adequately serve 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.

Who Relies on Pell Grants?

As shown in Tables 2 and 3, Pell Grants serve multiple populations with different characteristics, needs, and goals. In 2010-11:

- 44 percent of Pell Grant recipients were ages 25 and older, including 25 percent who were over the age of 30.
- Almost 60 percent were independent students, including 38 percent who had dependents of their own.
- Almost one-quarter of Pell Grant recipients were enrolled in for-profit institutions, while another 36 percent attended public two-year colleges.

Table 2:

Distribution of Pell Grant Recipients by Age, Dependency Status, and Sector, 2010-11

Age	
19 and Younger	21%
20–24	35%
25–30	19%
Over 30	25%
Total	100%

Dependency Status	
Dependent	40%
Independent Without Dependents	21%
Independent With Dependents	38%
Total	100%

Sector and Full-Time/Part-Time	Full-time	Part-time	Total
Public Four-Year	23%	5%	28%
Public Two-Year	27%	9%	36%
Private Nonprofit Four-Year	10%	2%	12%
For-profit	17%	6%	23%
Other	1%	0%	1%
Total	78%	22%	100%

Note. Components may not sum to totals because of rounding. Table 2 was created using data from the *Federal Pell Grant Program End of Year Report 2010–2011, Tables 2-A, 11, and 13* (U.S. Department of Education, 2012b). Calculations by the authors.

As shown in Table 3, in 2007-08, 34 percent of Pell Grant recipients ages 25 and older were enrolled in certificate or technical associate degree programs, compared to 22 percent of younger students. The difference is even greater for undergraduate students as a whole. The majority of undergraduates — and of Pell Grant recipients — ages 24 and younger are enrolled in bachelor's degree programs, but this is true for only about a third of those ages 25 and older.

Table 3:

Distribution of All Undergraduates and Pell Grant Recipients by Program Type, 2007-08

All Students					
	Not in a Credential Program	Certificate	Technical Associate	General Associate	Bachelor's
24 and Younger	4%	5%	10%	26%	55%
25 and Older	9%	11%	19%	29%	31%
Pell Recipients					
	Not in a Credential Program	Certificate	Technical Associate	General Associate	Bachelor's
24 and Younger	2%	9%	13%	24%	52%
25 and Older	2%	13%	21%	28%	36%

Note. Percentages may not sum to 100 because of rounding. Table 3 was created using data from the *National Postsecondary Student Aid Study* (NCES, 2008). Calculations by the authors.

Despite the explicit coverage in the original legislation of programs of occupational education and students enrolled part-time at all types of institutions, including community colleges and for-profit institutions, both the determination of program eligibility and the basic program itself were developed with a focus on the needs and characteristics of young people seeking general education (Gladieux & Wolanin, 1976, p. 226).[1] One of the goals of the recommendations put forth in this report is to modify the Pell Grant program to better serve all of the students who rely on it.

1. The 1972 Higher Education Amendments purposely expanded the definition of postsecondary education to include career and technical education. According to the Senate Labor and Public Welfare Committee, "There is a new kind of diversity which the committee believes ought to be encouraged…(T)he federal approach to postsecondary education ought to be broad enough to encompass the entire spectrum of options for students" — including technical training and career-oriented programs (Gladieux & Wolanin, 1976, p. 109).

The Recommendations of the Rethinking Pell Grants Study Group

This report describes detailed proposals for improving the effectiveness of the Pell Grant program. A summary of the recommendations can be found in the Rethinking Pell Grants policy brief at http://advocacy.collegeboard.org/college-affordability-financial-aid/rethinking-pell-grants.

The Rethinking Pell Grants Study Group includes a number of researchers who have spent many years studying student aid, student success, and workforce development. The proposals that follow are grounded in our collective judgment based on the existing evidence about what makes student aid programs effective. However, there is much to learn and we urge the federal government to support and carefully evaluate pilot programs as new approaches to student aid are developed, increasing the evidence base available to strengthen the system.

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. Assessing their ability to pay for education requires different information, and advising them about appropriate educational paths would involve very different judgments even if they had the same capacities and educational backgrounds. 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.[2]

Older students' goals and choices of programs and institutions tend to differ from those of younger college students.

Although there is considerable variation within age groups, 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.

Older students are more likely than younger students to be enrolled in shorter programs and are more likely to be juggling family responsibilities in addition to their studies. While more than one-third of students over age 24 are in bachelor's degree programs, Table 4 shows that most older bachelor's degree students are nearing the end of their undergraduate studies; only 28 percent of all bachelor's degree students ages 25 and older are in their first or second year of study, compared

2. 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.

to 48 percent of bachelor's degree students ages 24 and younger. 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.

Table 4:

Percentage Distribution of Bachelor's Degree Students by Age and Year of Study, 2007-08

	Undergraduate Year					
	1st Year (23%)	2nd Year (20%)	3rd Year (24%)	4th Year (28%)	5th Year (4%)	Unclassified (1%)
24 and Younger	26%	22%	24%	25%	3%	0%
18 and Younger	83%	15%	2%	0%	0%	0%
19–24	15%	24%	28%	30%	3%	0%
25 and Older	15%	13%	26%	38%	8%	1%
25–29	13%	12%	25%	40%	9%	1%
30 and Older	15%	14%	27%	36%	7%	1%

Note. Percentages may not sum to 100 because of rounding. Table 4 was created using data from the *National Postsecondary Student Aid Study* (NCES, 2008). Calculations by the authors.

Pell Grant Y: Grants for Young College Students

Proposal Overview

Pell Y, supporting recent high school graduates from low- and moderate-income families, would serve the population that was the main focus of the Pell Grant program's founders. Funding students based on the financial circumstances of their parents, Pell Y is designed to increase social mobility over generations. While rising college prices pose increasing challenges to students and families all along the income scale, the Pell Grant program is focused on diminishing barriers for students whose parents are able to make little or no contribution to financing college. The goal is to put these students on a more equal footing with those whose parents can contribute to paying college expenses.

Like the current Pell Grant program, Pell Y would be a straightforward voucher program, providing funds to students ages 24 and younger from disadvantaged backgrounds. The program should be simpler than the current Pell program, both in terms of the application process and eligibility determination. The grants 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.
- Require postsecondary institutions to improve the counseling about career choice and educational paths provided to enrolling Pell Grant recipients.
- Provide families with early information about the financial aid that will be available to their children. 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.

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 Pell Grant Y Program

The application process and eligibility criteria for Pell Grants should be simple, predictable, and transparent.

Currently, in order to receive Pell Grants, students and parents must complete the FAFSA. Concerns over the complexity of this form and the barriers it creates for many students are not new. In recent years, the paper FAFSA has largely been replaced by a smarter online application, some questions have been eliminated, and the IRS has cooperated by allowing families to automatically fill in certain FAFSA questions with tax data. Although the application process has become simpler, there is still much room for improvement.

While the application process is likely the biggest hurdle for students, the complexity of the formula for determining Pell eligibility is also an issue. Because so many data elements enter into the formula and because it involves so many opaque calculations, it is virtually impossible for students and families to predict the level of funding they will receive.

Many students receive awards smaller than the maximum ($5,550 in 2012-13) either because they are enrolled part-time or because they or their parents are deemed able to make some contribution to educational expenses. These awards are particularly difficult to estimate since they change in somewhat mysterious ways from year to year because of the complexity of the underlying need analysis formula.

If radically simplifying the application process encourages more low-income students to complete the FAFSA, the aid they receive may enable more of them to work less and to enroll full time, improving their chances of earning credentials in a timely manner.

Simplifying the application process for Pell Grants has the potential to reduce the uncertainties that create significant barriers to college enrollment and success for many students.

The evidence that the application process creates a barrier is strong (Bettinger, Long, Oreopoulos, & Sanbonmatsu, 2012). The most obvious way to simplify the federal aid application process is to use information provided on federal tax forms to determine Pell eligibility. Previous similar recommendations include Dynarski and Scott-Clayton (2007) and the Rethinking Student Aid Study Group's (2008) proposed elimination of all financial data not available from the IRS from the eligibility formula, making the provision of financial information on the FAFSA unnecessary.

The recent implementation of the Data Retrieval Tool, which allows some aid applicants to transfer IRS data directly to their FAFSAs, should be the first step on the way to eliminating the need for aid applicants to provide financial data. However, because Pell eligibility is based on income from the calendar year preceding enrollment, many students are not able to access their tax data in time to apply for aid and cannot use the new system.

Relying only on a small amount of information from tax forms would not have a significant impact on the distribution of Pell Grants.

Several studies have found that simplifying the formula to rely on a few pieces of information from federal income tax forms would have little impact on the distribution of Pell Grants (Dynarski & Scott-Clayton, 2007; Baum, Little, Ma, & Sturtevant, 2012; Dynarski, Scott-Clayton, & Wiederspan, forthcoming). The reality is that the vast majority of families for whom considering asset values and more complex definitions of income would make a significant difference in measures of ability to pay for college have incomes too high to be eligible for Pell Grants.

The most effective grant programs are simple, predictable, and easy for students and families to understand.

Several studies have found significant enrollment effects for grant programs that promise students predictable amounts of money and that make their eligibility requirements easily known (Dynarski, 2000, 2003; Kane, 2007). In contrast, documenting the enrollment impact of Pell Grants has been much more difficult. Numerous researchers have concluded that the program's complexity and lack of transparency are at least partially responsible for limiting the effectiveness of Pell Grants (Kane, 1995; Dynarski & Scott-Clayton, 2007; Bettinger et al., 2012).

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. Appendix A provides an example of a formula that meets these criteria, along with estimates of the associated costs. Actual awards should be based on a formula that avoids large changes in award size when income moves from one cell to the next.

2. *Base the Pell award on a formula that does not automatically make students from higher-income families eligible for Pell Grants when the maximum award level increases. Instead, only students from families with incomes below a certain level relative to the poverty line would be eligible for Pell Grants unless a purposeful policy change modified the income limit.*

Today, when the Pell Grant maximum increases, the income and asset levels at which students are eligible also increase, adding to program costs. In contrast, under a formula that ties eligibility to the poverty level, which is indexed for inflation, the Pell Grant amounts accruing to students at different income levels would rise as prices in the economy rise. The maximum income level for eligibility could remain the same relative to the poverty level, or be adjusted as deemed appropriate.[3]

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 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. *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.*

5. *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.*[4]

   Using three years of income data will limit the extent to which aid eligibility is affected by short-term income fluctuations. Family ability to finance college is really a function of longer-term financial circumstances and the availability of IRS data removes the previously insurmountable barrier of collecting data from multiple years.

   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.[5]

   The system should be flexible enough to allow those whose circumstances have deteriorated measurably in the intervening time to have their awards adjusted. Use of IRS data should make it possible to track household income even if family structures have changed over time.

6. *Make exceptions to the simple formula for families with negative AGI or other circumstances evident on their tax forms that suggest their low AGI levels are not indicative of low financial resources.*

   It would be possible to make students ineligible for Pell Grants if their parents reported zero or negative AGI.[6] Alternatively, business and other losses could be added back to income, and/or the filing of one or more supplementary tax schedules could affect Pell Grant determination.[7]

7. *Adjust the maximum Pell Grant level automatically each year by the increase in the Consumer Price Index (CPI) 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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3. The marginal tax rate in the formula — the rate at which the grant declines when income increases — would have to be modified when the level of the maximum grant changes. See Appendix A for more detail.
4. 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.
5. 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.
6. Estimates from the Urban-Brookings Tax Policy Center indicate that about 4 percent of Pell recipients are in this category.
7. According to the Urban-Brookings Tax Policy Center, in 2007-08:
   - Among students with negative family AGI, 86 percent filed at least one supplementary tax schedule and 42 percent filed at least two.
   - Among students from families reporting $0 AGI, less than 1 percent filed supplementary schedules.
   - Among students from families reporting AGI between $1 and $25,000, 24 percent filed at least one supplementary schedule, but only 6 percent filed at least two. (Fourteen percent filed Schedule C for self-employment income.)
   - Among students from families reporting AGI between $25,000 and $50,000, 30 percent filed at least one supplementary schedule, while 10 percent filed at least two. (Sixteen percent filed Schedule C for self-employment income.)

The unpredictability of the size of Pell Grant awards under the current system makes planning for college unnecessarily difficult. The proposed system would make Pell Grants more stable than they are under the current system, which is based on sporadic congressional action. Setting growth at CPI plus 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 college prices.

8. *The federal government should communicate annually with families about resources available to help pay for college, customized to the extent possible based on each family's financial circumstances.*

Although college is expensive, if students from low-income backgrounds apply for financial aid, they are eligible for assistance and do not pay the published prices. However, information about eligibility for need-based financial aid for college does not reach students until late in their high school years. Children from families with minimal financial resources often lower their expectations for school success and show signs of academic disengagement as early as the middle school years (Destin & Oyserman, 2009).

Providing information annually to students from low- and moderate-income backgrounds about funding for postsecondary education should improve academic preparation and help keep these children on an open path to college.

The annual communication should include information on current average published and net prices at public institutions within the family's state of residence, in addition to an estimate of the student's Pell Y Grant, state grant, and tax benefits if the child were currently enrolled in college. During the later high school years the communication could provide more specific information about the financial aid process.

9. *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 Appendix B.

Questions About Simplification

How would simplifying the Pell eligibility formula to base it only on AGI and family size affect the cost of the program?

The cost of the program would depend on the specific elements of the formula. If students from families with AGI less than or equal to the poverty level for their family size received the current maximum award of $5,550 and the grant amount declined steadily to $0 for those with incomes equal to or higher than 200 percent of the poverty line, the cost of the program would not change measurably.

Some students would become newly eligible. Almost all of these students would be among those not currently completing the FAFSA. In addition, about 4 percent of current applicants not now eligible for a Pell Grant would receive Pell Y Grants.

Other students would lose eligibility. Most of these would be students from families with AGI above 200 percent of the poverty line who currently qualify because they have siblings who are also enrolled in college. In other words, funds would be more targeted on students from the lowest income families. (See Appendix A for detailed estimates of the impact of the proposed formula.)

Who are the students who do not now complete the FAFSA, and is it reasonable to give them Pell Grants?

In 2007-08, 19 percent of dependent students ages 24 and younger from families with AGI of $20,000 or lower did not complete the FAFSA. The same was true of 30 percent of those from families with AGI between $20,000 and $50,000. Among the 61 percent of undergraduates from families with higher incomes, almost half did not complete the FAFSA (NCES, 2008). These students would not be eligible for Pell Grants under the proposed system.

- Among dependent undergraduates from families with AGI of $50,000 or lower not applying for aid in 2007-08, 59 percent were enrolled in public two-year colleges and 27 percent attended public four-year institutions. Six percent were enrolled in private nonprofit four-year colleges and universities and only 1 percent of the non-aid applicants attended for-profit institutions (NCES, 2008).[8]
- Among those from families with AGI of $50,000 or lower not applying for aid, over one-third said they did not have the information about how to apply. Almost 60 percent said they did not think they would be eligible and over 40 percent were concerned about taking on debt (NCES, 2008).

Won't ignoring assets make many students eligible for larger Pell Grants than they actually deserve?

Several studies have modeled the impact on Pell Grant eligibility of removing assets from the formula. Dynarski et al. (forthcoming) find no increase in the number of aid applicants who qualify for Pell Grants and only a $22 increase in the average Pell Grant. For 95 percent of recipients, grants do not change at all. Baum et al. (2012) found similar results examining the impact on Pell eligibility in five states.

It is important to keep in mind that the current federal aid eligibility system contains significant loopholes. The FAFSA and the supporting Federal Methodology ignore resources that would in most cases increase the family's expected contribution and reduce the student's Pell Grant eligibility. For example, the FAFSA does not capture information about either the family's home equity or retirement assets, which make up the majority of most household net worth in this country. Furthermore, family farm and small business assets are ignored. In the case of divorced or separated parents, only the resources of the custodial parent are considered, which ignores the noncustodial parent's potentially high income and assets. Families whose low AGI is the result of business or other losses may also receive more generous aid than their financial circumstances warrant.

To capture information that would be needed to improve the need analysis methodology would complicate the FAFSA for all applicants, and would be particularly difficult for students from low-income backgrounds. What is most important is to reduce complexity and increase transparency for low-income filers — those who are most likely to perceive the application as a barrier to enrollment and completion.

What happens to students ages 24 and younger whose parents do not consent to their tax information being used to apply for financial aid?

Eligibility for the Pell Y program is based on parents' financial circumstances. (Younger students without parents — orphans and wards of the court — will automatically qualify for the maximum grant.) A process for allowing exceptions to the requirement to provide parental information exists now and could be strengthened.

Doesn't basing awards on three years of income information increase the complexity of the program?

Relying on three years of income information would require an increased level of cooperation and coordination from the IRS. However, we believe that the current process can be streamlined and that the advantages of having information about the longer-term financial circumstances of families outweigh the potential problems.

8. The remaining 7 percent attended other institutions or multiple institutions.

How would student income and asset information be incorporated into the simple Pell Y eligibility system?

Student income and assets would not be considered. Eligibility would depend only on parent income. Low-income dependent students often work to help support their families. Many of those who report assets have saved money from their part-time jobs in high school to help pay for college costs. Furthermore, for most students, earnings before enrollment do not reflect ongoing earnings after they begin college.

What would happen to the current system of awarding larger grants to students who have a sibling in college at the same time?

The Pell Grant Y would be awarded to the individual student based on parental income and would not depend on the timing of his or her enrollment relative to the timing of any siblings' enrollment. Family size, however, would continue to influence Pell Y eligibility.

The current system provides much more aid to families with children close to each other in age than to families identical in every way except for the spacing of their children. Because most of them are eligible for the maximum Pell Grant based on their financial circumstances, the adjustment for siblings in college makes virtually no difference for families with AGI below $40,000.

- Estimates from the Urban-Brookings Tax Policy Center indicate that virtually no current Pell Grant recipients from families with AGI below $40,000 would lose eligibility if this adjustment were eliminated, and only 5 percent of those with AGI between $40,000 and $50,000 would lose eligibility. However, 38 percent of those with AGI between $50,000 and $75,000 and 92 percent of current recipients with AGI between $75,000 and $100,000 would no longer receive Pell Grants.
- Less than 1 percent of the Pell Grant dollars going to students from families with AGI of less than $40,000 and 9 percent of those going to students with AGI between $40,000 and $50,000 are attributable to the adjustment for siblings in college. Forty-two percent of the Pell dollars going to students from families with AGI between $50,000 and $75,000 and 85 percent of the dollars going to those from families with AGI between $75,000 and $100,000 are attributable to this adjustment.

How would the proposed change in the eligibility formula affect the cost of the Pell Grant program?

Simulations completed by the Urban-Brookings Tax Policy Center indicate that the proposed Pell Y formula would not have to change the cost of the Pell Grant program for students ages 24 and younger. Students from higher-income families who now receive Pell Grants, usually because they have a sibling in college at the same time, would lose eligibility. Many eligible students who do not now complete the FAFSA would likely take the simpler steps necessary to apply for aid, increasing the total number of recipients. Because these students tend to come from smaller families than current Pell Grant recipients with similar incomes, they would receive smaller Pell Grants.

Generally, Pell Grants would increase somewhat for the lowest-income recipients, but decline for those with higher adjusted gross income. See Appendix A for more detail.

Pell Grant Y and Academic Progress

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.[9]

The current program does not provide additional funding when students enroll for more than 12 credit hours in a semester. We propose that the program should instead fund students who enroll for more credit hours 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.

- With the 2012-13 Pell Grant maximum of $5,550 and a minimum of 24 credit hours required to receive this level of funding, the program provides $231 per credit.
- Completing a bachelor's degree in four years or an associate degree in two years generally requires 30 credits per year. Using this standard, a $5,550 grant implies $185 per credit.

Credit Hours

The Carnegie Unit, otherwise known as the "credit hour," was introduced in 1906 by the Carnegie Foundation for the Advancement of Teaching. It is a time-based measure of student progress, intended to be associated with 15 weeks of study involving one hour of faculty instruction and two hours of study outside the classroom each week. For both accreditation and access to federal financial aid, the credit hour is the standard unit of measure.

This concept is the subject of increasing criticism from advocates of on-line and competency based learning who are concerned that it measures time and place rather than actual learning or knowledge. The Carnegie Foundation is now undertaking a project to reassess and modernize the measure.

Institutions such as Western Governors University that are focused on competency-based programs now generally link their programs to credit hours. Supporters of increasing the role of Prior Learning Assessment focus on granting credit for knowledge and skills gained outside of postsecondary institutions, diminishing the importance of the number of hours spent in classes, but still relying on a credit unit to measure progress (CAEL, 2010). However, a new program at Southern New Hampshire University is attempting to move away from this convention, relying on direct assessment of student competencies.

Even with new definitions of the credit hour or with innovative measures not yet developed, there will have to be some method of adding competencies, accomplishments — or credits — in order to earn degrees and certificates. Some standard for measuring student progress and/or learning is clearly necessary. Our intention is to base Pell Grant awards on the units in which progress is measured — and to develop a student aid system flexible enough to accommodate changes over time in the units of measurement.

For more detail on the history of the credit hour and ideas for revision, see Fain (2012); Laitenen (2012).

9. 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.

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.*[10]

   Many students must take courses that do not count toward their degrees before they are ready for college-level work, and requiring them to succeed in all of the courses they attempt would be unrealistic. 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.*

   Students who earn associate degrees or certificates will have remaining Pell eligibility to allow them to stack these credentials or to earn bachelor's degrees.

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.*

   Current satisfactory academic progress requirements leave considerable discretion to the institution, resulting in uneven effectiveness. Moreover, information about previous academic achievement and Pell disbursements does not necessarily follow students who move from one institution to another. As a result, it is currently possible for a student to receive additional Pell disbursements without demonstrating satisfactory progress toward a degree or certificate. See Appendix C for current satisfactory academic progress requirements.

Questions About Supporting Student Success

Will providing higher levels of funding to students who make more rapid progress toward degrees penalize students whose circumstances slow them down?

Providing larger grants for students who enroll for more credits (or other measures of student progress) will increase the options for some students and encourage them to progress more quickly. The cost to students of staying in school for more time than necessary is high because of time out of the labor market and/or time working without the benefit of a credential.

Will limits on the number of credits covered by Pell Grants prevent some students from achieving their goals?

Students who know that their funding will end will have stronger motivation to complete their degrees more quickly. While there will always be individuals whose circumstances prevent them from accomplishing their goals, policies should be designed to help as many students as possible have the best attainable outcomes.

If a student turns 25 and has not exceeded the Pell Y Grant credit limit, would the student continue to be eligible for Pell Y?

No. The student could continue to receive a Pell Grant, but would qualify based on the Pell A eligibility criteria. Her parents' income would no longer be considered in determining the amount of her Pell award. The credit limit for receiving Pell Grants would be based on all awards received under both parts of the program.

10. 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.

Education Accounts for Low-Income Children

Children growing up in low-income families should have college accounts that narrow the gaps between them and children growing up in more privileged circumstances.

A shortage of funds is not the only problem interfering with the educational attainment of young people growing up in low- and moderate-income families. Providing financial aid at the time high school graduates are ready to start college is important, but for many, the funds are too little, too late. Without the confidence that they will be able to pay for college, many low-income youth lack the motivation to prepare academically for continuing their education beyond high school.

Education accounts have the potential to give young people from low-income backgrounds and their parents the confidence that college is not out of reach.

Children growing up in more affluent households know that their families expect them to go to college and that their parents will be able to contribute at least some of the funds they will need to make college possible. Providing education accounts for low-income students cannot substitute for the schools the more privileged attend, the paths they follow, and the advantageous experiences they enjoy. But these accounts do have the potential to give young people from low-income backgrounds and their parents the confidence that college is not out of reach.

In addition to providing an early promise of available funding, accounts that accumulate over time have the advantage of being based on long-term financial circumstances, rather than on one year of information or even, as in our proposal, three years of family income. Children who grow up in consistently poor families will have larger accounts than those whose families were poor for a limited time. These accounts should supplement the Pell Y Grants awarded at the time students enroll in college.

Both the federal government and state governments currently subsidize college savings accounts through the tax system for those who can afford to contribute to them and who benefit from the tax-free status of the earnings on (and in some cases the contributions to) these accounts. As of June 2012, assets in Section 529 state college savings plans totaled $178.8 billion. Eleven million open accounts held an average of $16,300 (The College Board, 2012).

Very few low- and moderate-income families participate in these plans. According to the Government Accountability Office (GAO), families with college savings accounts have three times the median income and 25 times the median assets of those without accounts (GAO, 2012). This is partly because tax deductions are of less value to lower-income families. Moreover, the terms of 529 plans, which include penalties for withdrawal for noneducation expenses, make them risky for low-income families who are more likely to be forced to withdraw savings for emergency use and are less confident that their children will go to college. But the main reason few of these families participate is that they do not have the discretionary funds required to save. This reality is unfortunate not only because it implies that these families are deprived of a subsidy available to more affluent citizens, but also because they miss out on the encouragement of early academic and financial planning for college that results from knowing that money will be available for their children's education.

Early promises of college funding can have a measurable impact on college enrollment among low-income students. The availability of funds must be accompanied by clear and accessible information in order to make a significant difference in student behaviors.

There is evidence that existing private and state-sponsored early promise programs do influence college-going patterns among low-income youth. Although it is not easy to determine causation, Elliott and Beverly (2011) concluded that children with a savings account were twice as likely as similar students without accounts to attend college; they also had higher levels of academic achievement in school. Other studies suggest that families who begin to save for college from an early age are more likely to exhibit strong college expectations for their children and place them into appropriate academic courses (Destin & Oyserman, 2009; Elliott, Choi, Destin, & Kim, 2011).

Early Promise Programs

Examples of programs providing early promises of financial aid include the following:

- A diverse set of countries, including the United Kingdom, Singapore, Canada, and South Korea, have begun to invest in children's savings accounts. For example, through the Canada Learning Bond program, the Canadian government deposits funds into accounts for children from modest-income families and makes additional deposits as long as the family continues to qualify. The goal of the program is to help families plan early for their children's postsecondary education.
- The Kalamazoo Promise program is a four-year scholarship that covers tuition and fees at Michigan public two- and four-year institutions for all graduates of Kalamazoo high schools. It is not based on merit or financial need.
- The Indiana Twenty-first Century Scholars Program guarantees free in-state tuition to students from low-income backgrounds who meet the program's requirements, which include a pledge to graduate from high school with at least a 2.0 GPA, to apply for admission to an Indiana college, to apply for financial aid, and to be good citizens.

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.*

   Opening college accounts at an earlier age would allow students and families to establish an even longer planning horizon. However, because a disproportionate number of young parents have incomes that would qualify them for Pell, it is advisable to wait until their incomes are more likely to be representative of their long-term circumstances. By starting at age 11 or 12, the program would reach children before they begin to disengage from schoolwork in the middle school grades.[11]

2. *Children would receive annual deposits equal to 5 to 10 percent of the Pell Y Grants for which they would be eligible if they were enrolled in college.*

   The amount of the deposit could be higher or lower than 5 or 10 percent of the Pell Y Grant, but it should be related to Pell eligibility.

3. *The funds in federal education accounts should accrue interest until the beneficiaries reach the age of 17 and should be available to pay college expenses — and only for this purpose — until the account holders pass the age of 24.*

   Ending the growth in the accounts has the advantage of increasing the incentives for students to enroll in college as soon as possible after high school graduation.

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.*

   The annual communication could also include information on current average published and net prices at public institutions within the family's state of residence, in addition to an estimate of the student's Pell Y Grant, state grant, and tax benefits if the student were currently enrolled in college. During the later high school years, the communication could provide more specific information about the financial aid process.

11. For evidence on the importance of the middle school years in strengthening academic identity and goals, see Osborne (1999); Gordon, Iwamoto, Ward, Potts, and Boyd (2009); and Wimberly and Noeth (2005).

5. *Students would be allowed to use up to one-quarter of the accrued funds for the first year of postsecondary study. If they continued their studies or began a new program after completing a one-year certificate, they would be able to use up to one-third of the remaining amount in the second year of study. The funds would not be depleted before the completion of four years of study.*

6. *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.*

   The proposed experiments would supplement the current study the Department of Education is undertaking to test the impact of youth savings accounts on college enrollment and attainment among GEAR UP students.[12] 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.

Questions About Education Accounts

Why not make this a matching program, requiring parents to set aside some amount of money in order to participate in the program?

The goal of these education accounts is to provide a nest egg for the least privileged children to encourage them to seriously consider and prepare for college. Excluding the children whose parents are unable or unwilling to contribute to the accounts would leave out the most vulnerable potential students.

If contributions to the education accounts are based on information from tax forms, what will happen to children whose parents do not file federal income taxes?

Children whose parents participate in certain means-tested programs, such as TANF, Medicaid, Section 8 housing benefits, and SSI, would automatically be eligible for the maximum Pell Y Grant as well as the corresponding education account deposit. An effective federal outreach program should encourage parents whose incomes are too low to require them to file taxes and who do not participate in the relevant programs to apply for these accounts.

How much would this education account system cost?

While funds would be credited to children's accounts each year, the actual expenditures would not occur until the account holders are enrolled in college. The budget impact would depend not on the amount credited to children each year, but on the amount actually expended.

The population of account holders would not be identical to the population of Pell Grant recipients, since many families experience increases in their incomes over time, while others experience financial setbacks as their children are approaching college age. However, the number of Pell Grant recipients ages 24 and younger is a reasonable proxy for the number of account holders who would be withdrawing funds each year.

Once the program has matured, when all college-age youth have been eligible for accounts since they were 11 or 12 years old, the annual cost would be approximately equal to the number of Pell Y recipients times the average total account value divided by 4, assuming students are allowed to use one-fourth of the total amount accrued in the account each year.

12. The U.S. Department of Education announced the College Savings Account Research Demonstration Project in May 2012. The project will support college savings accounts for 10,000 participants in the GEAR UP program, which prepares disadvantaged students for college. The goal of the demonstration project is to gather evidence on the impact that college savings accounts have on college access and success by comparing the outcomes of students who get the accounts with the outcomes of a control group of GEAR UP students who won't be given the accounts.

If we assume children receive 10 percent of the value of the Pell Grant for which they would be eligible each year for seven years, from ages 11 to 17, the accounts would be equal to about 77 percent of the first-year Pell Y Grant amount when the students reach college age.[13] There were approximately 5.2 million Pell Grant recipients ages 24 and younger (56 percent of all recipients) in 2010-11 (U.S. Department of Education, 2012a). If each withdrew a quarter of the total accrued in the account each year, the annual cost would be about $3.7 billion. Limiting contributions to 5 percent of the Pell Grant value would cut the cost of the program in half.

How would this program affect the federal budget? How would the dollars credited to accounts that are never used be counted?

The program could be budgeted in a similar way to a federal pension program. Each year, employees are vested with a certain number of dollars to be received in the future. These dollars must be appropriated in the year in which they are vested, but they do not count as expenditures until they are actually disbursed.

How should the new education accounts for low-income students be funded?

These accounts, which have the potential to increase academic preparation and college enrollment among low-income youth, should be created when new funds become available.

13. This calculation assumes that the Pell Grant amount stays the same each year and interest accrues at 2.5 percent per year. With the 2011-12 average Pell Grant of $3,685, the average account would hold $2,851.

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.

There is growing evidence that programs with deliberate targeting of workforce investment, including job search, intensive counseling, and funding for training, are cost effective (Heinrich, Mueser, & Troske, 2009; Insight, 2010; Roder & Elliott, 2011). Yet 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.[14]

The Workforce Investment Act of 1998 (WIA) is currently the largest source of federally funded employment and training aside from Pell. Under this program, funds are distributed by the Department of Labor to the states, which then allocate the funds to state and local Workforce Investment Boards (WIBs).

- The three main funding streams in Title I of WIA received only about $3.3 billion for employment and training services in FY2012 and served about 8.7 million people (Employment and Training Administration [ETA], 2012a; ETA, 2012b).[15]
- Funding for workforce development in all parts of WIA plus programs scattered in other agencies totaled $12 billion in 2009-10 (Congressional Research Service, 2013).
- The Pell program provided about $17 billion to 4.1 million adults over the age of 24 in 2010-11 (U.S. Department of Education, 2012a).[16]

The important role Pell Grants have come to play in funding occupational education for adults makes it imperative that we ensure that these students are being well served by the design of the program and that Pell funds are appropriately integrated with other sources of support for adults whose earnings are inadequate.

Pell Grant funding is essential for adults seeking to improve their labor market opportunities as well as for those seeking more general academic degrees, but the program design has not to date incorporated lessons from the workforce development world about how to achieve the best outcomes for students.

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. 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 occupation-

14. In 2010, when the United States spent 0.1 percent of GDP on active labor market policies, Organisation for Economic Co-operation and Development (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).

15. The number of people served by WIA is based on data about the 2011 Program Year, which ran from July 1, 2011, to June 30, 2012. During this time period, the three main components of the WIA system served 7.0 million adults, 1.1 million dislocated workers, and 0.2 million youth (ETA, 2012a).

16. Because data on Pell Grants by age for the 2011-12 award year are not yet available, this estimate is based on the 2010-11 distribution.

specific 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 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.

A related issue is that the need for job training is more sensitive to business cycles than is the need for support for younger college students. Funding for Pell Grant A could be expanded during economic downturns without directly affecting the provisions of the Pell Grant Y program.[17]

Older students' goals and choices of programs and institutions tend to differ from those of younger college students.

Choices of institutions and programs of study are critical to student outcomes, and there is growing concern about a mismatch between the skills and credentials students are acquiring and the needs of the labor market.

Too many older students enroll in programs with low completion rates and end up with little more than debt and lost time to show for their investments — and for the subsidies they have received.

- Among Pell Grant recipients ages 25 and older in 2007-08, 47 percent were enrolled in four-year institutions. This compares to 57 percent of those 24 and younger.
- Among the older group, 31 percent attended for-profit institutions, compared to 16 percent of younger students.[18]

Older students are more likely than younger students to have specific occupational goals for their postsecondary education and to be seeking courses of study that will allow them to attain these goals as quickly as possible.

- Among Pell Grant recipients ages 25 and older in 2007-08, 13 percent were enrolled in certificate programs and 49 percent in associate degree programs, compared to 9 percent and 37 percent, respectively, of the younger group (NCES, 2008).
- Among undergraduate students pursuing an associate degree in 2007-08, 39 percent of those over the age of 24 were in an occupational or technical program, compared to 28 percent of younger students (NCES, 2008).[19]

Older undergraduates are also more likely to enroll part-time than are younger students.

- In 2007-08, 31 percent of Pell recipients and 59 percent of all undergraduates ages 25 and older enrolled exclusively part-time, compared to 14 percent of younger Pell recipients and 22 percent of all younger undergraduates (NCES, 2008).
- Sixty-five percent of Pell recipients and 59 percent of all undergraduates ages 24 and younger enrolled exclusively full-time, compared to 47 percent and 28 percent, respectively, of the older group (NCES, 2008).

Institutional choice can have a significant impact on student success (Bowen, Chingos, & McPherson, 2009; Bound, Lovenheim, & Turner, 2010). Moreover, the choice of programs is of particular importance for students seeking specific occupational education.

17. Enrollment rates among older students are generally more responsive to increases in unemployment than are enrollment rates for traditional-age college students (Barr & Turner, 2012).
18. Within both age groups, the propensity to enroll at for-profit institutions was much greater among Pell recipients than among all students. The 31 percent of older Pell recipients who enrolled at for-profit institutions compares to only 15 percent of all students ages 25 and older. The 16 percent of younger Pell recipients who enrolled at for-profit institutions compares to only 6 percent of all students ages 24 and younger (NCES, 2008).
19. The percentage of students pursuing occupational or technical associate degrees is higher for Pell recipients than for all undergraduate students within both age groups (NCES, 2008).

- Individuals earning associate degrees in high-return fields earn about 50 percent more than those with similar degrees in low-return fields (Jacobson, 2011).
- In 2010, among those with some college but no degree (a category including certificate holders), median earnings ranged from $35,500 for some occupational categories such as team assemblers to $58,200 for those in the highest paid fields (Carnevale, Rose, & Hansen, 2011).
- Among those with associate degrees, median earnings ranged from $36,500 in some occupations such as real estate brokers, to $61,000 for first-line supervisors or managers (Carnevale, Smith, Stone III, Kotamraju, Steuernagel, & Green, 2011).

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 reach their academic goals than younger students.

As shown in Table 5, 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 Pell Grant recipients who were ages 25 or older when they first enrolled in 2003-04 had earned bachelor's degrees by 2009.

Table 5:

Percentage Distribution of Educational Attainment by 2009 of All 2003-04 Beginning Undergraduates and of Beginning 2003-04 Pell Grant Recipients

All Students					
Age (Dec. 31, 2003)	**BA**	**AA**	**Certificate**	**No Degree, Still Enrolled**	**No Degree, Not Enrolled**
24 and Younger	37%	9%	7%	15%	31%
18 and Younger	45%	9%	5%	15%	27%
19–24	28%	10%	9%	16%	37%
25 and Older	5%	9%	19%	14%	54%
25–29	5%	9%	21%	15%	50%
30 and Older	5%	10%	18%	13%	55%
2003-04 Pell Recipients					
Age (Dec. 31, 2003)	**BA**	**AA**	**Certificate**	**No Degree, Still Enrolled**	**No Degree, Not Enrolled**
24 and Younger	25%	10%	13%	16%	37%
18 and Younger	33%	9%	10%	16%	33%
19–24	17%	10%	16%	16%	40%
25 and Older	3%	9%	25%	14%	49%
25–29	3%	9%	28%	14%	46%
30 and Older	3%	9%	23%	15%	51%

Note. Percentages may not sum to 100 because of rounding. Table 5 was created using data from the *Beginning Postsecondary Students Longitudinal Study* (NCES, 2009). Calculations by the authors.

The data in Table 6 indicate that the likelihood of attaining a credential varies by sector of enrollment, but significant variation exists between age groups within sectors.

- Among those who began school in 2003-04 and received Pell Grants that year, about 58 percent of those who first enrolled in a public four-year institution at age 25 or older left school with no credential, compared to 28 percent of those who first enrolled at age 24 or younger.
- Among those who first enrolled in public two-year colleges, these figures were 48 percent and 44 percent, respectively.

Table 6:

Percentage of 2003-04 Beginning Pell Grant Recipients No Longer in School and With No Degree or Certificate by 2009, by Sector and Age at First Enrollment

	4-Year			2-Year or Less		
Age (Dec. 31, 2003)	Public	Private Nonprofit	For-Profit	Public	Private Nonprofit	For-Profit
24 and Younger	28%	22%	53%	44%	39%	41%
25 and Older	58%	40%	63%	48%	50%	46%

Note. Table 6 was created using data from the *Beginning Postsecondary Students Longitudinal Study* (NCES, 2009). Calculations by the authors.

Unemployment rates are higher among former students who began their studies at older ages.

Short-term labor market outcomes are particularly important for older students, and may not be perfectly correlated with the completion of credentials. Older students are more likely to be enrolling for specific training that may not require a credential. They are more likely to have labor market experience before they start school. But the employment outlook for students who left school without a degree or certificate appears bleaker for older students.

As shown in Table 7, among Pell recipients who began their studies in 2003-04 but never earned a credential, 62 percent of the older group was employed in 2009, compared to 74 percent of those who first enrolled at age 24 or younger.

Table 7:

Percentage of Beginning 2003-04 Undergraduates Employed in 2009, by Age at First Enrollment and Educational Attainment

All Students				
	Bachelor's Degree	Associate Degree	Certificate	No Credential
24 and Younger	88%	84%	79%	76%
25 and Older	89%	85%	74%	72%
2003-04 Pell Recipients				
	Bachelor's Degree	Associate Degree	Certificate	No Credential
24 and Younger	87%	83%	74%	74%
25 and Older	—	82%	73%	62%

Note. People who were enrolled in graduate programs or undergraduate degree programs in 2009 are excluded from these calculations. The sample of bachelor's degree recipients ages 25 and older is too small for reliable results. Table 7 was created using data from the *Beginning Postsecondary Students Longitudinal Study* (NCES, 2009). Calculations by the authors.

The need analysis system on which the allocation of Pell Grants is 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.

When parents complete the FAFSA, it is to determine whether and to what extent they are in a financial position to provide subsidies to their children to help them pay for college. The Pell Grant program is designed to provide federal support to students whose parents are not in a position to provide significant assistance.

Once students reach the age of 24, the FAFSA no longer collects information about their parents' finances. Instead, the assumption is that these students must pay their own way. It goes without saying that few students are able to do this without assistance. While parents' work lives are not usually affected by their children's college enrollment, adult students face the choice between forgoing wages in order to devote time to their studies or attempting to add time for classes and study to full-time work schedules. In other words, for most of these students, the issue is how they will support themselves and possibly their families — not just how they will pay tuition and fees.

Long-term financial capacity is actually not the central factor differentiating current adult FAFSA filers. Rather, earnings the year before they enroll in school, choices about combining work and study, and whether or not they are married and/or have children determine the size of the Pell Grants students receive. In 2010-11, 81 percent of independent Pell Grant recipients with dependents of their own and 61 percent of those without dependents were determined to be unable to contribute to their own educational expenses. They received the maximum Pell Grant adjusted for enrollment intensity (U.S. Department of Education, 2012a).

The Pell Grant program is not and cannot plausibly be generous enough to replace the wages of adults who are temporarily out of the labor force.[20] The program should make it possible for them to pay tuition and fees and to buy books and supplies. But like other adults whose labor market earnings are inadequate to support them, adult students need the income support programs of the social safety net, which is in many cases inadequate. Strengthening that system and its allowances for full-time study as a substitute for employment is the only solution for assuring that adults have the opportunity to invest in the education and training they need. The Pell Grant program alone cannot fill this role.

Like other adults whose labor market earnings are inadequate to support them, adult students need the income support programs of the social safety net, which is in many cases inadequate.

Workforce development programs are most successful when they are closely connected to local labor market needs and when participants receive not only money, but also guidance about their choices and support for managing the combination of responsibilities they have undertaken.[21]

For students whose main objective in pursuing higher education is to improve their marketable skills and attain postsecondary credentials that will enhance their employability, choosing courses of study that will actually yield better labor market outcomes is essential. This places particular importance on ensuring that occupational and vocational programs are designed to reflect the current needs of local labor markets. For older displaced workers in particular, the returns to community college attendance can be considerable when students pursue courses of study that prepare them for employment in high-demand fields (Jacobson, LaLonde, & Sullivan, 2003; Jacobson, 2011; Insight, 2010).

One example of a type of program that connects education and training programs to local labor market conditions is a sector or industry partnership. These joint ventures involve organizing stakeholders associated with a particular industry (e.g., businesses, workforce development centers, postsecondary institutions) to tailor educational and job training programs to better fit industry needs. Sector partnerships have been found to be one of the most promising strategies for aligning training programs and employer needs (Edelman, Holzer, Seleznow, Van Kleunen, & Watson, 2011). They now exist in some form in over 40 states.

The current Pell Grant program does not in any way encourage or facilitate the development of effective courses of study or help guide students into the programs from which they are likely to benefit most.

Recommendations:

Award Eligibility

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

20. Pell for dependent students has of course never aimed to replace the wages of their out-of-work parents, but instead to help pay the educational expenses of the young people whose parents are unable to help.

21. See Appendix E for more information on federally funded workforce development programs.

Pell A Grants should be available to individuals over the age of 24 who do not have bachelor's degrees and who seek additional education to improve their labor market opportunities.[22]

The same grants would fund bachelor's degrees or other more general educational paths for older students.

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 is a variety of reasonable ways to define long-term disadvantage using an income cutoff. The 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, qualifying earnings for one year might be sufficient for Pell A eligibility.[23]

3. *To qualify for Pell A Grants, adults would apply once — before beginning their programs. The award amounts would be based on the number of credit hours (or another unit of measuring progress) in which the student enrolls. Students 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.*

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. *The size of the full Pell Grant A award should be set to make it possible for most community college students to pay for tuition, fees, books and supplies. Pell Grant A awards should rise at the same rate as Pell Grant Y awards to ensure 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 direct 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.[24]

   - Like the Pell Grant Y, individual award sizes would depend on the number of credits (or other units measuring progress) for which students are enrolled.

22. A potential augmentation of the program would be to allow bachelor's degree holders who meet the financial eligibility criteria to participate.

23. Jacobson, LaLonde, and Sullivan (2011) discuss the importance of adequate funding for long-term retraining of displaced workers.

24. In 2009-10, the average grant for full-time independent students was $3,925, 73 percent of the $5,350 maximum grant (U.S. Department of Education, 2012a). The same percentage of the 2012-13 maximum grant of $5,550 would be $4,052.

- 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.

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 differ from younger students in a variety of ways.

- They have less access to guidance about educational choices because they do not have high school counselors, peers enrolling in college, federal TRIO programs, or other programs designed to provide guidance and support to younger college applicants.
- Older students are more likely to be seeking training for specific labor market opportunities, less likely to be working toward bachelor's degrees, and more likely to be enrolled in programs that are applicable to a limited range of narrowly defined occupations.
- Older students are less likely to be residential students and part of college communities that provide a variety of student services and opportunities outside the classroom.
- Older students are more likely to have family responsibilities that make them dependent on a combination of earnings and other sources of support to cover living expenses while they are in school.

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 ensure that they do not discourage recipients from acquiring the necessary education and training.*

In order to devote time to their studies, older students need access to programs such as TANF, childcare assistance, Section 8 housing subsidies, Supplemental Nutrition Assistance Program (SNAP), and unemployment compensation. Because eligibility for these programs differs across states, these services cannot be standardized at the federal level.[25] Assuring access to these programs at both the federal and state levels should be an integral part of the Pell Grant A program.

There are many holes in the safety net and effective structuring of a sustainable Pell Grant program will require patching some of these holes. In particular, 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.

Appendix D provides information on current criteria for selected income support programs and how they may or may not be compatible with student needs.

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 ensure that students have the best possible information helping them to predict the benefits they will receive from specific programs.

25. Barr and Turner (2012) provide evidence of the importance of supplementary income support for postsecondary students. Their study finds that states in which unemployment compensation regulations favor postsecondary access for displaced workers (and those with longer benefit duration) saw significantly larger enrollment increases during the 2007–2009 recession.

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.*

Because 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.[26]

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-eligible 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). They should be knowledgeable about sector and industry partnerships and work with stakeholders to help them tailor educational programs to fit industry needs.

- Counseling should also include assistance with accessing federal, state, and local income support programs that can replace earnings to allow students to support themselves and their families while they pursue educational credentials.
- 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).
- Counseling must be based on up-to-date information on job availability and earnings potential at the local level, as well as on what kinds of education and training are needed to achieve competency in particular occupations and assessment of whether individual students are likely to be able and willing to attain such training.

26. For an evaluation of the counseling and career services provided at WIA-funded One-Stop Centers, see Heinrich, Mueser, and Troske (2008). Another study of individual training accounts (ITAs) used at WIA-funded centers found that a mandatory counseling requirement may have discouraged study participants from using ITA services, but noted that it was only the anticipation of counseling — not the counseling itself — that appears to have discouraged participants and suggested that providing better information on the nature of required counseling services from the outset could mitigate the problem (Perez-Johnson, Moore, & Santillano, 2011).

One-Stop Career Centers

The Workforce Investment Act of 1998 (WIA) was passed when economic growth was strong and unemployment was low. Expanding industries needed to find workers to fill positions, and the unemployed needed help finding jobs that used their existing skills. The Department of Labor implemented local One-Stop Career Centers to help match available positions with workers with the needed skills. All individuals, regardless of income or employment status, can access "core services" provided through the One-Stop delivery system.

The WIA legislation requires that services be provided in a specified sequence:

1. "Core services" include computer-based job search, résumé preparation, and labor market information.
2. "Intensive services," including career counseling and skills assessment, are for those for whom core services were insufficient for finding employment.
3. "Training services" are recommended for individuals who have used both core and intensive services, but have not found employment.

One-Stop Center staff members help clients find Pell Grants and other financial assistance to pay for training. WIA-funded individual training accounts (ITAs) are vouchers that can be used for training from providers approved by the local Workforce Investment Board. ITAs are often a last-dollar source of funding for clients; local areas have flexibility to decide features of the program, including the dollar amount of the voucher.

Funding for One-Stops has been significantly reduced despite increased demand for their services during the Great Recession. Funding for core services declined from $1.4 billion (current dollars) in 1990 to about $700 million in 2009, forcing major cuts in the number of staff and offices. Funding for intensive services was about $3.3 billion in 2004 (the latest year with reliable figures), down from $4.2 billion in 1990 (Jacobson, 2009).

Recently there have been a number of proposals to make One-Stop Centers more responsive to today's labor market. Unemployed individuals are now much more likely to need quality education and training in addition to career counseling and on-the-job experience. However, One-Stop Centers are often under pressure to get Unemployment Insurance recipients back to work as quickly as possible to reduce state costs. As WIA funding has shrunk, only 12 percent of One-Stop clients received training between 2008 and 2010, and most training has been focused on helping the unemployed find jobs quickly. According to the Corporation for a Skilled Workforce (as cited in Strong, 2012), only 24 percent of WIA training participants were in programs longer than a year during the same three-year period.

The Center for American Progress has argued that One-Stops should be places where individuals can have better access to education (Soares, 2010). Strong (2012) argued for a new model in which One-Stops would incorporate more postsecondary learning opportunities. Jacobson (2009) would increase funding for core services, increase the number of job vacancies listed, and boost funding for counseling of the unemployed to ensure that individuals have access to the most appropriate type of training to meet their goals.

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 ensure 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 their successors).

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 et al., 2011; Soares, 2010; Jacobson et al., 2011; Strong, 2012). This evidence should provide the basis both for the initial basic design of the Pell Grant A program and of pilot programs around the country to develop effective local strategies.

Questions About Pell Grants for Older Students

How will Pell Grant A, designed for older adults, be different from Pell Grant Y, for younger college students?

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. As a result, it differs in important ways from the Pell 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.

Why use age as the distinguishing factor for the two components of the Pell program? Some 18- and 19-year-olds enter short-term job training programs; some older adults complete liberal arts bachelor's degrees; many institutions enroll students of all ages.

There is no line that can clearly separate Pell Grant recipients following traditional educational paths from those seeking more specific occupational education. However, age is highly correlated with these different paths. Deciding which courses of study are "occupational training" and which are "general education" would be problematic.

The financial aid system already treats students differently once they reach the age of 24, deeming them independent of their parents for the purpose of determining their ability to pay for college. In addition, unlike most other potential distinguishing criteria, age is an objective criterion and is easy to document. There is no concern that students or institutions will attempt to game the system to end up on one side of the line or the other.

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.

Why should we eliminate consideration of family size from the determination of Pell Grant eligibility for adult students but not for parents of younger students?

Dependent students from larger families get slightly larger grants than those from smaller families with similar resources because their families are deemed able to contribute less. But for older adult students, the issue is how they will cover their living expenses — and those of their families — while they are in school. Pell Grants are not large enough to cover any expenses beyond tuition, fees, books and supplies for students other than some of those enrolled at community colleges. The income support programs designed to assist with living expenses for adults without adequate labor market earnings should address problems of family support.

Will creating a distinction between Pell Grants for older students and Pell Grants for younger students put funding for older students at risk?

Both Pell Grant A and Pell Grant Y are integral components of the core federal grant program for low-income postsecondary students. Specifying that both award levels will grow at the rate of overall inflation plus 1 percent strengthens the connection. Ignoring the variation in needs and circumstances among the students participating in the broad spectrum of postsecondary programs in this country is not a viable long-term path.

How will we ensure that the counseling students receive is of high quality?

Both postsecondary institutions and One-Stop Centers or their successors should be responsible for providing effective counseling services. Experts in the area should help to develop these systems, which should be evaluated through pilot programs and through monitoring of student outcomes.

How will the cost of the Pell Grant A program compare to the cost of the current Pell Grants for older students?

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 currently 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.

Providing subsidies to One-Stop Centers to serve Pell Grant-eligible clients would be an added cost. 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).[27] 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.

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

Institutional Incentives as a Tool in Federal Student Aid Policy

In addition to providing funding to low- and moderate-income students, financial aid policy should be designed to include direct payments to institutions to provide incentives for them to develop quality educational programs and practices to improve student success.

Proposal Overview

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.

This proposal would direct the federal funding currently devoted to campus-based aid programs (Supplemental Educational Opportunity Grant [SEOG] and Federal Work-Study), currently about $1.7 billion, toward institutions instead of directly to student aid.

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 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 federal student aid system should be designed to support improvement in completion rates for students who enroll in postsecondary education, at the same time that it encourages colleges and universities to enroll students from low-income backgrounds and to provide the academic and social supports they need to achieve their 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.

   The advantages of this approach include increasing the probability that students will enroll in institutions that have federal incentive funds as a result of their successful practices and increasing the financial incentives for institutions not just to enroll, but to improve outcomes for low- and moderate-income students. 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 number of Pell Grant recipients 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.*

   Subsidies to institutions should equal a percentage of the Pell Grant Y and A awards received by their students who progress in the specified directions, with larger subsidies attached to students eligible for the maximum Pell Grant than to those eligible for smaller awards. Only academic progress — as opposed to simple enrollment — would be rewarded. Neither the

graduation rate nor any rate would be used as the funding criterion, since this would encourage creaming and reward institutions for enrolling students with high probabilities of success. Institutions should be rewarded for producing more Pell-eligible graduates, not for having a higher graduation rate.

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.

Different institutions will find different strategies most effective in supporting the success of Pell Grant recipients. Some of the funds might be devoted to financial aid, particularly in the form of emergency funds to cover unexpected student needs. Other funds might be used to strengthen academic counseling or tutoring services, or to provide professional development for faculty and staff.

Supporting Student Success: Strategies for Increasing Completion Rates

While assuring that students have adequate funding is critical to their ability to successfully complete postsecondary credentials, there are additional ways institutions can work to increase the number of Pell Grant recipients who attain their educational goals. The imperative of providing students with better information about the likely outcomes of alternative educational paths is central to the Rethinking Pell Grants recommendations. Other strategies that have been shown to be effective include:

Developmental Education: Many students, particularly among those from low-income backgrounds, arrive at postsecondary institutions academically unprepared for college-level work. They are often placed in developmental classes that do not carry credit and never progress beyond these courses. Changing the way students are placed in these classes, the way the programs are designed, and how preparatory work is integrated with credit-bearing work has the potential to significantly increase completion rates (Cho, Kopko, Jenkins, & Jaggars, 2012; Hodara, Jaggars, & Karp, 2012; Scott-Clayton & Rodriguez, 2012; Bailey, Jeong, & Cho, 2010; Rosenbaum, Schuetz, & Foran, 2010).

Credential Ladders: Students embark on long-term degree programs and may make considerable progress without ever earning a credential. For example, students might complete two years of work toward a bachelor's degree without earning an associate degree. Guiding students into programs that will provide credentials along the way can diminish the harmful impact of unexpected interference in courses of study (Rosenbaum, Stephan, & Rosenbaum, 2010).

Structured Pathways: Faced with too many choices and too little structure, many students collect credits that do not lead to credentials. Clearer structure and mandatory advisory meetings can help students complete degrees and certificates (Rosenbaum, Stephan, & Rosenbaum, 2010).

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 the following:

- Institutions must provide clear information about the graduation rates of Pell recipients and other students, the debt accumulation and student loan default rates of students, and other

critical quality issues. Determination of the institution's obligations for providing information should be made with consideration of the difficulty of collecting the data.

- Institutions should have to meet specified minimum thresholds for graduation rates, debt repayment by former students, and employment and earnings outcomes. 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.
- Institutional eligibility might be based on 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.

Eligibility for Federal Student Aid

Public and private nonprofit colleges, universities, and vocational institutions and for-profit postsecondary institutions are eligible to participate in the federal student aid programs authorized by Title IV of the Higher Education Act.

- Public and private nonprofit higher education institutions must offer associate, bachelor's, and/or graduate degrees, and/or certificates requiring at least one year of study and leading to gainful employment in a recognized occupation.
- For-profit institutions and vocational institutions must provide training for gainful employment in recognized occupations or baccalaureate programs in the liberal arts. The requirements include specified minimum weeks of duration and hours of course work.

In order for their students to qualify for federal student aid funds, institutions must:

- Be legally authorized by a state to provide a postsecondary education program in that state; and,
- Be accredited by a nationally recognized accrediting agency or have met the alternative requirements, if applicable.

As of the 1998 Reauthorization of the Higher Education Act, for-profit institutions must derive at least 10 percent of their revenues from non-Title IV sources (also known as the 90/10 rule).

Schools may be disqualified for Title IV participation if the default rates for loans made to students for attendance at the school exceed specified thresholds. Those thresholds are currently set at 25 percent for the three most recent fiscal years or 40 percent for the most recent year. These limits will be modified with the impending change in the way default rates are measured.

For more details on Title IV eligibility, see U.S. Department of Education, (2012c).

5. *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.*

A subset of the incentive program funds might be targeted at states through a competitive process to influence their state grant and/or appropriation policies, ensuring that funds are targeted at needy students and at institutions providing quality education resulting in positive outcomes for Pell Y and Pell A recipients.

Questions About Institutional Incentives

How can we ensure that rewards for student success do not lead to watered-down degrees?

Any program that rewards institutions for student success without a measure that includes learning or a substitute for quality runs the risk of encouraging schools to water down the requirements for and quality of their credentials. Monitoring this issue and finding improved metrics for assessing student learning should be a central part of the pilot projects in this area and evaluation of those projects. Meanwhile, limiting program eligibility to institutions that meet standards like those suggested above will help ensure that the funds go to places that adhere to desirable practices.

How much will the institutional incentives program cost?

Table 8 reports the distribution of Pell Grants and of Pell Grant recipients by sector in 2010-11.

Table 8:

Pell Grant Recipients and Expenditures by Sector, 2010-11

	Public 4-Year	Public 2-Year	Private Nonprofit 4-Year	Private Nonprofit 2-Year	For-Profit	Total
TOTAL	$10,757,729,632	$11,352,122,833	$4,508,402,885	$243,093,790	$8,815,578,229	$35,676,927,369
Recipients	2,621,217	3,323,291	1,111,135	58,947	2,193,644	9,308,234
Average Grant	$4,104	$3,416	$4,057	$4,124	$4,019	$3,833
% of Dollars	30%	32%	13%	1%	25%	100%
% of Recipients	28%	36%	12%	1%	24%	100%

Note. Percentages may not sum to 100 because of rounding. Table 8 was created using end-of-year Pell Grant program data from the U.S. Department of Education (2012a). Calculations by the authors.

Based on 2007-08 *National Postsecondary Student Aid Study* (*NPSAS*) data, approximately 46 percent of Pell Grant recipients are first-year students (NCES, 2008). Under the proposed institutional incentives program, funding will be provided based only on students who have progressed beyond the first year. Students with lower-than-average Pell Grants are disproportionately represented among first-year students, but if we assume the average Pell Grant for the 54 percent of recipients who are beyond the first year, about $21 billion in current Pell Grant funding would be associated with students eligible for institutional incentive awards.

The total cost of the program would depend on the dollars awarded per Pell recipient and on the percentage of recipients enrolled in qualifying institutions. In 2011-12, the federal government allocated $1.7 billion for SEOG and Federal Work-Study awards (The 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. If the program succeeds in increasing postsecondary success among Pell Grant recipients or in guiding students into eligible institutions, the cost of the program will rise.

A Coordinated Student Aid System

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

Questions about the relationship of Pell Grants to rising college prices abound. A Feb. 1, 2012, editorial in *The Washington Post* stated that "federal aid has had the perverse effect of enabling tuition hikes." There is compelling evidence confirming that tuition prices at for-profit institutions are closely related to Pell Grant levels (Goldin & Cellini, 2012). Despite this concern, even skeptics of the Pell program recognize that Pell Grants are not a significant explanation for rising college prices. According to the Pope Center, "In addition to being expensive and inefficient in its effort to target low-income students, the Pell Grant program contributes at the margin to rising college costs — defeating, in part, its purpose" (Robinson & Cheston, 2012).

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). Statistical analysis from Archibald and Feldman (2010) suggests that increases in Pell Grants actually lead to lower tuition at private nonprofit colleges because their students require less need-based aid.

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 ensure that program design minimizes any potential upward pressure 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. If either states or institutions reduced their grant aid to Pell Grant recipients in response to increased generosity of the program, Pell would become a transfer to these entities rather than to students. Some state grant programs are designed to do exactly this, since their goal is to ensure that students have a certain proportion of their costs covered by grant aid.[28] Similarly, institutions with the strongest need-based aid programs try to "meet need" for low- and moderate-income students. If a student is found to have a gap of $3,000 between his ability to pay and the price, the institution might award him $3,000. If his Pell Grant increases by $500, diminishing his need by that amount, it would be only logical for the institution to reduce its contribution to $2,500 and transfer the freed-up funds to another student with remaining need. However, a similar pattern among institutions that do not meet need would leave students with unmet need regardless of the generosity of the Pell Grant program. Although other estimates are lower, a recent study suggests that as much as 16 percent of Pell Grant dollars is "captured" by institutions, making net prices somewhat higher than they would be if every Pell dollar decreased student responsibility by one dollar (Turner, 2012).[29]

28. Minnesota and Oregon, for example, have grant programs based on the "shared responsibility" model, which follow this approach.

29. Other studies have found a variety of different results. Long (2004) found that some institutions increased prices in response to the introduction of the Georgia HOPE Scholarship program. Singell and Stone (2007) found that prices rose at private but not at public colleges in response to increases in Pell Grants. McPherson and Schapiro (1991) found the reverse.

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.

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.

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 (The 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. Since the education tax credits were implemented, policy analysts have recommended better coordination with Pell and other student aid programs, but the inconsistencies persist.[30]

Estimates from the Urban-Brookings Tax Policy Center compare the distribution of Pell Grants to the distribution of tax credits, applying the current American Opportunity Tax Credit provisions to the 2007 distribution of income. As Table 9 indicates, the distribution of the tax credits is in sharp contrast to Pell Grants, whose most generous funding goes to a high percentage of the lowest-income students. The AOTC funds less than half of the dependent students from families with incomes below $50,000 and more than half of those with incomes between $50,000 and $200,000; the size of the tax benefit increases with income.

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.[31]

Table 9:

Estimated Distribution of American Opportunity Tax Credits and Pell Grants, Dependent Students

AGI	% Receiving Tax Credit	Tax Credit per Student	% Receiving Pell	Pell Grant per Student
$0	40%	$328	78%	$2,973
$1–$4,999	36%	$306	76%	$2,798
$5,000–$9,999	36%	$296	77%	$2,986
$10,000–$14,999	36%	$292	68%	$2,626
$15,000–$19,999	37%	$396	64%	$2,312
$20,000–$24,999	42%	$609	52%	$1,775
$25,000–$29,999	36%	$583	49%	$1,674
$30,000–$39,999	47%	$834	44%	$1,392
$40,000–$49,999	49%	$890	36%	$1,070
$50,000–$74,999	60%	$1,209	22%	$520
$75,000–$99,999	74%	$1,484	3%	$75
$100,000–$199,999	68%	$1,425	0%	$0

30. Arthur M. Hauptman and Lois Dickson Rice, *Coordinating Financial Aid with Tuition Tax Benefits* (Brookings Policy Brief Series #128) (December 1997), http://www.brookings.edu/research/papers/1997/12/education-hauptman.

31. Options might include:

1) Eliminate tax credits and deductions and add the funds to the Pell Grant program.

2) Lower the income limit for eligibility for the credits and deductions.

3) Eliminate the federal tax deduction and consolidate the multiple tax credits.

4) Eliminate refundable tax credits and use the savings to increase Pell Grant funding.

5) Make the tax credits fully refundable.

Conclusion

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.

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. To date, there have been insufficient opportunities for reliable research on the effectiveness of alternative student aid policy designs. As Congress and the administration pursue new student aid policies to improve educational opportunities, it is important to ensure evaluation of all innovations and to support 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 we recommend. 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 vital 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 need not 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. Because the average grants for older students would be similar to those under the current Pell program, the only significant cost implication of the Pell A proposal is the supplemental funding to One-Stop Centers to ensure that they have the necessary resources to provide high quality career and educational counseling. 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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Appendix A

The Impact of a Simple Pell Formula Based on AGI and Family Size

The table below illustrates the proposed approach for a simple Pell eligibility formula, using the example of a family size of four. Students whose family income is at or below the poverty level would receive the maximum Pell Grant. Those with family income at 200 percent or more of the poverty level would not be eligible for a grant. (Different eligibility cutoffs could be chosen to affect total expenditures, as well as the income level at which the grant declines to zero.) For each family size, the marginal tax rate (the rate at which the award declines as income increases) would be adjusted to achieve the same award amount for the relevant poverty level.

The proposed formula could be applied to a system that relies on an average of three years of income, as calculated by the IRS.

The awards listed in the table are estimates of Pell eligibility — not precise award levels. The awards would not actually be constant within the cells, but would decline slightly with each additional dollar of income, as indicated by the associated formulas. Moreover, students whose parents' tax returns indicate that they have complex circumstances not consistent with their low levels of AGI would receive lower awards — or no awards at all.

Possible Pell Grant Y Award Table for Family Size of Four

Percentage of Poverty Line	2012 AGI Range	Pell Grant
≤ 100%	$0 to $23,050	$5,550
100%–110%	$23,051 to $25,355	$5,273
110%–120%	$25,356 to $27,660	$4,720
120%–130%	$27,661 to $29,965	$4,167
130%–140%	$29,966 to $32,270	$3,614
140%–150%	$32,271 to $34,575	$3,060
150%–160%	$34,576 to $36,880	$2,507
160%–170%	$36,881 to $39,185	$1,954
170%–180%	$39,186 to $41,490	$1,401
180%–190%	$41,491 to $43,795	$848
190%–200%	$43,796 to $46,100	$294
> 200%	> $46,100	$0

Formula: If AGI ≤ $23,050, Pell = $5,550; If AGI > $23,050, Pell = $5,550-.24(AGI-$23,050)

The Impact of the Simplified Formula

In order to better understand the cost and potential distributional impact of the proposed change, the Urban-Brookings Tax Policy Center estimated the impact of applying this simple formula for Pell eligibility to all dependent undergraduate students.[32]

The relevant equations modeled, based on the 2012 federal poverty guidelines (U.S. Department of Health and Human Services, 2012), are:

Family Size	Formula
2	If income ≤ $15,130, Pell = $5,550 If income > $15,130, Pell = $5,550–.37 (Income–$15,130)
3	If income ≤ $19,090, Pell = $5,550 If income > $19,090, Pell = $5,550–.29 (Income–$19,090)
4	If income ≤ $23,050, Pell = $5,550 If income > $23,050, Pell = $5,550–.24 (Income–$23,050)
5	If income ≤ $27,010, Pell = $5,550 If income > $27,010, Pell = $5,550–.21 (Income–$27,010)
6+	If income ≤ $30,970, Pell = $5,550 If income > $30,970, Pell = $5,550–.18 (Income–$30,970)

Under this system, students would not have to complete an aid application including financial information. However, they would have to start the process by registering, indicating their plan to enroll in college, and asking that their Pell eligibility be sent to specified institutions. The expectation is that many students who do not now complete the FAFSA would participate and become Pell-eligible. The results below are based on the possibility that all eligible students would receive Pell Grants. In reality, some of these students would not apply for Pell Grants.

Key results of the simulations include the following:

1. If all eligible non-FAFSA filers received grants, the proposed Pell formula would not measurably change the cost of the Pell Grant program for dependent students, but it would increase the number of dependent recipients.
2. Because there is no adjustment for multiple family members in college, all current recipients with AGIs above 200 percent of the poverty level would lose eligibility. Because they come from smaller families, new recipients would receive smaller average grants than current recipients with similar AGI levels.
3. There would be more recipients with AGIs below $40,000 and fewer with higher AGIs. There would be more dollars going to students with AGIs below $30,000 and fewer going to those with higher AGIs.
4. In the unlikely event that all eligible students took the necessary steps to receive awards, almost 32 percent of the recipients would be people who do not currently file the FAFSA; almost a quarter of Pell dollars would go to these students.
5. Most of those who file the FAFSA but do not receive Pell Grants would remain ineligible, but 4 percent of FAFSA filers now ineligible for Pell would become eligible (4.2 percent if those with AGI ≤ $0 are included and 3.9 percent if those students are excluded).

32. Parent income information is not available for students not currently classified as dependent.

Comparison of Proposed Simplified Pell Grant Formula to Current Federal Methodology: Number of Recipients

AGI	2012–13 FM	College Board Rethinking Pell Grants Study Group Proposal				CB Proposal /FM	Composition of Recipients Under College Board Proposal			% of Non-Eligible FAFSA Filers Becoming Eligible
		Total	FM Recipients	FAFSA, No Pell	Eligible, No FAFSA	Total CB/FM	FM Recipients	FAFSA, No Pell	Eligible, No FAFSA	
$0	125,850	175,400	125,850	6,760	42,790	1.39	72%	4%	24%	100%
$1–$5,000	146,840	193,700	146,840	2,550	44,310	1.32	76%	1%	23%	100%
$5,001–$10,000	260,150	333,760	260,150	1,780	71,830	1.28	78%	1%	22%	100%
$10,001–$15,000	308,040	418,040	308,040	2,550	107,450	1.36	74%	1%	26%	100%
$15,001–$20,000	332,510	454,450	332,510	5,190	116,750	1.37	73%	1%	26%	100%
$20,001–$25,000	320,150	468,320	320,150	9,690	138,480	1.46	68%	2%	30%	100%
$25,001–$30,000	277,100	432,090	264,820	22,510	144,760	1.56	61%	5%	34%	95%
$30,001–$40,000	491,010	681,170	362,900	38,660	279,610	1.39	53%	6%	41%	55%
$40,001–$50,000	387,700	339,020	165,510	26,800	146,710	0.87	49%	8%	43%	20%
$50,001–$75,000	363,570	100,830	54,000	8,840	37,990	0.28	54%	9%	38%	1%
$75,001–$100,000	30,160	0	0	0	0	0	NA	NA	NA	0%
$100,001+	2,210	0	0	0	0	0	NA	NA	NA	0%
Total	3,045,290	3,596,780	2,340,770	125,330	1,130,680	1.18	65%	3%	31%	4.20%

Comparison of Proposed Simplified Pell Grant Formula to Current Federal Methodology: Distribution of Dollars Awarded

AGI	2012–13 FM	CB Proposal				CB Proposal /FM	Composition of Pell Funds Under College Board Proposal		
		Total	FM Recipients	FAFSA, No Pell	Eligible, No FAFSA	Total CB/FM	FM Recipients	FAFSA, No Pell	Eligible, No FAFSA
$0	$504,720	$717,600	$534,370	$33,670	$149,560	1.42	74%	5%	21%
$1–$5,000	$617,840	$780,730	$631,380	$11,130	$138,220	1.26	81%	1%	18%
$5,001–$10,000	$1,052,330	$1,348,880	$1,092,280	$8,630	$247,970	1.28	81%	1%	18%
$10,001–$15,000	$1,337,320	$1,750,990	$1,371,380	$11,700	$367,910	1.31	78%	1%	21%
$15,001–$20,000	$1,421,010	$1,803,400	$1,409,310	$21,190	$372,900	1.27	78%	1%	21%
$20,001–$25,000	$1,350,760	$1,594,850	$1,167,560	$26,330	$400,960	1.18	73%	2%	25%
$25,001–$30,000	$1,041,410	$1,168,950	$763,610	$53,500	$351,840	1.12	65%	5%	30%
$30,001–$40,000	$1,658,440	$1,345,370	$799,720	$59,620	$486,030	0.81	59%	4%	36%
$40,001–$50,000	$1,031,670	$395,200	$225,260	$25,510	$144,430	0.38	57%	6%	37%
$50,001–$75,000	$765,720	$69,570	$40,340	$5,410	$23,820	0.09	58%	8%	34%
$75,001–$100,000	$44,550	$0	$0	$0	$0	0	NA	NA	NA
$100,001+	$6,460	$0	$0	$0	$0	0	NA	NA	NA
Total	$10,832,230	$10,975,540	$8,035,210	$256,690	$2,683,640	1.01	73%	2%	24%
Total, Excluding $0 AGI	$10,327,510	$10,257,940	$7,500,840	$223,020	$2,534,080	0.99	73%	2%	25%

Appendix B

A Model for an Improved Need Analysis Formula

If a simple Pell award formula based on AGI and family size is adopted for most applicants, states and institutions awarding need-based aid to students from families with higher incomes and more complicated financial circumstances will require an alternative index on which to base their awards.

It is possible to develop a formula like the Federal Methodology (FM) using more information from tax forms. The estimates below are the results of simulations based on such a formula. The baseline formula defines income as AGI minus capital gains plus losses (capital, business, farm, other). It does not allow for negative AGI. It imputes assets by assuming that reported interest and dividends represent 5 percent rates of return.

The table below simulates the impact of selected modifications to the definition of income, the assumed rate of return on assets, and the marginal assessment rates on available income.

Because the formula examined here relies only on parental income and assets and does not generate a student contribution for dependent students, it may be appropriate to compare the calculated contributions to existing parental contributions (PCs). However, if these contributions are to replace entire family contributions, it may also be useful to compare them to existing EFCs.

Simulations are included below both for parents of dependent students and for independent FAFSA filers, since states and institutions might choose to calculate eligibility for their need-based aid for both students ages 24 and younger and for older adults.

These simulations make it clear that it would be possible to develop a formula that yields a distribution of expected contributions similar to current policy.

Comparison of Detailed Need Analysis Formula Based on IRS Data to Current Federal Methodology: Dependent Students

				Base Formula	Modify Definition of Income			Modify Asset Returns Assumption		
AGI	Number of Students	Est. Current FM EFC	Est. Current FM PC	Base Formula	Allow Negative AGI	Add EITC, CTC as Income	Don't Adjust for Gains and Losses	Ignore Assets	Assume 3% Rate of Return	Assume 9% for Dividends and 3% for Interest
< $0	12,404	$3,226	$2,500	$6,657	$3,246	$6,733	$5,937	$725	$11,460	$8,173
$0	2,353	$0	$0	$86	$86	$86	$84	$0	$125	$123
$1–$20,000	1,453,991	$207	$135	$150	$149	$205	$145	$54	$283	$159
$20,001–$40,000	1,648,821	$2,357	$1,163	$922	$922	$1,288	$1,148	$795	$1,122	$912
$40,001–$60,000	1,196,020	$5,540	$4,231	$3,595	$3,595	$3,700	$3,340	$3,387	$3,979	$3,553
$60,001–$80,000	1,081,303	$10,667	$9,317	$8,390	$8,390	$8,415	$8,327	$7,738	$9,089	$8,509
$80,001–$100,000	1,003,387	$15,759	$14,259	$13,911	$13,911	$13,915	$13,813	$12,388	$14,817	$13,776
$100,001–$125,000	1,187,756	$23,293	$21,793	$19,840	$19,840	$19,846	$19,745	$18,825	$20,777	$19,789
Average for ≤ $125,000	7,586,034	$8,682	$7,576	$6,949	$6,943	$7,061	$6,919	$6,407	$7,453	$6,935
$125,001+	1,780,724	$39,265	$37,765	$41,497	$41,485	$41,497	$43,141	$38,458	$43,075	$41,233
All	9,366,758	$14,496	$13,315	$13,517	$13,510	$13,608	$13,805	$12,501	$14,225	$13,456

				Base Formula	Modify Assessment Rates			
AGI	Number of Students	Est. Current FM EFC	Est. Current FM PC	Base Formula	Increase 1st Rate from 22% to 25%	Increase All Rates by 1% (23% to 48%)	Increase All Rates by 2% (24% to 49%)	Increase All Rates by 3% (25% to 50%)
< $0	12,404	$3,226	$2,500	$6,657	$6,758	$6,794	$6,932	$7,070
$0	2,353	$0	$0	$86	$87	$88	$90	$92
$1–$20,000	1,453,991	$207	$135	$150	$157	$155	$160	$164
$20,001–$40,000	1,648,821	$2,357	$1,163	$922	$1,013	$959	$995	$1,032
$40,001–$60,000	1,196,020	$5,540	$4,231	$3,595	$3,912	$3,736	$3,877	$4,019
$60,001–$80,000	1,081,303	$10,667	$9,317	$8,390	$8,812	$8,677	$8,964	$9,252
$80,001–$100,000	1,003,387	$15,759	$14,259	$13,911	$14,341	$14,310	$14,707	$15,104
$100,001–$125,000	1,187,756	$23,293	$21,793	$19,840	$20,275	$20,379	$20,917	$21,455
Average for ≤ $125,000	7,586,034	$8,682	$7,576	$6,949	$7,206	$7,159	$7,368	$7,577
$125,001+	1,780,724	$39,265	$37,765	$41,497	$41,891	$42,299	$43,097	$43,892
All	9,366,758	$14,496	$13,315	$13,517	$13,800	$13,839	$14,160	$14,480

Impact on Dependent Students of Formula Based on IRS Data

- The base formula modeled would generate average expected parent contributions for dependent students of $13,517, compared to the current average FM PC of $13,315 and average EFC of $14,496. However, the average expected contribution for students from families with AGI of $125,000 or less would be about $600 lower than the current average FM PC for this group.
- The largest difference in expected contributions is for families with negative AGI (average PC of $6,657 under the base formula compared to $2,500 under FM). Unlike the current federal methodology, the formula modeled adds losses to income, generating significant expected contributions for this group.
- Adopting the current FM practice of counting the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) as income would raise the average expected contribution to a level just above the current average PC for families with AGI less than or equal to $125,000.
- The choice of a formula for imputing asset values based on asset income reported on tax forms has a significant impact on the outcomes. Assuming a low rate of return (3 percent) raises expected contributions because it assumes higher levels of assets generating the reported income.
- Slight increases in the assessment rates — the rate at which expected contributions increase as income increases — generate higher expected contributions. For example, increasing all rates by 3 percentage points so they range from 25 percent to 50 percent instead of the current 22 percent to 47 percent would increase the average expected contributions for dependent students from families with AGI less than or equal to $125,000 from $6,949 to $7,577, almost exactly the same as produced by the current FM.

Comparison of Detailed Need Analysis Formula Based on IRS Data to Current Federal Methodology: Independent Students

			Base Formula	Modify Definition of Income			Modify Asset Returns Assumption		
AGI	Number of Students	Est. Current FM EFC	Base Formula	Allow Negative AGI	Add EITC, CTC as Income	Don't Adjust for Gains and Losses	Ignore Assets	Assume 3% Rate of Return	Assume 9% for Dividends and 3% for Interest
< $0	80,750	$101	$2,176	$803	$2,206	$1,715	$449	$3,359	$2,301
$0	448,612	$12	$0	$0	$0	$0	$0	$0	$0
$1–$20,000	3,819,463	$400	$739	$739	$917	$845	$401	$1,143	$801
$20,001–$40,000	2,403,444	$2,950	$3,107	$3,107	$3,547	$3,462	$2,799	$3,515	$3,131
$40,001–$60,000	1,253,469	$6,678	$7,327	$7,327	$7,521	$7,327	$6,391	$7,996	$7,187
$60,001–$80,000	779,490	$13,576	$13,029	$13,027	$13,124	$12,914	$12,289	$13,664	$13,029
$80,001–$100,000	378,535	$17,688	$17,771	$17,771	$17,785	$17,737	$17,275	$18,285	$17,913
$100,001–$125,000	343,266	$23,501	$24,486	$24,486	$24,486	$24,245	$23,160	$25,351	$24,403
Average for ≤ $125,000	9,507,030	$4,454	$4,727	$4,715	$4,944	$4,836	$4,247	$5,194	$4,743
$125,001+	225,212	$30,411	$37,174	$37,145	$37,174	$38,129	$34,975	$38,298	$37,046
All	9,732,242	$5,055	$5,478	$5,466	$5,690	$5,606	$4,958	$5,960	$5,491

			Base Formula	Modify Assessment Rates			
AGI	Number of Students	Est. Current FM EFC	Base Formula	Increase 1st Rate from 22% to 25%	Increase All Rates by 1% (23% to 48%)	Increase All Rates by 2% (24% to 49%)	Increase All Rates by 3% (25% to 50%)
< $0	80,750	$101	$2,176	$2,214	$2,217	$2,259	$2,300
$0	448,612	$12	$0	$0	$0	$0	$0
$1–$20,000	3,819,463	$400	$739	$806	$768	$797	$825
$20,001–$40,000	2,403,444	$2,950	$3,107	$3,440	$3,239	$3,370	$3,501
$40,001–$60,000	1,253,469	$6,678	$7,327	$7,755	$7,589	$7,851	$8,113
$60,001–$80,000	779,490	$13,576	$13,029	$13,464	$13,428	$13,825	$14,222
$80,001–$100,000	378,535	$17,688	$17,771	$18,205	$18,271	$18,772	$19,272
$100,001–$125,000	343,266	$23,501	$24,486	$24,919	$25,120	$25,753	$26,386
Average for ≤ $125,000	9,507,030	$4,454	$4,727	$4,963	$4,882	$5,037	$5,192
$125,001+	225,212	$30,411	$37,174	$37,589	$37,983	$38,789	$39,595
All	9,732,242	$5,055	$5,478	$5,718	$5,648	$5,818	$5,988

Appendix C

Satisfactory Academic Progress

How It Works Today

In order to remain eligible for federal student aid, recipients must meet standards for Satisfactory Academic Progress (SAP). The federal government specifies a framework and minimum criteria, but each institution has considerable discretion in setting its own rules. A student not meeting those rules becomes ineligible for federal aid at the institution where he or she is currently enrolled, but may transfer to another college or university and receive federal aid.

An institution's SAP policy must include the following components:

1. Qualitative Standard: Grade Point Average (GPA)

An institution's SAP policy must specify the GPA that a student must achieve at each evaluation. For educational programs longer than two academic years, the institution's SAP policy must specify that at the end of the second academic year the student must have a GPA of at least a C or its equivalent, or have an academic standing consistent with the institution's requirements for graduation.

2. Quantitative Standard: Pace

The student must make sufficient progress to complete the academic program within a reasonable time period. Pace must be measured at each SAP evaluation period. Pace is calculated by dividing the cumulative number of hours the student has successfully completed by the cumulative number of hours the student has attempted (e.g., 30 completed hours/50 attempted hours = 60 percent Pace).

3. Maximum Time Frame

Federal student aid funds cannot be paid to an undergraduate student who exceeds 150 percent of the published length of the educational program. Maximum time frame is often measured in terms of the number of credit hours required to complete an academic program. An institution's SAP policy must describe how changes in academic program affect all required SAP standards.

4. Frequency of SAP Evaluations

A student's academic progress must be evaluated at the end of each payment period if the educational program is either one academic year in length or shorter than an academic year. For all other educational programs, the institution may evaluate SAP at the end of each payment period or at least annually to correspond with the end of a payment period.

Source: National Association of Student Financial Aid Administrators (2012).

Appendix D

Income Support Programs: Meeting the Needs of Adult Students

In order to devote time to their studies, older students need access to income support programs such as TANF, child care assistance, SNAP, and unemployment compensation. However, some programs and some states deny funding to people who are enrolled in postsecondary education, pushing them instead into low-wage jobs.

Child Care Development Block Grant: States determine what activities qualify for this program. While most states allow postsecondary education to be a qualifying activity for childcare assistance, states may impose restrictions on the type of education or training or the number of hours of education or work required to qualify for the program. For example, Delaware provides child care coverage only for TANF recipients and people enrolled through a SNAP education and training program. Because most states are not able to serve all eligible families, the availability of this type of assistance is often limited for students.

Temporary Assistance for Needy Families (TANF): States set the rules regarding whether students can meet their work requirements through education and training. In many cases, postsecondary education does not count, or counts only when combined with 20 hours of employment per week. All hours of work and education or training must be documented, which can be burdensome and stigmatizing for students. Even in states that are more supportive of education and training, there may be barriers for students seeking assistance. For example, Minnesota will approve education as a work activity for a current TANF recipient, but before the state approves an applicant for TANF, the individual must participate in an intensive job search.

SNAP (Food Stamps): College students are excluded from SNAP eligibility unless they are working at least 20 hours per week, receiving work-study, have young children, are assigned to a postsecondary institution by a TANF or SNAP employment program, or meet certain other exemptions. While many students may actually be eligible for the program, most staff in college financial aid or other institutional support offices are unlikely to know the details about how to qualify for the program, and do not focus on benefit access.

Unemployment Insurance: To qualify for benefits, unemployed persons must be available and actively looking for work. States may make exceptions for individuals in approved training that leads to employment, but state policies vary. Some states approve only vocational training while others allow for a broader range of educational programs. Some states exclude programs leading to degrees. Some state policies have become more generous since the passage of the American Recovery and Reinvestment Act of 2009.

Workforce Investment Act Individual Training Accounts: Higher Education Act regulations stipulate that federal student aid cannot be counted in determining eligibility or need in other federal benefit and assistance programs. However, WIA requires local administrators to take Pell Grants and other forms of grant assistance into account when determining eligibility for WIA funding, which can be used only for direct educational expenses. There is confusion about this coordination and inconsistency in implementation.

Appendix E

Federally Funded Workforce Development Programs

Workforce Investment Act

The Workforce Investment Act (WIA), passed in 1998, created three funding streams under Title I to support workforce training for adults, displaced workers, and youth. In addition, the legislation authorized additional programs that vary by size and target group (for example, WIA National Programs assist Native Americans, migrant and seasonal farm workers, veterans; WIA Title II focuses on adult education and literacy; etc.).

Funding for adults and displaced workers is distributed by the Department of Labor to the states, which allocate the funds to state and local Workforce Investment Boards. The WIA legislation requires that people participating in these programs receive services provided by One-Stop Centers in a specified order, beginning with "core services" that include computer-based job assistance, résumé preparation, and labor market information. If core services do not result in employment, participants may choose to take advantage of "intensive services" such as career counseling and skills assessments. Participants cannot qualify for job training and funding through individual training accounts (ITAs) unless they first access both core and intensive services.

ITAs are vouchers that participants can use to pay for the training programs of their choice from a locally approved list of eligible training providers. Local areas are given flexibility in terms of how they structure and award ITA funds as well as how they develop, approve, and maintain their lists of eligible training providers, which are held accountable for training outcomes.

Trade Adjustment Assistance for Workers

Trade Adjustment Assistance for Workers (TAA) provides federal assistance to workers who have been adversely affected by foreign trade. States are responsible for administration of TAA training. Funding in fiscal year 2012 was capped at $253 million.

To qualify for TAA training, a group of workers must demonstrate to the Department of Labor that they lost employment because their jobs were moved out of the country or because of an increase in directly competitive imports. Once certified as eligible, individuals apply for training assistance and income support from local One-Stop Centers. Funds are either paid directly to the training provider on the individual's behalf or through a voucher system similar to that employed by WIA. Income support continues as long as the individual remains enrolled in an eligible training program, up to a maximum of 130 weeks.

Job Corps

Job Corps is a comprehensive residential education and job training program for at-risk youth ages 16 through 24. It provides both classroom and work-based learning experiences to prepare youth for stable jobs with good salaries. Funded at about $1.5 billion per year, more than 120 Job Corps Centers serve about 60,000 new participants each year. Job Corps is authorized under WIA Title I, Subtitle C, and is administered by the Office of the Secretary of Labor.

A long-term, random assignment study found that Job Corps participation increased earnings, decreased criminal activity, and reduced dependence on public assistance programs. A subsequent cost-benefit analysis supported these findings (Burghardt et al., 2001). A more recent, longer-term follow-up to the Job Corps Study finds that the benefits fade away for teens, and that the program is no longer effective for them. However, it remains effective for those ages 20 to 24 (Schochet, Burghardt, & McConnell, 2008).

Temporary Assistance for Needy Families (TANF)

One of the purposes of TANF is to promote job preparation and work. About 15 percent ($5.3 billion) of the total federal and state TANF expenditures in fiscal year 2009 was spent on work support and employment programs. States have flexibility in how they finance job-search, job readiness, and training activities.

To receive full benefits, recipients must complete an average of 30 hours per week of "work activities" as soon as they are job ready but no later than two years after receiving assistance. TANF limits the time individuals can spend on job-training activities, but the definition of what qualifies as vocational education varies from state to state. In general, individuals receiving TANF benefits can spend no more than one year in vocational education and job skills training.

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