

CRS Report for Congress

Federal Pell Grant Program of the Higher Education Act: Background and Reauthorization

Updated January 19, 2007

Charmaine Mercer
Analyst in Social Legislation
Domestic Social Policy Division



Prepared for Members and
Committees of Congress

Federal Pell Grant Program of the Higher Education Act: Background and Reauthorization

Summary

The Federal Pell Grant program, authorized by the Higher Education Act (HEA), is the single largest source of grant aid for postsecondary education attendance funded by the federal government. It is estimated to provide nearly \$13 billion in FY2006 to about 5.4 million undergraduate students. For FY2006, the maximum Pell Grant was funded at \$4,050. With the expiration of the HEA, the Congress is likely to debate what changes may be needed in the Pell Grant program as part of its consideration of HEA reauthorization.

Pell Grants are need-based aid intended to be the foundation for all federal student aid awarded to undergraduates (eligibility is limited to undergraduates). There is no absolute income threshold that determines who is eligible and who is ineligible for Pell Grants. Nevertheless, Pell Grant recipients are primarily low-income. In FY1999, an estimated over 90% of Pell Grant recipients considered to be dependent upon their parents had total parental income below \$40,000. Of Pell Grant recipients considered to be independent of their parents, over 90% had total income below \$30,000.

Among the issues that may be debated by the Congress during the HEA reauthorization process is the extent to which the Pell Grant program continues to act as the foundation for all federal need-based aid for undergraduates. Concern has been raised about the diminished role that the Pell Grant may be playing. For example, need-based aid recipients are as likely to borrow subsidized loans under the Federal Stafford Loan program as they are to receive Pell Grants. This overarching issue may trigger consideration of various steps to increase the amount of Pell Grant aid flowing to the neediest students. This might include deliberation over raising the Pell Grant minimum award (those with the smallest grants are the least needy of Pell recipients), converting the program into an entitlement possibly with higher annual maximum grants, and concentrating Pell Grant assistance on needy undergraduates in their initial years of enrollment (so-called "front loading") which may result in substantially higher grants in those years. Converting the program to an entitlement is also seen by some as a response to the periodic uncertainty about the adequacy of the annual appropriation to meet program costs and resulting funding shortfalls.

Other issues that may engage the Congress include deciding the degree to which, if any, the size of students' Pell Grants should be sensitive to institutions' tuition charges, and whether some element of academic merit should be introduced into the process of determining Pell eligibility and level of Pell assistance.

This report will be updated to reflect major legislative action to reauthorize the Pell Grant program.

Contents

Introduction	1
How the Program Works	1
Student Eligibility	2
Award Rules	3
Key Concepts	3
Award Rules	5
Institutional Role	6
Program Funding	8
Annual Appropriation and Program Costs	8
Authorized Maximums and Appropriated Maximums	9
Surpluses and Shortfalls	11
FY2001-FY2005: The Growth of the Shortfall	12
FY2006: Eliminating the Funding Shortfall	14
Characteristics of Recipients	14
Income	16
Enrollment Status	19
Type and Control	20
Role of the Pell Grant	21
Purchasing Power	21
Pell Grant Recipients and Other Federal Aid	23
Possible Reauthorization Issues	25
Entitlement	26
Front Loading	26
Minimum Grant	27
Tuition Sensitivity	29
Academic Merit	30

List of Figures

Figure 1. Authorized Maximum Grants, Appropriated Maximum Grants, and Average Awards, FY1973-FY2006	11
Figure 2. Estimated Annual Number of Pell Grant Recipients, FY1973-FY2005	16
Figure 3. Percentage of Tuition, Fees, Room, and Board Covered by the Appropriated Maximum Pell Grant, FY1973-FY2001	22

List of Tables

Table 1. Application of Pell Grant Award Rules to Hypothetical Full-Time, Full-Year Undergraduate Students — Award Year 2006-2007	6
Table 2. History of Pell Grant Appropriations and Program Costs, FY1973-FY2006	9
Table 3. History of Authorized Maximum Grants, Appropriated Maximum Grants, and Average Awards, FY1973-FY2006	10
Table 4. FY2001-FY2005 Pell Grant Shortfalls	14
Table 5. Estimated Annual Number of Pell Grant Recipients, FY1973-FY2006	15
Table 6. Estimated Pell Grant Participation by Income, 1999-2000	18
Table 7. Estimated Distribution of Undergraduates and Pell Grant Recipients by Enrollment Status, 1999-2000	20
Table 8. Estimated Distribution of Undergraduates and Pell Grant Recipients by Type and Control of Enrolling Institution, 1999-2000	21
Table 9. Pell Grant Recipients' Participation Rates and Average Awards in Other Aid Programs, FY1999	25
Table 10. Estimated Impact of Increasing the Minimum Pell Grant for Award Year 2003-2004	28

Federal Pell Grant Program of the Higher Education Act: Background and Reauthorization

Introduction

The Federal Pell Grant program, authorized by Title IV of the Higher Education Act (HEA), is the single largest source of grant aid for postsecondary education attendance funded by the federal government. It is estimated to have provided approximately \$13 billion to about 5.4 million undergraduate students in FY2006. Pell Grants are need-based aid intended to be the foundation for all federal student aid awarded to undergraduates. The U.S. Department of Education (ED) estimates that, in FY2005, Pell Grants constituted approximately 19% of all federally supported aid, including grants, loans, and work opportunities, that benefit postsecondary education students at all levels.¹ Along with the rest of the HEA, the statutory authority for the Pell Grant program expired during the 108th Congress; but these authorities were extended until June 30, 2007 (P.L. 109-292).² As it deliberates on the reauthorization of the HEA, the Congress may debate what changes, if any, to make to the Pell Grant program.

This report reviews how the program works and provides analysis of program funding, recipients (numbers and characteristics), and the role being played by the program in the distribution of federal student aid. It concludes with an examination of several Pell-related issues that may be considered by the Congress in the HEA reauthorization process. This report will be updated to reflect major legislative action to reauthorize the Pell Grant program.

How the Program Works

This section provides an overview of the structure of the Pell Grant program and the process through which grants are made to students. It describes student eligibility, the award rules for determining students' grants, program funding, and the role played by postsecondary institutions in the program.

¹ Percentage calculated from data presented in U.S. Department of Education, *Fiscal Year 2006 Budget Summary*, p. 51. Total federal student aid *excludes* \$44 billion in consolidation loans under which borrowers consolidate prior loans. If consolidation loans are included, the Pell percentage falls to 12%.

² For additional information about the Higher Education Act, see CRS Report RL33040, *The Higher Education Act: Reauthorization Status and Issues*, by Adam Stoll. (Available upon request.)

Briefly, the Pell Grant program provides grants (i.e., aid that does not have to be repaid) to needy undergraduates. In any year, federal funding is available to ensure that all eligible students attending eligible institutions receive Pell Grants.³ To apply for these grants, students must complete the Free Application for Federal Student Aid (FAFSA) with requested financial and other information, and submit it to a “central processor” under contract with ED. The central processor provides each applicant with a Student Aid Record (SAR) and each institution of higher education (IHE) designated by the applicant with an Institutional Student Information Record (ISIR); these documents contain the information submitted on the FAFSA and the calculated expected family contribution (EFC). The EFC is what is expected to be contributed by the student and his or her family toward postsecondary education expenses (the EFC is described in detail below).

Pell Grants are *portable*, that is, the grant aid follows the student to the eligible postsecondary education institutions in which they enroll. Institutions that receive valid SARs or valid ISIRs for students meeting all other program eligibility requirements *must disburse* Pell Grants to them. The size of the grants is based, principally, on the financial resources that students and their families are expected to contribute toward postsecondary education expenses, and the maximum grant that the annual appropriations process sets for the program.

Student Eligibility

To be eligible for a Pell Grant, a student must meet requirements that apply to federal student aid in general and requirements specific to the Pell Grant program.

Among the requirements generally applicable to federal student aid are the following:

- Students must be enrolled for the purpose of earning a degree or certificate at an eligible institution.
- Students must have a high school diploma or the recognized equivalent.⁴ Absent such diploma or its equivalent, students must demonstrate an *ability to benefit* from postsecondary education by passing an examination approved by ED.
- Students have to maintain *satisfactory academic progress* while enrolled in postsecondary education in order to be eligible for federal student aid. Satisfactory progress is delineated by policies developed by each participating IHE.

³ As explored below, if costs for the Pell Grant program exceed the current fiscal year’s appropriation, additional funds can be used from the subsequent year’s appropriation. This process of ensuring that grant payments will be made has led some to liken the program to a “quasi entitlement.” The issue of making the program into an actual entitlement is discussed later in this report.

⁴ Students completing home schooling as recognized under state law are considered to be eligible.

- Conviction for possession or sale of drugs can disqualify students for federal student aid.⁵
- Students are ineligible if they are in default on a Title IV student loan or have failed to repay an overpayment on a Title IV grant.
- Students must meet citizenship requirements.⁶
- Males between 18 and 25 years of age must register with the selective service system in order to be eligible for federal student aid.

Pell-specific requirements include the following:

- Full-time and part-time⁷ undergraduates⁸ are eligible to receive Pell Grants.
- There is no statutory limit on the number of years in which students can receive grants.
- Students who are incarcerated in a federal or state penal institution are ineligible for Pell Grants.
- The program provides assistance only to financially needy students as determined under the program's award rules (see below).

Award Rules

Key Concepts. An eligible student's annual Pell Grant is determined on the basis of a set of award rules. Certain concepts are key to an understanding of the application of these award rules.

Appropriated Maximum Pell Grant. The appropriated maximum Pell Grant is specified in the annual appropriations legislation for the U.S. Department of Education. That legislation appropriates funding for the Pell Grant program and sets the maximum award that can be made during the fiscal year. This maximum award is different from the *authorized maximum Pell Grant* which is the annual maximum Pell Grant specified in the HEA. This topic is explored further in the section below on program funding.

Expected Family Contribution. The EFC is the amount that the federal need analysis system determines can be expected to be contributed by a student and

⁵ For additional information on drug convictions and student aid eligibility see CRS Report RS21824, *Student Eligibility: Drug Convictions and Federal Financial Aid*, by Charmaine Mercer and Laura Monagle.

⁶ Generally, students must be U.S. citizens or U.S. permanent residents. Individuals with several other entrance statuses can qualify for aid. Individuals in the U.S. on a temporary basis, such as those with a student visa or an exchange visitor visa are not eligible for federal student aid.

⁷ Less than half-time students are eligible.

⁸ Students enrolled on at least a half-time basis in a **postbaccalaureate** program required by a state for K-12 teacher certification or licensure are also eligible. Such a program cannot not lead to a graduate degree and the enrolling higher education institutions must not offer baccalaureate degrees in education.

his or her family toward the student's cost of education. This calculation is based on consideration of available income and, for some families, available assets. Basic living expenses, federal income tax liability, retirement needs, and other expenses are taken into account in this process. Different EFC formulas are applied to three different groups of students — those who are considered dependent on their parents (the EFC formula assesses the financial resources of both the parents and the dependent student); independent students with no dependents, other than a spouse, if any; and independent students with dependents other than a spouse (e.g., children).⁹ The EFC determination utilizes financial information submitted on the FAFSA.

Cost of Attendance. The cost of attendance (COA) is a measure of a student's educational expenses. In general, it is the sum of tuition and fees; an allowance for books, supplies, transportation, and miscellaneous personal expenses; and a room and board allowance.¹⁰

Tuition Sensitivity Amount. The tuition sensitivity amount is intended to reduce the Pell Grant for students attending higher education institutions with very low tuition charges. By statute, it can apply only when the appropriated maximum Pell Grant exceeds \$2,700. It is calculated as follows:

$$\begin{aligned} & \$2,700 + \\ & \text{one-half of the difference between the appropriated maximum and } \$2,700 + \\ & \text{the lesser of (a) the remaining one-half difference or (b) tuition.}^{11} \end{aligned}$$

For example, at a \$4,050 Pell Grant maximum and a tuition level of \$500, the tuition sensitivity amount is \$3,875, determined as follows:

$$\begin{aligned} & \$2,700 + \$675 \text{ (one-half of the difference between } \$4,050 \text{ and } \$2,700) + \$500 \\ & \text{(the lesser of } \$675 \text{ and tuition of } \$500) = \$3,875 \end{aligned}$$

As a result, the tuition sensitivity amount will be less than the appropriated maximum Pell Grant only if tuition (plus, if relevant, allowances for dependent care expenses or disability expenses) is less than one-half of the difference between the appropriated maximum and \$2,700. For FY2006 (award year 2006-2007) when the

⁹ For federal student aid purposes and the calculation of the EFC, an individual is considered independent of his or her parents (i.e., parental income and assets are not considered in determining the EFC), if the individual is at least 24 years old by Dec. 31 of the award year, is an orphan or ward of the state (or was until age 18), is a veteran of the armed forces or active duty military, is a graduate or professional student, is married, has dependents other than a spouse, or is deemed independent by a financial aid officer for "other unusual circumstances."

¹⁰ It can also include an allowance for dependent care expenses (for students with dependents); costs associated with study abroad programs for students engaged in such programs; expenses associated with a disability for students with disabilities; and the costs associated with employment under a cooperative education program. Students who are less than half-time are eligible for room and board costs for no more than three semesters, of which no more than two can be consecutive.

¹¹ Specific allowances are added to tuition for students with dependent care expenses or expenses related to a disability.

appropriated maximum Pell Grant is \$4,050, this tuition (and cited allowances) threshold is \$675 (see equation above). Tuition sensitivity is considered in more detail among the reauthorization issues later in this report.

Award Rules. The primary Pell Grant award rule is that a student's annual grant is the *least* of three different amounts:

- maximum appropriated Pell Grant minus EFC;
- COA minus EFC;¹² or
- the tuition sensitivity amount.

An additional rule sets a minimum size to the Pell Grant. By law, a Pell Grant award cannot be less than \$400. For those students whose Pell Grant would be between \$200 and \$400, the law provides a \$400 grant. Those whose calculated Pell Grant is less than \$200 receive no grant.

The following table depicts the application of these award rules to several hypothetical students with different tuition levels, COAs, and EFCs for FY2005 (most recent available), for an appropriated maximum award of \$4,050. The amounts provided in the table were determined using ED Pell payment schedules.¹³

¹² The HEA prohibits the Pell Grant from exceeding the difference between the COA and the EFC. This precludes the awarding of a Pell Grant in excess of what a student might need to cover COA after taking EFC into account.

¹³ The payment schedules are published annually by ED and used by financial aid officers on college campuses to calculate students' Pell Grants. The schedules for the 2006-2007 award year can be found at [<http://www.ifap.ed.gov/dpceletters/attachments/2006paysched.pdf>]. Please note that Pell awards listed in the schedules are calculated based on \$100 bands of COA and EFC (e.g., if a student's EFC is \$725, a financial aid officer will use the column for EFCs of \$701-\$800 which gives a single result regardless of where the EFC falls in that EFC band). As a result, applying the formulas delineated in the text above without consideration of the use of these bands may yield results that differ from those in the payment schedules. The examples in the table in the text of this report were chosen so that the use of these bands did not affect the calculations.

Table 1. Application of Pell Grant Award Rules to Hypothetical Full-Time, Full-Year Undergraduate Students — Award Year 2006-2007

	Student 1	Student 2	Student 3
EFC	\$250	\$250	\$250
COA	\$8,700	\$3,350	\$8,700
Appropriated maximum Pell	\$4,050	\$4,050	\$4,050
Tuition	\$1,700	\$1,700	\$338
Award rule calculations — value in bolded italics is the student's Pell award			
Appropriated maximum Pell — EFC	<i>\$3,800</i>	\$3,800	\$3,800
COA — EFC	\$8,450	<i>\$3,100</i>	\$8,450
Tuition sensitivity amount	\$4,050	\$4,050	<i>\$3,713</i>

Source: CRS estimates.

In practice, most Pell Grant awards are determined by subtracting the student's EFC from the appropriated maximum Pell Grant. The other two elements in this award rule are likely to apply only in relatively infrequent situations — when COA falls below the appropriated maximum Pell Grant or when tuition is less than \$675, and other conditions apply.¹⁴

Finally, it should be noted that an important feature of the Pell Grant award rules is that the grant is determined *without* consideration of any other financial assistance a student may be eligible to receive or may be receiving. This reflects the intention to make the Pell Grant the foundation to which other assistance is added.

Institutional Role

An eligible institution's role in the Pell Grant program primarily involves determining student eligibility, disbursing awards, adjusting awards to ensure that students do not receive more assistance than they are eligible for, record keeping, and reporting to ED.¹⁵

To be eligible for HEA Title IV programs, including the Pell Grant program, an institution must be a public or private nonprofit IHE, a proprietary postsecondary

¹⁴ The precise circumstances under which the tuition sensitivity amount may affect the Pell Grant award are delineated in the subsequent discussion of potential reauthorization issues.

¹⁵ Much of the information in this section is based on the U.S. Department of Education's *Federal Student Aid Handbook* for 2005-2006, available on the web at [<http://ifap.ed.gov/IFAPWebApp/currentSFAHandbooksPag.jsp>].

institution, or a postsecondary vocational institution. Among other requirements¹⁶, it must be legally authorized by its state to provide a postsecondary education, must be accredited by a nationally recognized accrediting agency or meet alternative requirements, and admit as regular students only individuals with a high school diploma or the equivalent, or individuals beyond the age of compulsory school attendance. ED certifies an institution for participation in HEA Title IV programs based on consideration of its institutional eligibility, administrative capacity, and financial responsibility. The institution must then enter into a program participation agreement with ED which delineates the requirements and responsibilities for participating institutions.

In addition to other Title IV eligibility requirements, a high student loan default rate can render an institution ineligible for the Pell Grant program. This applies if an institution is ineligible for the Federal Family Education Loan program or Direct Loan program under HEA Title IV as a result of its loan default rate determined by the Secretary of Education for FY1996 or subsequent fiscal years.

An eligible institution calculates a student's Pell Grant award using the COA and enrollment status it has determined for the student, and applying these values with the student's EFC to the Pell Grant payment schedules published annually by ED. Pell Grants must be paid out in installments over the academic year. A student receives a Pell Grant only for the payment period for which he or she is enrolled. Generally, institutions credit a student's account with the Pell payment to meet unpaid tuition, fees, room, and board; any remaining Pell funds are paid directly to the student to cover other living expenses.

Based on estimates of the funds an institution needs to cover initial Pell payments, ED establishes an initial authorization of Pell Grant funding against which an institution may request funds. This initial authorization level is adjusted as the award year advances to reflect actual disbursements. Institutions can receive federal payments for Pell awards in several different ways. For most schools, the *advance payment method* is used under which an institution receives federal funds prior to making payments to students. Schools for which ED has concerns about their ability to meet Title IV participation requirements may be required to use the *reimbursement payment method* under which the institution is paid back for funds it has disbursed to students. In addition, the Pell Grant program pays participating institutions an administrative cost allowance of \$5 per enrolled Pell recipient.

¹⁶ For additional information on institutional eligibility and federal student aid, see CRS Report RL31926, *Institutional Eligibility for Participation in Title IV Student Aid Programs Under the Higher Education Act: Background and Issues*, by Rebecca Skinner.

Program Funding

The Pell Grant program is the federal government's single largest source of grant aid for postsecondary education students. This section reviews recent program funding trends, exploring the difference between the annual appropriation for the program and program costs, and the issue of annual shortfalls or surpluses in funding. It also provides data on the appropriated maximum and authorized maximum Pell Grants, as well as annual average grant awards.

Pell funding appropriated for a particular fiscal year is generally intended to support awards during an award year that begins on the July 1 that falls in that fiscal year and ends the following June 30. For example, FY2006 Pell appropriated funds are intended principally to support awards made between July 1, 2006 and June 30, 2007. Further, Pell Grant appropriations are available for obligation over a two-year period, e.g., the FY2006 appropriation became available for obligation upon enactment of the FY2006 appropriations legislation¹⁷ and can be obligated through September 30, 2007. As is discussed later in a separate section on surpluses and shortfalls in the Pell Grant program, the annual Pell appropriation has been used to meet prior year costs or carried over to meet future costs.

Annual Appropriation and Program Costs

The table below provides the annual appropriation by fiscal year for the Pell Grant program and the estimated annual costs of the program. Given the possible use of a fiscal year's appropriation for Pell Grants for multiple award years, or the appropriation of funds specifically to meet shortfalls from prior years, it is not surprising that the annual appropriated amount does not precisely equal the program costs for any year. The question of annual surpluses or shortfalls has vexed the program on many occasions. It is considered separately below.

¹⁷ P.L. 109-149, Departments of Labor, Health and Human Services, and Education and Related Agencies, Appropriations Act, 2006, was enacted on December 30, 2005.

Table 2. History of Pell Grant Appropriations and Program Costs, FY1973-FY2006

(dollars in millions, rounded to nearest million)

Fiscal year	Appropriations	Estimated costs
1973	\$122	\$48
1974	\$475	\$358
1975	\$840	\$926
1976	\$1,326	\$1,475
1977	\$1,904	\$1,524
1978	\$2,160	\$1,541
1979	\$2,431	\$2,357
1980	\$2,157	\$2,387
1981	\$2,604	\$2,300
1982	\$2,419	\$2,421
1983	\$2,419	\$2,797
1984	\$2,800	\$3,053
1985	\$3,862	\$3,597
1986	\$3,580	\$3,460
1987	\$4,187	\$3,754
1988	\$4,260	\$4,476
1989	\$4,484	\$4,778
1990	\$4,804	\$4,935
1991	\$5,376	\$5,793
1992	\$5,503	\$6,176
1993	\$6,462	\$5,654
1994	\$6,637	\$5,519
1995	\$6,147	\$5,472
1996	\$4,914	\$5,780
1997	\$5,919	\$6,331
1998	\$7,345	\$7,233
1999	\$7,704	\$7,208
2000	\$7,640	\$7,956
2001	\$8,756	\$9,975
2002	\$11,314	\$11,642
2003	\$11,365	\$12,706
2004	\$12,007	\$13,033
2005	\$12,365	\$12,787
2006	\$13,045	\$12,232

Sources: U.S. Department of Education, *End of Year Report: 2003-2004 Title IV/Federal Pell Grant Program*; U.S. Department of Education, *Fiscal Year 2006 Justifications of Appropriation Estimates to the Congress*, vol. II, p. O-28.

Authorized Maximums and Appropriated Maximums

Although the authorizing statute sets the *authorized maximum* Pell award for each year, this authorized maximum is overridden by the appropriations process which sets the *appropriated maximum* award. This latter amount is the one applied in awarding funds. The authorized maximum grant and the appropriated maximum grant have been equal in only three instances during the program's history (FY1975,

FY1976 and FY1979) In all other years, the appropriated maximum has been less than the authorized maximum.

Table 3. History of Authorized Maximum Grants, Appropriated Maximum Grants, and Average Awards, FY1973-FY2006

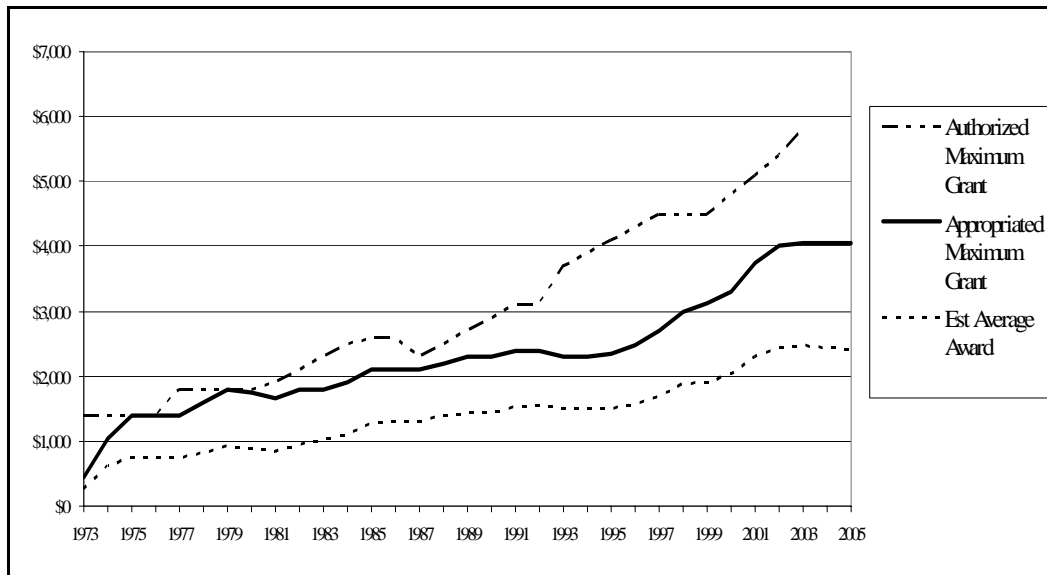
Fiscal year	Authorized maximum grant	Appropriated maximum grant	Estimated average award
1973	\$1,400	\$452	\$270
1974	\$1,400	\$1,050	\$628
1975	\$1,400	\$1,400	\$761
1976	\$1,400	\$1,400	\$759
1977	\$1,800	\$1,400	\$758
1978	\$1,800	\$1,600	\$814
1979	\$1,800	\$1,800	\$929
1980	\$1,800	\$1,750	\$882
1981	\$1,900	\$1,670	\$849
1982	\$2,100	\$1,800	\$959
1983	\$2,300	\$1,800	\$1,014
1984	\$2,500	\$1,900	\$1,111
1985	\$2,600	\$2,100	\$1,279
1986	\$2,600	\$2,100	\$1,301
1987	\$2,300	\$2,100	\$1,303
1988	\$2,500	\$2,200	\$1,399
1989	\$2,700	\$2,300	\$1,438
1990	\$2,900	\$2,300	\$1,449
1991	\$3,100	\$2,400	\$1,530
1992	\$3,100	\$2,400	\$1,543
1993	\$3,700	\$2,300	\$1,506
1994	\$3,900	\$2,300	\$1,502
1995	\$4,100	\$2,340	\$1,515
1996	\$4,300	\$2,470	\$1,577
1997	\$4,500	\$2,700	\$1,696
1998	\$4,500	\$3,000	\$1,876
1999	\$4,500	\$3,125	\$1,915
2000	\$4,800	\$3,300	\$2,040
2001	\$5,100	\$3,750	\$2,298
2002	\$5,400	\$4,000	\$2,436
2003	\$5,800	\$4,050	\$2,467
2004	none specified	\$4,050	\$2,469
2005	none specified	\$4,050	\$2,420
2006	none specified	\$4,050	\$2,486

Sources: U.S. Department of Education, *End of Year Report: 2003-2004 Title IV/Federal Pell Grant Program*; U.S. Department of Education, *Fiscal Year 2006 Justifications of Appropriation Estimates to the Congress*, vol. II, p. O-32.

The appropriated maximum award is often used as a gauge of the program's support for low-income college students because this is the amount that the neediest students (those with an EFC of \$0) are likely to receive. During the annual appropriations process, there is frequently a debate about setting the maximum award. The figure below depicts the change over time in the size of the authorized

maximum grant (none specified for FY2004, FY2005 or FY2006), appropriated maximum grant, and the average award. During the mid to late 1990s, the gap between the authorized and appropriated maximums was largest. Not unexpectedly, the average annual award generally tracks changes in the appropriated maximum.

Figure 1. Authorized Maximum Grants, Appropriated Maximum Grants, and Average Awards, FY1973-FY2006



Sources: U.S. Department of Education, *End of Year Report: 2003-2004 Title IV/Federal Pell Grant Program*; U.S. Department of Education, Budget Service, budget tables for various years.

Surpluses and Shortfalls

As mentioned, the annual appropriations legislation for ED provides funding for the Pell Grant program and sets the maximum Pell Grant to be awarded (the appropriated maximum grant). These appropriated funds are available for two fiscal years. In general that means that an annual appropriation is typically available for obligation on October 1 of the fiscal year in which the appropriation is made and remains available for obligation through September 30 of the following fiscal year. For example, the FY2006 appropriation became available for obligation with the enactment of the FY2006 appropriations legislation (December 30, 2005) and can be obligated through September 30, 2007. The Pell Grant award year runs from July 1 of one year to June 30 of the following calendar year (e.g., 2006-2007 award year begins July 1, 2006, and ends June 30, 2007). As a result, the period of availability of the appropriated funds overlaps multiple award years.

The annual appropriation level and maximum grant are determined well in advance of the award year they are intended to support. The annual appropriation is determined on the basis of *estimates* of the program costs that are likely to be incurred at the chosen maximum grant. To the extent those estimates of future program costs are inaccurate, the annual appropriation may be too much or too little.

In the event of a surplus, the authorizing statute provides ED with limited carryover authority.

What has been of most concern to federal policymakers recently are the measures that can be taken to address a funding shortfall. The HEA requires the Secretary of Education, when he or she has determined that the appropriated funds are insufficient to satisfy all Pell entitlements,¹⁸ to notify each House of Congress of the shortfall, identifying how much more is needed to meet those entitlements.

Prior to the Higher Education Amendments of 1992 (P.L. 102-325), the Secretary of Education had statutory authority under the HEA to reduce awards to respond to a shortfall in appropriated funds.¹⁹ Reductions were made in awards in eight years using this authority (the last in 1990-1991). After this HEA authority was repealed, appropriations legislation for FY1994-FY2001 continued to provide the Secretary with reduction authority, but that authority was not used.²⁰ The FY2002 and subsequent appropriations legislation have not included such language.

The Secretary can respond to a shortfall in Pell Grant funding by “borrowing” from the next year’s appropriation. As noted earlier, the Pell Grant appropriation is available for obligation for two fiscal years. This permits ED to use funds from two fiscal years’ appropriations to meet one award year’s costs.

FY2001-FY2005: The Growth of the Shortfall. The experience to date of the Pell Grant program with the FY2001-FY2006 appropriations offers the most recent examples of responses to a Pell Grant shortfall (**Table 4**). The most recent ED estimate is that the FY2005 shortfall for the program is approximately \$4.3 billion. How that program shortfall was reached is delineated in the table and text below.

Appropriations legislation for FY2001 set the maximum Pell Grant at \$3,750 and appropriated \$8.756 billion. In January 2001, ED estimated that FY2001 program costs at that maximum grant level would be \$9.115 billion, and that the difference between the appropriation and program costs would be made up by \$359

¹⁸ The authorizing statute speaks of *entitlements* when it describes the award determined for a student based on the published award schedule.

¹⁹ Some form of authority to reduce awards was provided to the Secretary between the inception of the program in 1972 and the 1992 amendments. Immediately prior to its repeal in 1992, this provision permitted reduction in awards only within certain limits. No award could be reduced for students whose EFC was \$200 or less (i.e., the awards for the neediest students would be protected). A schedule of reductions for other awards had to use a “single linear reduction formula” that applied uniformly increasing percentage reductions as initial entitlements decreased. No award could be made to a student whose initial award was reduced to less than \$100 under the reduction formula.

²⁰ The appropriations legislation required the Secretary to reduce awards using fixed or variable percentages, or using a fixed dollar reduction, if, prior to issuing the payment schedules, he or she determined that appropriated funds could not fully fund the appropriated maximum grant. A schedule of reduced grants would then be published.

million in surplus funds from the prior year.²¹ As **Table 4** shows, as of January 2005 the FY2001 program costs were \$9.996 billion. In addition, only an estimated \$328 million was available in surplus funds. This left an estimated \$912 million shortfall for FY2001 in the Pell Grant program; ED covered that shortfall by borrowing from the FY2002 appropriation which became available for obligation during the 2001-2002 award year.

The initial FY2002 appropriation for the program was \$10.314 billion, intended to fund a \$4,000 maximum grant. In its FY2003 budget request, ED estimated that FY2002 program costs would be \$10.730 billion,²² well in excess of the appropriated level and more than ED had estimated during the FY2002 appropriations process. Given that ED was using FY2002 appropriated funds to cover the FY2001 shortfall, the Department requested an FY2002 supplemental appropriation of \$1.276 billion. The Congress responded by increasing the available FY2002 appropriation by \$1 billion. The more recent estimates for FY2002 from ED shown in **Table 4** demonstrate how volatile program cost estimates have been during this period. Currently, ED estimates that FY2002 program costs were \$11.664 billion. Coupled with a \$1 billion supplemental appropriation enacted into law, the total FY2002 appropriated funds were \$11.314 billion. Of this amount, an estimated \$912 million was used to cover the FY2001 shortfall, leaving the available funding \$1.262 billion below what was needed to cover the FY2002 program costs.

In March 2003, the department estimated program costs for FY2003 (maximum Pell Grant of \$4,000) at \$11.67 billion. This estimate assumed \$292 million in savings from anticipated enactment of legislation authorizing the Internal Revenue Service (IRS) to match aid applicant data with federal income tax returns — in the absence of this legislation (which, to date, has not been enacted), total estimated program costs were pegged at \$11.962 billion. The more recent ED estimates show FY2003 program costs of \$12.730 billion. As the FY2002 and FY2003 cost estimates rose, the FY2003 year shortfall rose (in part, because the shortfall from FY2002 grew). In March 2003, the FY2003 shortfall was estimated to be \$1.538 billion (or \$1.83 billion with the addition of the \$292 million assumed to be saved by the IRS match). As illustrated in **Table 4**, the estimated current year shortfall for FY2003 is now \$2.627 billion.

For FY2004, ED initially estimated that program costs would be \$11.410 billion (assuming, among other things, a \$4,000 maximum grant and implementation of the IRS match), and that the shortfall would be \$549 million. This estimate was prepared prior to enactment of the FY2003 appropriations legislation, which raised the maximum Pell Grant to \$4,050. As a result, the data shown for FY2004 in **Table 4** differ significantly from these early estimates.

²¹ U.S. Department of Education, Budget table identified as *Department of Education Fiscal Year 2001 Congressional Action*, dated Jan. 23, 2001. This table states that this program cost estimate was prepared Dec. 2000.

²² U.S. Department of Education, *FY2003 Education Budget Summary*, Appendix 2, detailed budget table, dated Feb. 4, 2002.

ED attributes the current shortfalls to significant growth in the maximum appropriated Pell Grant in recent years and “unexpected growth” in the number of Pell applicants and recipients. According to ED, between the 1995-1996 and 2000-2001 award years, the number of valid applicants grew by no more than 2.6% from one year to the next. The increase from 2000-2001 to 2001-2002 was an estimated 8.6% and from 2001-2002 to 2002-2003, an estimated 8.9%. Much of this increase is attributed to growth in the number of independent students applying for and receiving Pell Grants. ED estimated that these high rates of annual increase would subside, beginning in 2003-2004, but still remain above historical levels.²³

Table 4. FY2001-FY2005 Pell Grant Shortfalls
(in millions of dollars, except for appropriated maximum grant)

Fiscal year	Appropriation	From prior year used	Estimated prior year shortfall	Estimated current year shortfall	Estimated annual program costs	Appropriated maximum grant
2001	\$8,756	\$328	—	-\$912	\$9,996	\$3,750
2002	\$11,314*	—	-\$912	-\$1,262	\$11,664	\$4,000
2003	\$11,365	—	-\$1,262	-\$2,627	\$12,730	\$4,050
2004	\$12,007	—	-\$2,627	-\$3,737	\$13,117	\$4,050
2005	\$12,365	—	-\$3,737	-\$4,300	\$12,928	\$4,050

Source: U.S. Department of Education, unpublished data.

* Includes \$1 billion in FY2002 supplemental funding.

FY2006: Eliminating the Funding Shortfall. Pursuant to the terms of the FY2006 Budget Resolution (H.Con.Res. 95), \$4.3 billion was appropriated to eliminate the Pell Grant program’s cumulative funding shortfall. Specifically, budget authority up to \$4.3 billion was granted to eliminate the shortfall for all awards made through award year 2005-2006. The funds were appropriated in the FY2006 appropriations legislation for Labor, Health and Human Services, and Education (P.L. 109-149).

Characteristics of Recipients

The Pell Grant program reaches a sizeable portion of undergraduates each year. In FY1999 (award year 1999-2000), 26.8% of all undergraduates were estimated to have received Pell Grants.²⁴ According to ED estimates, the annual number of Pell Grant recipients rose markedly from the program’s inception with FY1973 funding.

²³ U.S. Department of Education, *Fiscal Year 2005 Justifications of Appropriation Estimates to the Congress*, vol. 2, pp. N-24, N-25.

²⁴ Unless noted, the data in this section describing the characteristics of Pell Grant recipients are CRS estimates from the 1999-2000 National Postsecondary Student Aid Study (NPSAS) administered by the U.S. Department of Education. This is a survey of a statistically representative sample of undergraduate, graduate, and first professional students. For this analysis, just the undergraduate data were analyzed. Unless noted, any *direct comparisons in the text* based on NPSAS data have been found to be statistically significant at the 95% confidence level at least. That is, there is only a 5% or less probability that these differences are due to chance.

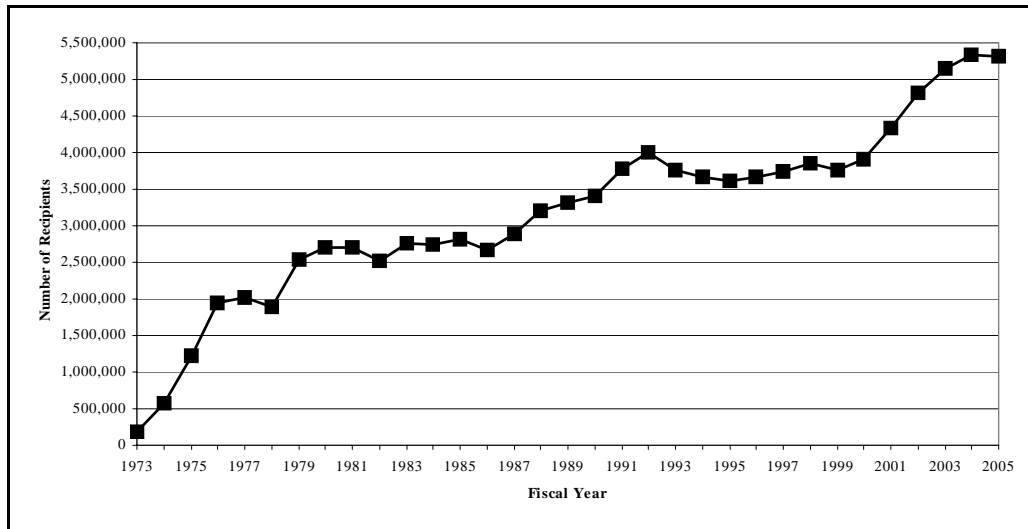
As shown in **Table 5** and **Figure 2**, the number of recipients grew steadily until 1992. There was a drop in recipients over the following three-year period, followed by fluctuation in the number of recipients until growth resumed in FY2000. Early estimates for FY2005 suggest a slight decline from FY2004. Given the substantial growth in recipients since FY1999, the percentage of all undergraduates receiving Pell Grants today is probably higher than was reported for FY1999.

Table 5. Estimated Annual Number of Pell Grant Recipients, FY1973-FY2006

Fiscal year	Estimated number of Pell Grant recipients
1973	176,000
1974	567,000
1975	1,217,000
1976	1,944,000
1977	2,011,000
1978	1,893,000
1979	2,538,000
1980	2,708,000
1981	2,709,000
1982	2,523,000
1983	2,759,000
1984	2,747,000
1985	2,813,000
1986	2,660,000
1987	2,882,000
1988	3,198,000
1989	3,322,000
1990	3,405,000
1991	3,786,000
1992	4,002,000
1993	3,756,000
1994	3,675,000
1995	3,612,000
1996	3,666,000
1997	3,733,000
1998	3,855,000
1999	3,764,000
2000	3,899,000
2001	4,341,000
2002	4,779,000
2003	5,140,000
2004	5,302,000
2005	5,330,000
2006	5,468,000

Sources: U.S. Department of Education, *End of Year Report: 2003-2004 Title IV/Federal Pell Grant Program* (for FY1973-FY2003); U.S. Department of Education, *Fiscal Year 2006 Justifications of Appropriation Estimates to the Congress*, vol. 2, p. O-32.

Figure 2. Estimated Annual Number of Pell Grant Recipients, FY1973-FY2005



Sources: U.S. Department of Education, *End of Year Report: 2002-2003 Title IV/Federal Pell Grant Program* (for FY1973-FY2002); U.S. Department of Education, Budget Service, budget table entitled *Department of Education Fiscal Year 2005 President's Budget*, dated Feb. 2, 2004 (for FY2003); U.S. Department of Education Budget Service, budget table entitled *Department of Education Fiscal Year 2005 Congressional Action*, dated Dec. 9, 2004 (for FY2004 and FY2005).

What are the characteristics of the students receiving Pell Grants? Three characteristics are explored below — income, enrollment status, and type and control of enrolling institution.

Income

There is no absolute income threshold that determines who is eligible or who is ineligible for Pell Grants.²⁵ Nevertheless, Pell Grant recipients are primarily low-income. In FY1999 (award year 1999-2000), an estimated nearly 45% of dependent Pell Grant recipients had total parental income below \$20,000 and over 90% had total income of less than \$40,000.²⁶ Independent Pell Grant recipients' income is generally lower than their dependent counterparts. Nearly half (47%) of independent Pell Grant recipients had total income of less than \$10,000; over 90% had total income below \$30,000.²⁷ The distribution of Pell dollars follows the

²⁵ As has been described, eligibility for a Pell Grant depends to a great extent on the EFC calculated for a student and his or her family. The EFC can be affected by a host of factors other than a family's income. This includes, among other factors, family size, number in college, the student's dependency status, and assets.

²⁶ Total income for dependent students is the total income of their parents. This includes most taxable and untaxed income. For independent students, total income is the taxable and untaxed income for the students and their spouses, if any.

²⁷ Data from the federal Pell Grant program office for a more recent year (FY2001 — award year 2001-2002) paint a similar picture of the distribution of recipients. See U.S. Department of Education, *End of Year Report: 2001-2002 Title IV/Federal Pell Grant* (continued...)

distribution of recipients closely. That is, over 90% of Pell Grant aid to dependent students is received by those with incomes of less than \$40,000, and over 90% of Pell dollars awarded to independent students goes to those with incomes of less than \$30,000.

Given the focus of the program on needy students, it is not surprising that much higher percentages of low income undergraduates receive Pell Grants. This might be considered a *Pell participation rate*. **Table 6** shows the percentage of dependent and independent undergraduates from different income levels who were Pell recipients in FY1999. Two participation rates are provided for each income level; one measuring the percentage of *all undergraduate students* (of the relevant dependency status) who were Pell recipients and the other providing the percentage of *undergraduate aid applicants* (of the relevant dependency status) who received Pell.

Focusing on the lowest income categories,²⁸ it is estimated that approximately 68.9% of all dependent undergraduates from families with total income of less than \$10,000 were Pell recipients, and 87.0% of the aid applicants from that income category were Pell recipients. About 60.6% of all independent undergraduates with total income of less than \$5,000 were Pell recipients, and about 81.8% of the aid applicants in that category received Pell. **Table 6** shows that, in general, as income rose, participation rates in the Pell program dropped for dependent and independent students.

²⁷ (...continued)

Program. To be consistent and unless noted, NPSAS data are used in the body of the report at this juncture to describe the income distribution because the subsequent analysis of the characteristics of Pell recipients can only be based on the NPSAS data.

²⁸ In the rest of this analysis, references to individuals from the *lowest income* categories are to dependent students with total income of less than \$10,000 (about 5% of dependent undergraduates) and independent students with total income of less than \$5,000 (about 10% of independent undergraduates).

Table 6. Estimated Pell Grant Participation by Income, 1999-2000

Dependent undergraduates		
Total income	Estimated percentage receiving Pell grants	
	All students	Federal aid applicants
Less than \$10,000	68.9%	87.0%
\$10,000-\$19,999	63.0%	81.5%
\$20,000-\$29,999	54.2%	75.6%
\$30,000-\$39,999	31.4%	50.7%
\$40,000-\$49,999	12.4%	22.5%
\$50,000-\$59,999	3.2%	5.8%
\$60,000-\$69,999	1.4%	2.6%
\$70,000 or more	0%	0%
Independent undergraduates		
Total income	Estimated percentage receiving Pell grants	
	All students	Federal aid applicants
Less than \$5,000	60.6%	81.8%
\$5,000-\$9,999	61.6%	83.1%
\$10,000-\$19,999	38.2%	61.1%
\$20,000-\$29,999	24.6%	55.2%
\$30,000-\$49,999	11.4%	43.4%
\$50,000 or more	0%	0%

Source: CRS estimates from 1999-2000 NPSAS.

Given the intended purpose of the Pell Grant program to provide low-income students with the foundation of their aid, it is noteworthy that a substantial portion of very low income undergraduates did *not* receive a Pell Grant. Apparently, a large percentage of these very low income students did *not* apply for federal financial aid.²⁹ The percentage of dependent undergraduates from the lowest income category who received a Pell Grant increased markedly if aid application is taken into account, rising from 68.9% to 87.0%. A similar increase in participation characterized the lowest income independent undergraduates when aid application is considered — from 60.6% to 81.8%. Nevertheless, even among aid application filers, a relatively significant portion of the lowest income students did not receive Pell Grants.

It is possible that many of these lowest income students who did not apply for aid may have believed they were not financially eligible for aid, or they may have had

²⁹ It should be noted that the ability to speak with confidence about the income levels of students who did not file the FAFSA is adversely affected by certain data quality issues. For non-aid filers, income information comes from surveys of students and from imputation. According to the NPSAS code book in the Data Analysis System, these income data are “much less reliable” than those from aid filers.

sufficient resources to meet their costs.³⁰ At least some of those who believed they were ineligible for aid may have actually been eligible.³¹ Among other possible explanations is that very low-income students in particular find the federal financial aid application process too complex to pursue or that such students are more likely not to know that aid is available.

For those lowest income students who took the step of applying for aid but did not receive a Pell, a variety of factors may be at work. In particular, a sizeable percentage of the non-Pell receivers among the lowest income students had EFCs that disqualified them for Pell Grants.³² This was true for 23.5% of the dependent lowest income aid filers without a Pell and 12.9% of the independent lowest income aid filers who were non-Pell recipients.³³

Enrollment Status

Pell recipients, regardless of dependency status, are more likely to be full-time students than are undergraduates as a whole and less likely to be enrolled on less-than-half-time basis. **Table 7** shows the distribution of dependent and independent undergraduates in general and Pell recipients in particular by enrollment status.

³⁰ An analysis of 1995-1996 NPSAS data found these to be the two primary reasons offered by low-income students who did not file for federal financial aid. (U.S. Department of Education, *Low-Income Students: Who They Are and How They Pay for Their Education*, NCES 2000-169, Mar. 2000.)

³¹ *Ibid.*, p. 22. It is stated, “In some cases, the belief that their family income was too high for them to qualify for aid may simply have been erroneous.”

³² For the 1999-2000 award year, the maximum Pell Grant was \$3,125. Under the applicable award rules, students with EFCs greater than \$2,925 were ineligible for a Pell Grant.

³³ The earlier description of the eligibility requirements for Pell Grants identified numerous other factors that might account for some of these students failing to receive Pell Grants. Among those that preclude eligibility are being enrolled in a program not leading to a degree or certificate, failing to meet satisfactory progress while enrolled in postsecondary education, and being in default on a federal student loan.

Table 7. Estimated Distribution of Undergraduates and Pell Grant Recipients by Enrollment Status, 1999-2000

Dependent undergraduates		
Enrollment status	All students	Pell recipients
Full-time	66.9%	78.0%
Half-time	10.1%	6.5%
Less-than-half-time	6.3%	1.7%
Mixed (status changed during enrollment period)	16.7%	13.9%
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>
Independent undergraduates		
Enrollment status	All students	Pell recipients
Full-time	32.2%	59.8%
Half-time	22.4%	17.6%
Less-than-half-time	29.6%	4.3%
Mixed (status changed during enrollment period)	15.8%	18.4%
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>

Source: CRS estimates from 1999-2000 NPSAS. Due to rounding, sum of column entries may not equal column totals.

Type and Control

Compared to all undergraduates, Pell Grant recipients are less likely to be enrolled in public two-year institutions and more likely to be enrolled in proprietary institutions. **Table 8** below shows the distribution of dependent and independent undergraduates and Pell Grant recipients by the type and control of the institutions they attended.

Table 8. Estimated Distribution of Undergraduates and Pell Grant Recipients by Type and Control of Enrolling Institution, 1999-2000

Type and control	Dependent undergraduates	Dependent Pell recipients
Public 4-year	39.8%	39.9%
Private 4-year	18.1%	19.9%
Public 2-year	31.1%	24.7%
Proprietary	2.7%	5.9%
More than one institution during enrollment period	8.3%	9.6%
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>
Type and control	Independent undergraduates	Independent Pell recipients
Public 4-year	23.1%	28.0%
Private 4-year	10.1%	11.0%
Public 2-year	52.8%	36.5%
Proprietary	7.0%	15.1%
More than one institution during enrollment period	7.0%	9.4%
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>

Source: CRS estimates from 1999-2000 NPSAS. Due to rounding, sum of column entries may not equal column totals.

Role of the Pell Grant

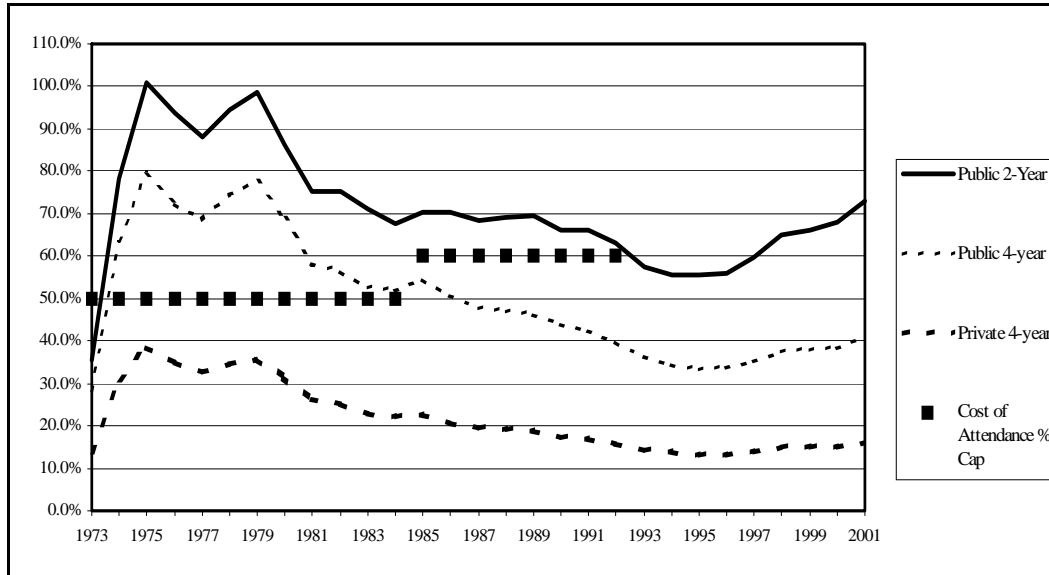
The Pell Grant is intended to function as the *foundation* aid for needy undergraduates; all other federal need-based aid is to build on the Pell Grant. As described earlier, other financial aid received by a student is *not* taken into account in determining a student's Pell Grant. How well does the Pell Grant currently function as the foundation aid? This section explores this question by analyzing the purchasing power of the Pell Grant and the distribution of other federal aid to Pell recipients.

Purchasing Power

The appropriated maximum Pell Grant, available to students with zero EFCs, is often used as a gauge of the Pell Grant program's level of support in each year. In FY2001, the appropriated maximum grant (\$3,750) covered 73% of the average tuition, fees, room, and board at public two-year institutions, 41% at public four-year institutions, and 16% at private four-year institutions. **Figure 3** below compares the appropriated maximum grant to average undergraduate tuition, fees, room, and board charges at public two-year, public four-year, and private four-year institutions

between FY1973 and FY2001.³⁴ It is evident that the maximum was at its peak relative to these average charges during the 1970s.

Figure 3. Percentage of Tuition, Fees, Room, and Board Covered by the Appropriated Maximum Pell Grant, FY1973-FY2001



Source: U.S. Department of Education, *Digest of Education Statistics 2002*, Table 312; The College Board, *Trends in Student Aid 2003*, Table 7.

Importantly, the purchasing power of the Pell Grant through FY1992 (1992-1993 award year) was constrained by a statutory cap on the percentage of COA that a Pell Grant could cover, depicted as black dots in **Figure 3**. From FY1973 to FY1984, the cap was 50%; from FY1985 to FY1992, the cap was 60%. After that time there has been no absolute limit on the percentage of COA that can be covered.³⁵

³⁴ The data used for **Figure 3** are average undergraduate tuition and fees paid by full-time equivalent students. The room and board amounts are full-time charges. The average full *cost of attendance* for federal need analysis purposes would be higher than these so-called *fixed charges*, including additional expenses for such things as books and transportation. The inclusion of full-time room and board in **Figure 3** may be somewhat problematic particularly at the community-college level because these charges are not adjusted for part-time enrollment and may not reflect the actual costs faced by students living off campus. But, as noted later in this section, the overall conclusions regarding Pell Grant purchasing power apply regardless of the charges used. The source of these data is the U.S. Department of Education's *Digest of Education Statistics 2002*, Table 312. Prices for public and private four-year institutions for academic years 1973-1974, 1974-1975, and 1975-1976 are not available from ED. For this figure, they were estimated based on the annual rates of change in prices for "other" public or private four-year institutions (these institutions do not include public or private universities) for which ED did have data. Private two-year institutions are not considered because they account for very few students.

³⁵ In place of the absolute cap on the percentage of COA that the Pell Grant could cover, the
(continued...)

Still, it must be stressed that it is not clear what impact the COA cap would have had on the coverage data presented in this figure. First, the expenses covered in the figure are averages, meaning that students actually faced charges that ranged above and below the levels shown. Second, charges for tuition, fees, room, and board do *not* constitute the full costs that make up COA. As a result, annual percentages of average COA covered by the appropriated maximum Pell Grant would have been lower than the percentages delineated in this figure.³⁶

Nevertheless, even if one assumes that the percentage of coverage by the maximum Pell Grant of tuition, fees, room, and board would have been limited to the 50% or 60% caps, these caps would have had no impact on the coverage of average public and private four-year expenses shown here from FY1985 onward. As a result, it is evident that from the mid 1980s through the early 1990s, the appropriated maximum Pell Grant lost ground relative to average tuition, fees, room, and board at public and private four-year institutions. Despite recent increases in coverage, the FY2001 percentages remain below the FY1985 percentages (54% for public four-year colleges and 23% for private four-year colleges). Indeed, for private four-year institutions, the peak purchasing power which occurred in the mid to late 1970s (when the percentage of these average costs covered at those institutions was well in excess of 30%) would not have been affected by the COA caps since average charges in that sector were always below the caps.

The erosion depicted in **Figure 3** is found when other comparisons are made. For example, the trend lines are very similar if the annual average Pell Grant is compared to average tuition, fees, room, and board, or if either the appropriated maximum or average grant is compared to just tuition and fees.³⁷

Pell Grant Recipients and Other Federal Aid

One measure of the role that the Pell Grant plays as the foundation award is the extent to which undergraduates who received federal need-based student aid from the HEA³⁸ were Pell recipients. Data from FY1999 suggest that Pell Grants alone may *not* have constituted the primary foundation for these students. In FY1999, although nearly two-thirds of federal need-based aid recipients received Pell Grants, a comparable portion of need-based aid recipients borrowed Stafford Subsidized Loans.³⁹

³⁵ (...continued)

HEA now provides the tuition sensitivity amount. This was described earlier and is considered in greater detail in the concluding section of reauthorization issues.

³⁶ Data for the average COA from a consistent source over this time period are not available.

³⁷ The percentage of costs covered varies significantly depending upon which Pell measure is used (the appropriated maximum or average) or which set of prices is used (tuition, fees, room, and board, or just tuition and fees).

³⁸ Pell Grants, Federal Supplemental Educational Opportunity Grants, Federal Perkins Loans, Federal Work-Study earnings, and Stafford Subsidized Loans.

³⁹ Further, about one-third of federal need-based aid recipients secured Stafford
(continued...)

These data certainly raise questions about the foundation role intended for the Pell Grant program. The extent to which need-based aid recipients borrowed Stafford Loans, whether subsidized or unsubsidized, is troubling to policymakers and analysts who believe that borrowing imposes a burden on low-income families that may adversely affect students' enrollment patterns.⁴⁰

Does the experience of the lowest income federal need-based aid recipients differ from the pattern for the total cohort of need-based aid recipients? To some degree, it does. For dependent undergraduates who received federal need-based aid and who had total income of less than \$10,000, the Pell Grant was clearly their foundation. Over 95.8% of them received Pell Grants. Stafford Subsidized Loans played a somewhat less prominent role for this subgroup of need-based aid recipients; 44.3% of them borrowed from this program. The pattern was similar for the independent need-based aid recipients from the lowest income level (less than \$5,000 in total income) — 94.6% received Pell Grants, 56.2% borrowed Stafford Subsidized Loans. Still, the extent to which even these very low income undergraduates borrowed may offer little reassurance to those already concerned about reliance on borrowing.

Another approach to delineating the role of Pell Grants is to explore the extent to which Pell recipients, as a group, relied solely in FY1999 on the grant to meet college charges without having to secure other federal aid, particularly loans with their repayment obligation. In FY1999, for just 15.8% of Pell recipients was that grant their only source of aid. As shown in **Table 9**, Pell Grant recipients participated in other federal student aid programs, sometimes at a high rate. Among the federal need-based student aid, Pell recipients were most likely to also be borrowing Stafford Subsidized Loans (over 52% of Pell recipients received these loans — average amount of \$3,260).

³⁹ (...continued)

Unsubsidized Loans.

⁴⁰ See, for example, Advisory Committee on Student Financial Assistance, *Empty Promises: The Myth of College Access in America*, June 2002, pp. 11-13.

Table 9. Pell Grant Recipients' Participation Rates and Average Awards in Other Aid Programs, FY1999

Program	Percentage of Pell recipients who also received aid under this program	Average amount of aid awarded under this program to participating Pell recipient
Federal Supplemental Educational Opportunity Grants	24.8%	\$670
Federal Work-Study	10.3%	\$1,550
Stafford Subsidized Loans	52.1%	\$3,260
Stafford Unsubsidized Loans	23.2%	\$2,970
Federal Perkins Loans	8.7%	\$1,720
All Non-Federal Grants	54.6%	\$2,810
All Non-Federal Loans	4.9%	\$3,990

Source: CRS estimates from 1999-2000 NPSAS.

The overall price of education has an impact on the extent to which Pell recipients secure Stafford Loans. For Pell recipients attending public two-year institutions, where the average cost of attendance is lower than at public four-year institutions and, particularly, at private four-year institutions, the propensity for borrowing was much less than for Pell recipients as a whole. For FY1999, 21.2% of Pell recipients at public two-year institutions borrowed Stafford Subsidized Loans, and 8.0% borrowed Stafford Unsubsidized Loans.

Possible Reauthorization Issues

This section provides brief overviews of several issues that may be considered by the Congress as it deliberates on the Pell Grant program. There is an overarching question which, to some extent, links the first three specific issues described below. As was delineated earlier, there may be some question about whether the Pell Grant is playing the foundation role intended for it, particularly for the neediest students. Steps to increase the targeting of Pell Grant assistance to such students may be debated by the Congress during this reauthorization process and are part of the initial issues discussed below.

At various points in the analysis below, FY2003 cost estimates of changes to the program are presented and compared to an estimate of the FY2003 cost under current law at a \$4,050 maximum appropriated grant. These estimates were made using the Pell Grant estimation model of the U.S. Department of Education's Budget Service.⁴¹

⁴¹ The ED Budget Service model's version U2005B was utilized for the present analysis (2005). CRS does not make official congressional cost estimates of federal programs or (continued...)

Entitlement

The Pell Grant program is subject to annual appropriations. As delineated earlier, the authorized maximum award has usually been higher than the maximum set in the appropriations process; the last time they both were the same was for FY1979. Further, given the difficulty in estimating program costs, the annual appropriation has in several years been significantly less than what was needed to meet those costs, causing shortfalls and leading to reductions in grants, borrowing from subsequent years' appropriations, or supplemental appropriations. As a result, in many years, there may be uncertainty among students, their families, and higher education institutions about the level of support the program will provide. One response to these circumstances has been the proposal that the Pell Grant program be made into an entitlement. As a consequence, its funding would be mandatory. This would preclude shortfalls, support a maximum Pell Grant at the level set in the authorizing legislation, and reduce annual uncertainty about the program. Advocates of this step may also stress that funding higher maximum Pell Grants would direct greater funding to the neediest students.

Congress has wrestled with this issue in the past. Indeed, during legislative action on the Higher Education Amendments of 1992, the House and Senate education committees approved versions of a reauthorized HEA that would have made the program an entitlement. These provisions were not enacted.

Concerns about the consequences of making the Pell Grant an entitlement have centered on several issues. Questions are raised about the cost of doing so. For example, if the *authorized* maximum Pell Grant for FY2005 (award year 2005-2006) of \$5,800 were to be funded, total program costs are likely to be about \$20.3 billion, over a 58% increase in the estimated cost of the program.

Front Loading

Increasing the amount of Pell Grant assistance targeted to students in their initial year or years of enrollment is known as "front loading." This strategy has been proposed for many reasons, including the following: to increase the purchasing power of the Pell Grant for low-income students; to increase low-income access to postsecondary education and, potentially, to increase their persistence; and to reduce borrowing by low-income students in their initial years and, thereby, possibly limit loan defaults by such students if they leave postsecondary education without completing their programs of study.

⁴¹ (...continued)

legislative proposals; that is the responsibility of the Congressional Budget Office. Estimates of costs and the number and characteristics of recipients included in this report are intended to *suggest* the relative magnitude and nature of the impact of changes in the Pell Grant program.

Various front loading variations are possible. Among those that have been proposed are limiting Pell Grants to students in their first two years;⁴² or directing new Pell Grant funding to the initial year of enrollment, thereby boosting the size of the grant in that year while maintaining somewhat smaller grants for later years.⁴³

Proposals to front load Pell Grants generate significant controversy. Depending upon the variant proposed, among the issues raised are whether the program would function as a form of “bait and switch” with students enrolling with grant assistance but being required to shift to significant borrowing in later years and, perhaps, dropping out at that stage; whether front loading would unduly influence students to enroll in community colleges where significant portions of expenses would be covered with grants; and whether front loading would be administratively difficult, involving such questions as determining precisely which students should be considered to be first-year or second-year students.

Minimum Grant

There has been long standing interest in ensuring that the Pell Grant program serves needy students and in maximizing the grant that can be awarded to those students. This interest is often heightened by efforts to expand eligibility for the program because as additional, presumably higher income, students are drawn into the program, raising the appropriated maximum grant (which would focus greater amounts of funding on the neediest students) becomes more costly (a higher maximum generally means somewhat more aid for all students eligible for assistance). Further, with the recent growth in federal support for middle-income students through the federal income tax system,⁴⁴ concern has been raised about the continued federal commitment to aid for low-income students.⁴⁵

Among the changes to the Pell Grant program that might be considered in any effort to target the grants more fully on low-income students and, if possible, increase the size of their grants,⁴⁶ is raising the minimum grant.

⁴² See, for example, Thomas J. Kane, “Reforming Public Subsidies for Higher Education,” *Financing College Tuition: Government Policies & Educational Priorities*, 1999.

⁴³ Reportedly, this variation of front loading was being considered by the Bush Administration in 2001. See Stephen Burd, “Bush’s Plan for Pell Grants Divides 2-Year and 4-Year Colleges,” *Chronicle of Higher Education*, Feb. 16, 2001.

⁴⁴ CRS Report RL31484, *Higher Education Tax Credits: Targeting, Value, and Interaction with Other Federal Student Aid*, by Adam Stoll and James B. Stedman; and CRS Report RL31129, *Higher Education Tax Credits and Deduction: An Overview of the Benefits and Their Relationship to Traditional Student Aid*, by Adam Stoll and Linda Levine.

⁴⁵ See, for example, Thomas R. Wolanin, *Rhetoric and Reality: Effects and Consequences of the HOPE Scholarship*, The Institute for Higher Education Policy, Apr. 2001.

⁴⁶ Various options for achieving such changes were proposed prior to the last reauthorization of the HEA. See, for example “Rethinking the Allocation of Pell Grants,” by David W. Breneman and Fred J. Galloway, in *Financing Postsecondary Education: The Federal Role*, Oct. 1995. See [<http://www.ed.gov/offices/OPE/PPI/FinPostSecEd/breneman.html>].

As has been described, under current law, the minimum Pell Grant annual award for any recipient is \$400. Any applicant eligible for a Pell Grant of at least \$200 but less than \$400 is awarded the \$400 minimum (this retention of grantees eligible for between \$200 and \$399 and the boost in their grants to \$400 is identified in this discussion as the minimum grant “bump”).

Overall, any increase in the minimum Pell Grant will reduce the number of recipients and program costs. The impact may actually be more significant with regard to recipients than to program costs. Based on the estimated consequences for program costs and recipients shown in **Table 10**, it appears that, without a very large increase in the minimum Pell Grant, what is gained financially by a greater targeting on low-income Pell recipients may not be enough to support a substantial increase in the appropriated maximum Pell Grant for remaining eligible students.

Table 10 shows estimates for the impact of three different increases in the minimum Pell Grant for award year 2003-2004 — \$400 (a “true” \$400 minimum without the \$200 bump), \$600, and \$800. For all of these estimates, the maximum appropriated Pell Grant was fixed at \$4,050, the level that applies to award year 2003-2004.

Table 10. Estimated Impact of Increasing the Minimum Pell Grant for Award Year 2003-2004

Minimum	Estimated decrease in recipients from current law	Estimated decrease in program costs from current law
\$400 (no bump)	77,000 (1.5% decrease)	\$26.2 million (0.2% decrease)
\$600	155,000 (3.0% decrease)	\$59.3 million (0.5% decrease)
\$800	245,000 (4.8% decrease)	\$111.6 million (0.9% decrease)

Source: Cost estimates based on ED’s Budget Service Pell Grant model.

These selected increases in the minimum annual Pell Grant have a greater impact in percentage terms on the number of recipients than on the total costs of the program. This general pattern is not surprising. An increase in the Pell Grant minimum affects those recipients with the smallest grants — only those recipients whose current Pell Grant falls below the new minimum lose eligibility, while those with larger grants are unaffected. Thus, for example, establishing a true \$400 minimum (no bump) decreases program costs by at most \$400 per recipient losing eligibility.⁴⁷ Raising the minimum grant by more substantial amounts will lead to proportionately greater reductions in program costs, although more recipients will be affected and will lose larger grants.

⁴⁷ Under a no-bump \$400 minimum, the actual decrease from current law may be less than \$400 for some current recipients losing eligibility. This may arise, in part, because Pell Grants must be paid out to recipients in installments over the academic year. As a consequence, a change in enrollment status may lead to receipt of total Pell Grant funding of less than \$400. For example, a student enrolled full-time for the fall semester and eligible for the minimum award of \$400, could receive an initial payment of \$200 for the first semester. If he or she did not enroll for the second semester, the second payment is not made and the total Pell aid received would be \$200.

Tuition Sensitivity

From its inception, the Pell Grant program has included provisions that could, under some circumstances, affect the size of a student's Pell Grant because of the tuition charges or COA at his or her institution. In practice, these provisions have worked to *reduce* the Pell Grant for students attending lower priced institutions. From 1972 until enactment of the Higher Education Amendments of 1992, the program capped the Pell Grant by providing that it could not exceed a specified percentage of a student's COA. Such provisions were initially adopted because the Members of Congress instrumental in designing the program had agreed that there should not be a "free ride" for students, and that the program should not favor lower priced public institutions over higher priced private ones as an uncapped grant was believed to do.⁴⁸ The program's current tuition sensitivity rule (described earlier) was adopted by the Higher Education Amendments of 1992, replacing a cap of 60% of COA.

The decision in 1992 to eliminate the cap and institute the tuition sensitivity provision appears to have been prompted by testimony that the cap served to reduce grants to students attending low-priced institutions, particularly community colleges, and resulted in the "neediest" students having to borrow to meet expenses at even the lowest priced institutions.⁴⁹ The tuition sensitivity rule was intended to protect a base amount of the Pell Grant maximum award and make a portion of increases above that base sensitive to tuition.

During the process of reauthorizing the HEA, the Congress may well debate the fate of the tuition sensitivity rule. At issue would be the impact of the current rule, and the consequences of eliminating it or modifying it. Ultimately, the overarching issue is whether and how the size of the Pell Grant should be linked to the charges faced by students.

As implemented by ED, tuition sensitivity reduces the Pell Grant received by a small number of the poorest students attending institutions with very low tuition charges. For FY2003 and FY2004, the only students whose Pell Grant may possibly be reduced under tuition sensitivity are those students whose tuition charges (and any allowances for dependent care or disability related expenses) are less than \$675; whose EFCs are 700 or less; and whose total COA is \$3,400 or higher.⁵⁰

⁴⁸ Lawrence E. Gladieux, and Thomas R. Wolanin, *Congress and the Colleges: The National Politics of Higher Education*, 1976, p. 102.

⁴⁹ U.S. Senate, Committee on Labor and Human Resources, *Reauthorizing the Higher Education Act of 1965*, report to accompany S. 1150, 102nd Cong., 2nd sess., Committee Rept. 102-204 (Washington GPO: 1991), p. 23.

⁵⁰ This last condition reflects that, under the three-pronged test for determining the Pell Grant (a student's Pell is the least of appropriated maximum Pell minus EFC, COA minus EFC, or tuition sensitivity), the grant may be determined by COA minus EFC. These conditions are delineated in the 2003-2004 Pell Grant payment and disbursement tables, which are available on the web at [<http://www.ifap.ed.gov/dpcletters/attachments/P0301A.pdf>].

The impact of the tuition sensitivity rule in FY2003 may be felt by an estimated 97,600 students whose Pell Grants are estimated to be reduced by an aggregate amount of slightly more than \$19.9 million. The estimated average loss in Pell assistance for affected students may be about \$204.

Clearly, there are myriad possible permutations on tuition sensitivity that the Congress may consider, not just whether to continue or eliminate the current rule. For example, the impact of the current rule could be lessened or eliminated by raising the award level which may trigger the rule (currently \$2,700) to be closer to present maximum award levels or in excess of those levels. The portion of the maximum award above the trigger level that is compared to tuition might be adjusted by tying a larger portion to tuition (making the grant more tuition sensitive) or a smaller portion to tuition (making the grant less tuition sensitive). Concern about the provision affecting the lowest income Pell recipients could be allayed by protecting certain students from the impact of the provision, such as those with a zero EFC.

Elimination of tuition sensitivity has been advocated by those who argue that the affected students are those most likely to be adversely influenced by any reduction of their federal grant aid; that, as the appropriated maximum award level increases, the provision's reach will go well beyond California community colleges where it is believed the impact is only being felt currently; that COA is so large at even institutions with the lowest tuition charges that elimination of the rule will not favor one sector over another; and that the savings being generated by its application are minimal. Some also might contend that significantly strengthening the linkage to tuition could increase the incentive for schools with low tuition to raise those tuition levels.

Efforts are also likely to be made to retain or modify the current rule. Arguments favoring retaining some degree of sensitivity in the size of the Pell Grant to students' charges generally focus on the prospect that such provisions can help to support choice by low-income students among higher- and lower-priced institutions. Further, price sensitivity in the grant may keep the grant from steering the lowest income students to the lowest priced institutions. Finally, advocates may posit that under some forms of tuition sensitivity financial resources will be freed up to enable increases in the appropriated maximum award without increases in the appropriation.

Academic Merit

The Pell Grant program does not currently have any eligibility requirement based on academic merit. In a period of increasing federal interest in improving student outcomes at all levels of education and holding recipients of federal funds accountable for academic improvement, the Congress may consider merit-based proposals for the Pell Grant program during the HEA reauthorization.

At present, students have to maintain satisfactory progress in order to continue to receive a Pell Grant. Satisfactory progress is defined by participating institutions and is often viewed as a minimal academic standard. Proposals to strengthen the academic standards supported by the program or introduce academic merit to the program may take the form of raising the academic performance requirements that students must meet in order to receive a Pell Grant after the initial year of eligibility;

providing additional Pell Grant assistance to students who demonstrate high levels of academic performance; precluding the use of Pell Grant funding to support any form of remedial education;⁵¹ or limiting the number of years in which Pell Grant assistance can be received to accelerate program completion.

Issues raised by such proposals include concern about their disproportionate impact on needy students who must rely on the Pell Grant to meet college costs. As a consequence, attention may be directed to the relationship between Pell-linked academic accountability, if any, and other accountability provisions that the Congress might consider for the HEA and the higher education community in general. Further, if the current program is retained but new funding is directed to needy students meeting academic merit requirements, concerns may be raised about the impact on funding for the basic Pell Grant.⁵²

crsphpqw

⁵¹ Currently, a student may receive federal financial assistance for up to a year's worth of remedial education. A student cannot receive aid if he or she is enrolled in a program composed solely of remedial work, or if the remedial course work is required for admission to an eligible program.

⁵² The Congress has chosen not to fund the Academic Achievement Incentive Scholarships, authorized by the Higher Education Amendments of 1998, which would have doubled the amount of Pell assistance provided to eligible incoming higher education students who graduated in the top 10% of their high school class.