



# Federal Pell Grant Program of the Higher Education Act: Background, Recent Changes, and Current Legislative Issues

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## Summary

The Federal Pell Grant program, authorized by Title IV of the Higher Education Act of 1965, as amended (HEA; P.L. 89-329), is the single largest source of federal grant aid supporting postsecondary education students. The program is estimated to have provided over \$33 billion to approximately 8.7 million undergraduate students in FY2010. For FY2011, the total maximum Pell Grant was funded at \$5,550. The program is funded primarily through annual appropriations, although mandatory appropriations play a smaller, yet increasing, role in the program.

Pell Grants are need-based aid that is intended to be the foundation for all federal student aid awarded to undergraduates. There is no absolute income threshold that determines who is eligible or ineligible for Pell Grants. Nevertheless, Pell Grant recipients are primarily low-income. In FY2008, an estimated 62% of Pell Grant recipients considered to be dependent upon their parents had a total family income at or below \$30,000. Of Pell Grant recipients considered to be independent of their parents, an estimated 83% had a total family income at or below \$30,000.

The Pell Grant program has garnered considerable attention over the past several years in Congress. Most recently, H.R. 1, the Full-Year Continuing Appropriations Act of 2011, as passed by the House of Representatives on February 19, 2011, provides for a reduction in the discretionary maximum award amount for the upcoming award year (AY) 2011-2012 of \$845, while maintaining the current FY2010 discretionary funding level of \$17.5 billion in FY2011. The program is currently operating under the funding provisions included in the current continuing resolution, known as the Continuing Appropriations and Surface Transportation Extensions Act of 2011 (P.L. 111-322), which is set to expire on March 4, 2011. In March 2010, the SAFRA Act, passed as part of the Health Care and Education Reconciliation Act of 2010 (HCERA; P.L. 111-152), established indefinite mandatory appropriations beginning in FY2010 to provide for increases to the maximum award amount funded with annual discretionary appropriations. The program also received substantial discretionary and mandatory supplemental funding through the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5). The statutory authority for the Pell Grant program was most recently reauthorized by the Higher Education Opportunity Act of 2008 (HEOA; P.L. 110-315).

The Pell Grant program recently experienced substantial increases in program costs—largely due to legislative changes that have led to increased benefits for more students, increases in the number of students enrolling in college and applying for Pell Grant aid, and a weakened economy. These factors, combined with inadequate discretionary and mandatory appropriations in some years, and catch-up appropriations in other years, led to funding shortfalls and surpluses in the program from FY2008 to FY2010.

Many of the issues concerning the Pell Grant program that confront Congress include potential challenges associated with funding the program, both in the short term and the long term. In the short-term, substantial discretionary appropriations may be required in FY2012 to ensure current award levels are maintained, leading to the program comprising an increasingly larger share of the discretionary funding allocated for programs that are funded in Labor, Health and Human Services (HHS), and Education appropriations. As a long-term strategy for funding the program, Congress could consider reclassifying the program as an entitlement, and thus providing only mandatory funding for the program each year. Such action would preclude annual funding shortfalls and surpluses in the program, but the initial costs of reclassification could be substantial under congressional budgetary rules. Congress could also consider ways to change the distribution of overall benefits by targeting aid to the most needy students or by revising the program's award rules and eligibility parameters.

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## Introduction

The Federal Pell Grant program, authorized by Title IV of the Higher Education Act of 1965, as amended (HEA; P.L. 89-329), is the single largest source of federal grant aid supporting postsecondary education students. The program is estimated to have provided over \$33 billion to approximately 8.7 million undergraduate students in fiscal year (FY) 2010.<sup>1</sup> Pell Grants are need-based aid that is intended to be the foundation for all federal student aid awarded to undergraduates. The U.S. Department of Education (ED) data suggest that in FY2009, Pell Grants constituted approximately 22% of all federally supported student aid—including grants, loans, and work opportunities—that benefit postsecondary education students at all levels.<sup>2</sup>

The Pell Grant program has garnered considerable attention over the past several years in Congress. Most recently, H.R. 1, the Full-Year Continuing Appropriations Act of 2011, as passed by the House of Representatives on February 19, 2011, provides for a reduction in the discretionary base maximum award of \$845, when compared to the amount included in the Continuing Appropriations and Surface Transportation Extensions Act of 2011 (P.L. 111-322), which is set to expire on March 4, 2011. H.R. 1 provides \$17.5 billion in discretionary funding for the program in FY2011, the same level as provided in FY2010.<sup>3</sup> In March 2010, the SAFRA Act, passed as part of the Health Care and Education Reconciliation Act of 2010 (HCERA; P.L. 111-152), established indefinite mandatory appropriations for the Pell Grant program and changed the method by which future additional mandatory Pell Grant award amounts are determined.<sup>4</sup> Additionally, the SAFRA Act provides \$13.5 billion in mandatory funds in FY2011 for use through the end of FY2012. Prior to the SAFRA Act, the program also received substantial discretionary and mandatory supplemental funding through the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5). The statutory authority for the Pell Grant program was most recently reauthorized by The Higher Education Opportunity Act of 2008 (HEOA; P.L. 110-315).

This report reviews how the program works and provides an analysis of recent program funding, recipients (numbers and characteristics), and the role the program plays in the distribution of federal student aid. In addition, this report highlights some of the current legislative issues pertaining to the program.

## How the Program Works

This section of the report 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, underlying concepts associated with the program, the award rules for determining students' grants, program funding, and the role played by postsecondary institutions in the program.

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<sup>1</sup> U.S. Department of Education, unpublished data.

<sup>2</sup> Percentage calculated by CRS from data presented in U.S. Department of Education, *Fiscal Year 2011 Budget Summary*, p. 50. Total federal aid excludes \$13 billion in consolidation loans under which borrowers consolidate prior loans and any federal tax benefits.

<sup>3</sup> For more detailed information on the FY2011 appropriations process, see p. 36 of this report.

<sup>4</sup> For more information on the SAFRA Act, see CRS Report R41127, *The SAFRA Act: Education Programs in the FY2010 Budget Reconciliation*, coordinated by Cassandra Dortch.

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 made available to ensure that all eligible students attending eligible institutions receive Pell Grants.<sup>5</sup> To apply for a Pell Grant, students must complete the Free Application for Federal Student Aid (FAFSA), providing requested financial and other information, and submit it to a “central processor” under contract with ED.<sup>6</sup> The central processor provides each applicant with a Student Aid Record (SAR) and provides 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 the student’s family toward postsecondary education expenses for the upcoming award year. (The EFC is described in detail below.)

Pell Grants are *portable*, that is, the grant aid follows students to the eligible postsecondary education institutions in which they enroll. Institutions that receive valid SARs or valid ISIRs for eligible Pell applicants are required to disburse Pell funds to students who successfully enroll in approved coursework. The size of the grant is based, principally, on the financial resources that students and their families are expected to contribute toward postsecondary education expenses, and the discretionary base maximum award amount<sup>7</sup> that is set in the annual appropriations process and any additional increases to the discretionary base maximum award funded with mandatory appropriations<sup>8</sup> specified for each year in the HEA.

## Student Eligibility

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

Among the requirements generally applicable to federal student aid, as of award year<sup>9</sup> (AY) 2010-2011, 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.<sup>10</sup> Absent such diploma or its equivalent, students must demonstrate an *ability to benefit* from postsecondary education by passing an examination approved by ED.

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<sup>5</sup> As noted below, if costs for the Pell Grant program exceed the prescribed appropriation level in any one year, additional funds can be allocated from the most recently enacted appropriation to pay for obligations incurred in previous award years. 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.

<sup>6</sup> There are several ways to complete and submit a FAFSA for consideration of federal student aid. For instance, students and families may use *FAFSA on the Web*, which is an interactive online process. Alternatively, they may obtain a paper FAFSA from their financial aid office or other locations and submit it to the address listed on the form.

<sup>7</sup> The discretionary base maximum award amount is discussed below.

<sup>8</sup> Annual increases to the discretionary base maximum award funded with mandatory appropriations are discussed below.

<sup>9</sup> The Pell Grant award year begins July 1 of each year and ends on June 30 of the subsequent year. For example, AY2010-2011 begins on July 1, 2010, and ends June 30, 2011.

<sup>10</sup> Students completing home schooling through the secondary level as recognized under state law are considered to be eligible and are allowed to self-certify on the FAFSA.

Students who successfully complete six credits or 225 clock hours of college work applicable to a certificate or degree offered by a postsecondary institution are also eligible.

- 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.
- Conviction for possession or sale of drugs while receiving federal student aid can disqualify students for federal student aid.<sup>11</sup>
- 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.<sup>12</sup>
- Males between 18 and 25 years of age must register with the selective service system in order to be eligible for federal student aid.
- Students with an intellectual disability are eligible to receive certain types of federal student aid.<sup>13</sup>

Specific eligibility requirements for the Pell Grant program include the following:

- Full-time and part-time<sup>14</sup> undergraduates<sup>15</sup> are eligible to receive Pell Grants.
- Effective for students who receive their first Pell Grant on or after July 1, 2008, cumulative Pell Grant eligibility is limited to 18 full-time semesters (or the equivalent).
- Students who are incarcerated in a federal or state penal institution are ineligible for Pell Grants.

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<sup>11</sup> Periods of ineligibility for federal student aid funds are based on whether the conviction was for the sale or possession of drugs and whether the student had previous offenses. A conviction for the sale of drugs includes convictions for conspiring to sell drugs.

<sup>12</sup> In general, students must be U.S. citizens or permanent U.S. residents. Individuals with several other entrance statuses can qualify for aid. Individuals in the United States on a temporary basis, such as those with a student visa or an exchange visitor visa, are not eligible for federal student aid.

<sup>13</sup> A student with an intellectual disability, as defined in the HEA, must be enrolled or accepted for enrollment in a comprehensive transition and postsecondary program for students with intellectual disabilities and must maintain satisfactory academic progress as determined by the school for this program. Students with an intellectual disability are only allowed to receive federal funds from the Pell Grant Program, Supplemental Educational Opportunity Grant (SEOG), and Work Study program.

<sup>14</sup> Students enrolled on a less-than-half-time basis are eligible.

<sup>15</sup> In general, a student must be enrolled in an undergraduate course of study to receive a Pell Grant. For Pell Grant eligibility purposes, a student who has received an associate degree, or any certificate or diploma below the baccalaureate level, and who enrolls in another undergraduate program continues to be considered an undergraduate student until the student completes the curriculum requirements for a first bachelor's degree. Students enrolled on at least a half-time basis in a post-baccalaureate program required by a state for K-12 teacher certification or licensure are also eligible, as long as the program does not lead to a graduate degree and the enrolling institution does not offer a baccalaureate degree in education.



- Students who are subject to an involuntary civil commitment following incarceration for a sexual offense (as determined under the FBI's Uniform Crime Reporting Program) are ineligible for Pell Grants.
- A student who qualifies for a Pell Grant is eligible to receive an automatic zero EFC if the student's parent or guardian was a member of the U.S. Armed Forces and died as result of performing military service in Iraq or Afghanistan after September 11, 2001, provided that the student was under 24 years old or was enrolled at an IHE at the time of the parent or guardian's death.<sup>16</sup>
- The program provides assistance only to financially needy students as determined under the program's award rules (see below).

## **Underlying Concepts and Award Rules**

An eligible student's annual Pell Grant award is determined on the basis of a set of award rules. In general, these award rules are designed to ensure that the neediest students (as determined by the EFC) receive the highest Pell Grant awards in each award year. Conversely, students with the lowest need (relative to the eligibility parameters of the program) receive the smallest Pell Grant awards in a given award year. Students who demonstrate a need that falls between these two extremes are awarded Pell Grant aid on a sliding scale. Additionally, Pell Grant awards are prorated for students who attend on a less-than-full-time basis. 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 of a financial aid package to which other assistance is added.

Over the last several years, some of the underlying concepts and award rules of the program have been revised or eliminated, leading to an inconsistency in their application across years. Some of these changes resulted from enacted legislation aimed at providing mandatory funding increases for the program under certain budget rules while at the same time targeting additional funds to the neediest students. Most recently, in March 2010, the SAFRA Act amended some of the award rules and underlying concepts for AY2010-2011 and all subsequent years.

Some of the underlying concepts associated with the Pell Grant program are discussed below and are key to understanding the application of the program's primary award rule, which is also examined in more detail below. Where appropriate, these concepts are explained for two specific time periods: (1) the period of time following enactment of the College Cost Reduction and Access Act of 2007 (CCRAA; P.L. 110-84) and before the enactment of the SAFRA Act in March 2010; and (2) the period of time subject to the provisions enacted in the SAFRA Act. Information related to the key concepts, award rules, or appropriation levels in effect prior to the enactment of the SAFRA Act that is not discussed in the body of this report is included in the **Appendix**.

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<sup>16</sup> For students who are not eligible for Pell Grants due to their EFC and who had a parent or guardian die as a result of military service in Iraq or Afghanistan after September 11, 2001, non-need-based grants called Iraq and Afghanistan Service Grants (IASG) are available. The amount of the IASG is the same as the Pell Grant the student would be eligible for if he had a zero EFC. IASG payments are adjusted like Pell Grants for students who are enrolled less than full time, but unlike Pell Grants, these non-need-based grants do not count as estimated financial assistance.

## **Underlying Concepts**

### *Authorized Maximum Award*

The authorized maximum award is the annual maximum Pell Grant specified for each award year in the HEA. The maximum award amount a student may receive, however, is effectively based on the total maximum award, which is the combination of the discretionary base maximum award amount established in the annual discretionary appropriations process and the annual increase to this amount funded with mandatory appropriations as specified in the HEA. The authorized maximum grant and total maximum grant have been equal in only three instances during the program's history (AY1975-1976, AY1976-1977, and AY1979-1980). In all other years, the total maximum award has been less than the authorized maximum award.

The authorized maximum Pell Grant award amounts specified in the HEA and established by the HEOA for AY2009-2010 through AY2014-2015 were eliminated under the SAFRA Act. The elimination of the authorized maximum award levels from the HEA will have no impact on the determination of maximum award levels in future years. The program remains authorized through FY2017 under section 401(a)(1) of the HEA.

### *Discretionary Base Maximum Award*

The discretionary base maximum award is the amount specified in annual appropriations bills. The annual appropriations bills determine the amount of discretionary funding available for the program and specify the base maximum award level for the corresponding award year.

### *Mandatory "Add-On" Award<sup>17</sup>*

Prior to the SAFRA Act, the CCRAA established mandatory add-on amounts to the base maximum Pell Grant award amounts for AY2008-2009 to AY2012-2013. In order to receive the add-on award under the provisions enacted in the CCRAA, a student must receive the qualifying minimum award,<sup>18</sup> which is defined as 5% of the discretionary base maximum award.<sup>19</sup>

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<sup>17</sup> Prior to the enactment of the SAFRA Act, the additional increase to the discretionary maximum grant in each year was commonly referred to as the "mandatory add-on" award since the increase specified in the HEA was added on to the discretionary base award for only those students who received a Pell Grant under the discretionary base award parameters. The SAFRA Act, as discussed below, changed the basis for awarding future Pell Grants; thus, the term "mandatory add-on" is used only when referencing increases to the discretionary base maximum award funded with mandatory appropriations prior to the SAFRA Act.

<sup>18</sup> The qualifying minimum award is discussed below.

<sup>19</sup> Congress created a more complicated system of awarding Pell Grants in the CCRAA with the purpose of targeting the add-on mandatory funds to the most needy students who would otherwise already qualify for a Pell Grant. By awarding the mandatory add-on amount only to students who qualify for the program based on a proportion of the discretionary base maximum amount instead of a proportion of the higher total maximum award amount, Congress restricted expansion of the program for students who have a slightly higher EFC and who would have otherwise qualified based on the higher total maximum amount.

### ***Increases to the Base Maximum Award Funded with Mandatory Appropriations***

The SAFRA Act eliminated the mandatory add-on amounts authorized by the CCRAA for AY2010-2011 through AY2012-2013 and replaced these amounts with specified annual increases to the discretionary base maximum award (funded with mandatory appropriations) through AY2012-2013 and statutorily defined formulas for determining the amounts for all future award years. Additionally, the SAFRA Act eliminated the requirement that a student receive the qualifying minimum award in order to receive the additional aid amount funded with mandatory appropriations. Beginning in AY2010-2011, students qualify for a Pell Grant based on a proportion of the total maximum Pell Grant award.

For AY2010-2011 through AY2012-2013, increases to the discretionary base maximum award funded with mandatory appropriations will be \$690 in each year.

For AY2013-2014 only, the increase to the discretionary base maximum award funded with mandatory appropriations will be determined according to a formula that is dependent upon the amount of the discretionary base maximum award amount for AY2012-2013. If the AY2012-2013 discretionary base maximum award amount is less than or equal to \$4,860, then the maximum grant increase funded with mandatory appropriations for AY2013-2014 will be determined by multiplying \$5,550 by the rate of change in the Consumer Price Index for All Urban Consumers (CPI-U) over the period from December 2011 to December 2012, and then subtracting \$4,860 from this amount.

If in AY2012-2013 the discretionary base maximum award amount is greater than \$4,860, then the maximum grant increase funded with mandatory appropriations for AY2013-2014 will be determined by adding \$690 to the discretionary base maximum award in AY2012-2013 and multiplying this amount by the rate of change in the CPI-U over the period from December 2011 to December 2012, and then subtracting from this amount the discretionary base maximum award amount for AY2012-2013.

**Figure 1** provides a mathematical expression and example of how this formula would work in AY2013-2014.

**Figure I. Calculating the Pell Grant Maximum Award Increase Funded with Mandatory Appropriations in The SAFRA Act for AY2013-2014 (FY2013)**

**Expressed As:**

IF  $DB_{AY1213} \leq \$4,860$ , THEN:

$$MI_{AY1314} = (\$5,550 \times (1 + \Delta CPI-U_{CY2012})) - \$4,860$$

IF  $DB_{AY1213} > \$4,860$ , THEN:

$$MI_{AY1314} = ((DB_{AY1213} + \$690) \times (1 + \Delta CPI-U_{CY2012})) - DB_{AY1213}$$

WHERE

$DB_{AY1213}$  = Discretionary base maximum award in AY2012-2013 (FY2012);

$MI_{AY1314}$  = Increase to discretionary base maximum award funded with mandatory appropriations for AY2013-2014 (FY2013), rounded to nearest \$5 increment; and

$\Delta CPI-U_{CY2012}$  = Change (increase or decrease) in Consumer Price Index for All Urban Consumers (CPI-U) from December 2011 to December 2012.

**Example:**

For example, consider what the increase to the discretionary base maximum award funded with mandatory appropriations would be in AY2013-2014 if (1) the discretionary base maximum amount is \$4,500 in AY2012-2013, and (2) the change in the CPI-U from calendar year December 2011 to December 2012 is measured at -2%. This would be determined as follows:

$$MI_{AY1314} = \$5,550 \times (1 + -.02) - \$4,860$$

$$MI_{AY1314} = (\$5,550 \times .98) - \$4,860$$

$$MI_{AY1314} = \$5,439 - \$4,860$$

$$MI_{AY1314} = \$579$$

$MI_{AY1314}$  = Round \$579 to nearest \$5 increment

$$MI_{AY1314} = \$580$$

**Source:** CRS analysis of P.L. 111-152.

For AY2014-2015 through AY2017-2018, increases to the discretionary base maximum award funded with mandatory appropriations in each year will be determined according to a formula that is dependent upon (1) the previous year's total maximum award, (2) the previous year's discretionary base maximum award, and (3) the change in the CPI-U as measured from the most recently completed calendar year before the start of each award year.

If in any year during this period the previous year's discretionary base maximum award is less than or equal to \$4,860, then the maximum grant increase to the discretionary base maximum

award amount is determined by multiplying the previous year’s total maximum award amount by the rate of change in the CPI-U as measured from the most recently completed calendar year before the start of each applicable award year, and then subtracting \$4,860 from this amount.

If in any year during this period the previous year’s discretionary base maximum award exceeds \$4,860, then the maximum grant increase to the discretionary base maximum award amount is determined by multiplying the previous year’s total maximum award amount by the rate of change in the CPI-U as measured from the most recently completed calendar year before the start of each applicable award year and then subtracting from this amount the previous year’s discretionary base maximum award amount.

Figure 2 provides a mathematical expression and example of how this formula would work in AY2013-2014 through AY2017-2018.

**Figure 2. Calculating the Pell Grant Maximum Award Increase Funded with Mandatory Appropriations in The SAFRA Act for AY2014-2015 (FY2014) Through AY2017-2018 (FY2017)**

**Expressed As:**

IF  $DB_{AY(n-1)} \leq \$4,860$ , THEN:

$$MI_{AY(n)} = (TM_{PAY(n-1)} \times (1 + \Delta CPI-U_{CY(n-1)})) - \$4,860$$

IF  $DB_{AY(n-1)} > \$4,860$ , THEN:

$$MI_{AY(n)} = (TM_{PAY(n-1)} \times (1 + \Delta CPI-U_{CY(n-1)})) - DB_{AY(n-1)}$$

WHERE

$DB_{AY(n-1)}$  = Discretionary base maximum award for previous award year (n-1);

$MI_{AY(n)}$  = Increase to discretionary base maximum award funded with mandatory appropriations for the current award year (n), rounded to the nearest \$5 increment;

$TM_{PAY(n-1)}$  = Total maximum Pell Grant award for previous award year (n-1); and

$\Delta CPI-U_{CY(n-1)}$  = Change (increase or decrease) in CPI-U from most recently completed calendar year prior to start of current award year (n-1).

**Example:**

For example, consider what the increase to the discretionary base maximum award funded with mandatory appropriations would be in AY2016-2017 if (1) the discretionary base maximum amount is \$4,900 in AY2015-2016; (2) the calculated increase to the base discretionary maximum award funded with mandatory appropriations is \$850 in AY2015-2016; and (3) the change in the CPI-U from calendar year December 2014 to December 2015 is measured at 1%. This would be determined as follows:

$$MI_{AY1617} = (\$4,900 + \$850) \times (1 + .01) - \$4,900$$

$$MI_{AY1617} = (\$5,750 \times 1.01) - \$4,900$$

$$MI_{AY1617} = \$5,807.5 - \$4,900$$

$$MI_{AY1617} = \$907.5$$

$$MI_{AY1617} = \text{Round } \$907.5 \text{ to nearest } \$5 \text{ increment}$$

$$MI_{AY1617} = \mathbf{\$910}$$

Source: CRS analysis of P.L. 111-152.

For AY2018-2019 and all subsequent award years, the additional mandatory Pell Grant award amount will be the same amount as determined for AY2017-2018 by the formula described above in **Figure 2**.

**Table 1** below illustrates how the total maximum Pell Grant amount will be determined in AY2010-2011 and beyond under the provisions in the SAFRA Act. Since the increases to the discretionary base maximum award funded with mandatory appropriations will be primarily determined beginning in AY2013-2014 by two factors that are not known at the present time—the annual discretionary base maximum award and the annual change in the CPI-U—future total maximum award levels are not listed below for AY2012-2013<sup>20</sup> and beyond.

**Table 1. Total Maximum Pell Grant Amounts Under the SAFRA Act, FY2010 and Subsequent Years**

Fiscal Year	Award Year	Discretionary Base Maximum Award		Increase to Discretionary Base Maximum Award Funded with Mandatory Appropriations		Total Maximum Award
2010	2010-2011	\$4,860 <sup>a</sup>	+	\$690	=	\$5,550
2011	2011-2012	\$4,860 <sup>b</sup>	+	\$690	=	\$5,550
2012	2012-2013	TBD	+	\$690	=	TBD
2013	2013-2014	TBD	+	See formula in <b>Figure 1</b>	=	TBD
2014	2014-2015	TBD	+	See formula in <b>Figure 2</b>	=	TBD
2015	2015-2016	TBD	+	See formula in <b>Figure 2</b>	=	TBD

<sup>20</sup> The discretionary base maximum award for AY2012-2013 has not been determined.

Fiscal Year	Award Year	Discretionary Base Maximum Award		Increase to Discretionary Base Maximum Award Funded with Mandatory Appropriations		Total Maximum Award
2016	2016-2017	TBD	+	See formula in <b>Figure 2</b>	=	TBD
2017	2017-2018	TBD	+	See formula in <b>Figure 2</b>	=	TBD
2018 and subsequent years	2018-2019 and beyond	TBD	+	Same as the amount determined for AY2017-2018 under formula described in <b>Figure 2</b>	=	TBD

**Source:** CRS analysis of P.L. 111-152.

**Note:** TBD = To be determined.

- a. The discretionary base maximum award was specified as \$4,860 in the Consolidated Appropriations Act of FY2010 (P.L. 111-117).
- b. The discretionary base maximum award was specified as \$4,860 in the Continuing Appropriations and Surface Transportation Extensions Act of 2011 (CASTEA; P.L. 111-322). This amount, however, is subject to change after the expiration of CASTEA on March 4, 2011.

### *Qualifying Minimum Award*

The qualifying minimum Pell Grant award is the minimum amount of Pell aid on which qualification for the program is based. Prior to the enactment of the SAFRA Act, the qualifying minimum award amount was equal to 5% of the discretionary base maximum award. For example, in AY2009-2010, the qualifying minimum award is \$243 (i.e., 5% of \$4,860).

The SAFRA Act revised the basis for determining the qualifying minimum award. Effective AY2010-2011 and for all future award years, the qualifying minimum award will equal 5% of the total maximum award. For example, in AY2010-2011 the qualifying minimum award is \$277, or approximately 5% of \$5,550.

### *“Bump” Award*

The so-called bump award is an additional statutory increase to the qualifying minimum Pell Grant award, ensuring that students who are eligible for the qualifying minimum award receive a small increase in Pell aid.<sup>21</sup> Prior to the enactment of the SAFRA Act, the bump award was equal to 5% of the discretionary base maximum award. The SAFRA Act revised the basis for calculating the bump award. Effective AY2010-2011 and all future years, the bump award will be equal to 5% of the total maximum award. For example, in AY2010-2011 the bump award is \$277, or approximately 5% of \$5,550.

<sup>21</sup> In effect, the increase to the qualifying minimum award serves to ensure that the program will not disburse grants in such small amounts that they would not be a meaningful contribution to supporting students’ educational pursuits.

### *Effective Minimum Award*

The effective minimum award is the minimum amount of Pell Grant aid available to a student in any given year as determined by law. The effective minimum award for AY2010-2011 and all subsequent years is the same for all eligible students, regardless of enrollment status. Prior to the enactment of the SAFRA Act, the effective minimum award varied by enrollment status and included the qualifying minimum award based on the discretionary base maximum award, the bump award, and a percentage of the mandatory add-on award.<sup>22</sup> As discussed above, the SAFRA Act revised the annual increases to the discretionary base maximum award funded with mandatory appropriations, and consequently, the basis for calculating the qualifying minimum award. The effective minimum award for AY2010-2011 and all future years will be equal to 10% of the total maximum award amount.<sup>23</sup> The effective minimum award for AY2010-2011 is 10% of \$5,550, or \$555.

**Table 2. Pell Grant Award Amounts, AY 1973-1974 and Subsequent Years**

<b>Award Year (AY)</b>	<b>Authorized Maximum Award (\$)</b>	<b>Discretionary Base Maximum Award (\$)</b>	<b>Mandatory Add- On or Increase to Discretionary Base Maximum Award Funded with Mandatory Appropriations (\$)</b>	<b>Total Maximum Award (\$)</b>	<b>Effective Minimum Award (\$)</b>
1973-1974	1,400	452	N/A	452	50
1974-1975	1,400	1,050	N/A	1,050	50
1975-1976	1,400	1,400	N/A	1,400	200
1976-1977	1,400	1,400	N/A	1,400	200
1977-1978	1,800	1,400	N/A	1,400	200
1978-1979	1,800	1,600	N/A	1,600	50
1979-1980	1,800	1,800	N/A	1,800	200
1980-1981	1,800	1,750	N/A	1,750	150
1981-1982	1,900	1,670	N/A	1,670	120
1982-1983	2,100	1,800	N/A	1,800	50
1983-1984	2,300	1,800	N/A	1,800	200
1984-1985	2,500	1,900	N/A	1,900	200
1985-1986	2,600	2,100	N/A	2,100	200
1986-1987	2,600	2,100	N/A	2,100	100
1987-1988	2,300	2,100	N/A	2,100	200

<sup>22</sup> By definition, the effective minimum award for the program would apply to students enrolled on a less-than-half-time basis. Prior to the SAFRA Act, the amount of the mandatory add-on award was determined in proportion to a student's enrollment status, which would have affected the effective minimum award a student would receive.

<sup>23</sup> On April 8, 2010, ED issued revised *AY2010-11 Federal Pell Grant Payment and Disbursement Schedules* to reflect the provisions included in the SAFRA Act.



Award Year (AY)	Authorized Maximum Award (\$)	Discretionary Base Maximum Award (\$)	Mandatory Add-On or Increase to Discretionary Base Maximum Award Funded with Mandatory Appropriations (\$)	Total Maximum Award (\$)	Effective Minimum Award (\$)
1988-1989	2,500	2,200	N/A	2,200	200
1989-1990	2,700	2,300	N/A	2,300	200
1990-1991	2,900	2,300	N/A	2,300	100
1991-1992	3,100	2,400	N/A	2,400	200
1992-1993	3,100	2,400	N/A	2,400	200
1993-1994	3,700	2,300	N/A	2,300	400
1994-1995	3,900	2,300	N/A	2,300	400
1995-1996	4,100	2,340	N/A	2,340	400
1996-1997	4,300	2,470	N/A	2,470	400
1997-1998	4,500	2,700	N/A	2,700	400
1998-1999	4,500	3,000	N/A	3,000	400
1999-2000	4,500	3,125	N/A	3,125	400
2000-2001	4,800	3,300	N/A	3,300	400
2001-2002	5,100	3,750	N/A	3,750	400
2002-2003	5,400	4,000	N/A	4,000	400
2003-2004	5,800	4,050	N/A	4,050	400
2004-2005	5,800 <sup>a</sup>	4,050	N/A	4,050	400
2005-2006	5,800	4,050	N/A	4,050	400
2006-2007	5,800	4,050	N/A	4,050	400
2007-2008	5,800	4,310	N/A	4,310	400
2008-2009	5,800	4,241	490	4,731	523
2009-2010	6,000	4,860	490	5,350	609
2010-2011	None Specified	4,860	690	5,550	555
2011-2012	None Specified	4,860	690	5,550	555
2012-2013	None Specified	TBD	690	TBD	TBD
2013-2014	None Specified	TBD	TBD	TBD	TBD
2014-2015	None Specified	TBD	TBD	TBD	TBD
2015-2016	None Specified	TBD	TBD	TBD	TBD
2016-2017	None Specified	TBD	TBD	TBD	TBD
2017-2018	None Specified	TBD	TBD	TBD	TBD
2018-2019 (and beyond)	None Specified	TBD	Same amount as in AY2017-2018	TBD	TBD

Sources: U.S. Department of Education, AY2008-09 Pell Grant End-of-Year Report and the HEA.

**Notes:** TBD = To be determined; N/A = not applicable.

- a. Prior to the reauthorization of the HEA by the HEOA in 2008, Congress passed measures to extend the HEA allowing for the continuation of the Pell Grant program. The last authorized maximum award specified in law prior to the HEOA was \$5,800 for AY2003-2004; therefore, the authorized maximum award is listed as \$5,800 from AY2004-2005 through AY2008-2009 in this table.

## Primary Award Rule

The primary Pell Grant award rule, as revised by the SAFRA Act, is that a student's annual grant is the *least* of (1) the total maximum Pell Grant minus the student's EFC, or (2) Cost of Attendance (COA) minus EFC,<sup>24</sup> and is ratably reduced for a student who enrolls on a less-than-full-time basis. Most students are awarded Pell Grant aid based on the first condition of this rule (i.e., Pell Grant Award = Total Maximum Pell Grant – EFC), since the total maximum Pell Grant award available to a student in an award year is typically less than the attending institution's COA.

Prior to the enactment of the SAFRA Act, a student's Pell Grant award was determined by taking the *least* of (1) the *discretionary base maximum Pell Grant* award minus the student's EFC, or (2) COA minus EFC. Next, this award amount was ratably reduced if a student enrolled on a less-than-full-time basis. Finally, the mandatory "add-on" award, as prescribed in the HEA and also ratably reduced for a student enrolled on a less-than-full-time basis, was added to the student's award.

Some of the concepts that are specifically related to the primary award rule are discussed in detail below.

## Expected Family Contribution (EFC)

The EFC is the amount that, according to the federal need analysis methodology, can be expected to be contributed by a student and the student's 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).<sup>25</sup> The EFC determination utilizes financial information submitted by the aid applicant on the FAFSA.

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<sup>24</sup> 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 the COA after taking the EFC into account.

<sup>25</sup> 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 of age by December 31 of the award year; is married; has dependents other than a spouse; is a veteran of the U.S. Armed Forces or currently serving on active duty in the military; is a graduate or professional student; is an orphan, in foster care, or a ward of the state (anytime since the age of 13); is an emancipated minor as determined by a court; is an unaccompanied youth in a homeless shelter; or is deemed independent by a financial aid officer for "other unusual circumstances."

### Automatic Zero EFC

Students who apply for federal student aid and meet certain qualifications automatically receive a zero EFC.<sup>26</sup> A student with a zero EFC would receive the total maximum Pell Grant award *if* enrolled full-time at an institution where the COA is equal to or exceeds the total maximum Pell Grant award. The percentage of eligible Pell Grant students who automatically qualify for a zero EFC increased markedly in AY2009-2010 due to the combination of changes in the qualification criteria for a zero EFC and weaker economic conditions.<sup>27</sup> **Table 3** shows the percentage of eligible<sup>28</sup> Pell Grant students by dependency status with a zero EFC (both calculated and automatic combined) and the percentage of eligible Pell Grant students with an automatic zero EFC in AY2007-2008 through AY2010-2011. The percentage of eligible dependent Pell Grant students with an automatic zero EFC increased from 39% in AY2008-2009 to 53% in AY2009-2010. Furthermore, the percentage of all eligible Pell students with a zero EFC, whether calculated or automatic, increased from 59% in AY2008-2009 to 69% in AY2009-2010. Preliminary data for AY2010-2011 show small decreases in the share of eligible students with a zero EFC when compared to AY2009-2010.

**Table 3. Percentage of Eligible Pell Grant Students with a Zero EFC and Automatic Zero EFC by Dependency Status, AY2007-2008 to AY2010-2011**

Dependency Status	Automatic Zero EFC Only				All Zero EFC (calculated and automatic)			
	Award Year (AY)				Award Year (AY)			
	AY 2007-08	AY 2008-09	AY 2009-10	AY 2010-11 <sup>a</sup>	AY 2007-08	AY 2008-09	AY 2009-10	AY 2010-11 <sup>a</sup>
Eligible <sup>b</sup> Dependent Students	38%	39%	53%	47%	48%	50%	59%	54%
Eligible Independent Students <sup>c</sup>	38%	39%	49%	45%	64%	64%	74%	74%
All Eligible Pell Students <sup>c</sup>	38%	39%	50%	45%	58%	59%	69%	67%

**Source:** CRS analysis of data provided by the U.S. Department of Education.

- a. The percentages for AY2010-2011 are based on partially completed data through 52 of 87 weeks of FAFSA processing and are subject to change.

<sup>26</sup> Dependent students and independent students with dependents other than a spouse can qualify for an automatic zero EFC. In general, these students must have received means-tested benefits from other federal programs or have been eligible to file or have filed certain federal income tax returns, or have been a dislocated worker. In addition, parents or students must have family income levels at or below certain income thresholds. For AY2010-2011, this income threshold is \$30,000. In addition, children of deceased Iraq/Afghanistan service members also qualify for an automatic zero EFC. One of the benefits of qualifying for an automatic zero EFC is that it greatly reduces the response burden associated with completing financial aid forms.

<sup>27</sup> For example, HERA expanded eligibility for the automatic zero EFC by changing the income basis for qualification from the Earned Income Credit (EIC) amount determined annually by the Internal Revenue Service (IRS) to \$20,000 beginning in AY2006-2007. The CCRAA further expanded eligibility by increasing the income basis to \$30,000 beginning in AY2009-2010 and indexing the future amounts to the Consumer Price Index (CPI). Additionally, HERA, CCRAA, and the HEOA further expanded eligibility for the automatic zero EFC by allowing individuals who meet other criteria to receive an automatic zero EFC.

<sup>28</sup> An eligible student is defined here as a student who is eligible to receive the qualifying minimum Pell Grant award (or larger award amount) in each award year, as determined by the student's EFC.

- b. An eligible student is defined in this table as a student who is eligible to receive the qualifying minimum Pell Grant award (or a larger amount) in each award year.
- c. Totals used to calculate percentages for eligible independent students include independent students without dependents other than a spouse, who are not eligible to receive an automatic zero EFC.

### ***Maximum EFC for Pell Grant Eligibility***

The maximum EFC for Pell Grant eligibility is equivalent to 95% of the total maximum Pell Grant award specified in any award year beginning in AY2010-2011. Prior to the SAFRA Act, the maximum EFC for Pell Grant eligibility was equivalent to 95% of the discretionary base maximum award. To qualify for a \$243 minimum award in AY2009-2010, a student must have an EFC of \$4,617 or less. In AY2010-2011, the maximum EFC for Pell Grant eligibility is 95% of \$5,550, or \$5,273. A student with an EFC of \$5,273 would receive the effective minimum award of \$555. A student with an EFC of \$5,274 or higher would not be eligible for a Pell Grant in AY2010-2011. In effect, the SAFRA Act expanded the qualification parameters for the program, ensuring that students with a higher EFC receive the qualifying minimum award.

### ***Cost of Attendance (COA)***

The cost of attendance (COA) is a measure of a student's educational expenses for the period of enrollment. In general, it is the sum of (1) tuition and fees; (2) an allowance for books, supplies, transportation, and miscellaneous personal expenses; (3) an allowance for room and board;<sup>29</sup> and (4) for a student with dependents, an allowance for costs expected to be incurred for dependent care. For determining a student's Pell Grant award, the cost of attendance amount is based on the full-year costs for a full-year student and must be prorated for students who attend on a less-than-full-time basis. Additionally, for the purpose of determining a student's Pell Grant award, institutions may use average costs for students at their school, rather than calculating actual expenses for each student.<sup>30</sup>

### ***Year-Round Pell***

Eligible students may receive so-called "year-round" Pell Grants, or up to two scheduled<sup>31</sup> awards in a single award year. For example, a second scheduled Pell Grant award may support a summer term in addition to the regular academic year. To qualify, students must be enrolled on at least a half-time basis in a program of study longer than one academic year in length and have received 100% of the first scheduled award during the academic year.<sup>32</sup>

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<sup>29</sup> The cost of attendance includes an allowance to cover the basic expenses incurred for board only for students living in housing provided on a military base or for which a basic living allowance is provided.

<sup>30</sup> Average COA amounts must be based on the same category of students. For example, institutions cannot combine COA amounts for separate enrollment statuses and award aid to a student on the basis of this average.

<sup>31</sup> A scheduled award is defined as the maximum Pell aid a full-time student may receive for an award year based on the Pell Grant Payment and Disbursement Schedules issued by ED.

<sup>32</sup> The rules and regulations pertaining to year-round Pell Grants are viewed by some as complex due to the treatment of enrollment and payment periods within different academic years. For more information on receiving two scheduled Pell Grant awards in a single award year, refer to <http://ifap.ed.gov/fsahandbook/attachments/0910FSAHbkVol3Master.pdf>, p. 3-44. Also, ED issued final regulations on year-round Pell Grants on October 29, 2009, that can be accessed online at <http://edocket.access.gpo.gov/2009/pdf/E9-25373.pdf>.

## Institutional Role

To be eligible for the HEA Title IV programs, including the Pell Grant program, an IHE must be a public or private nonprofit IHE, a proprietary postsecondary institution, or a postsecondary vocational institution. Among other requirements, it must be legally authorized by its state to provide a postsecondary education, 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 that 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 (FFEL) program<sup>33</sup> or William D. Ford Direct Loan (DL) 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's role in the Pell Grant program primarily involves determining student eligibility, disbursing awards, adjusting awards to ensure students do not receive more assistance than they are eligible for, record keeping, and reporting to ED.<sup>34</sup>

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 recipient.

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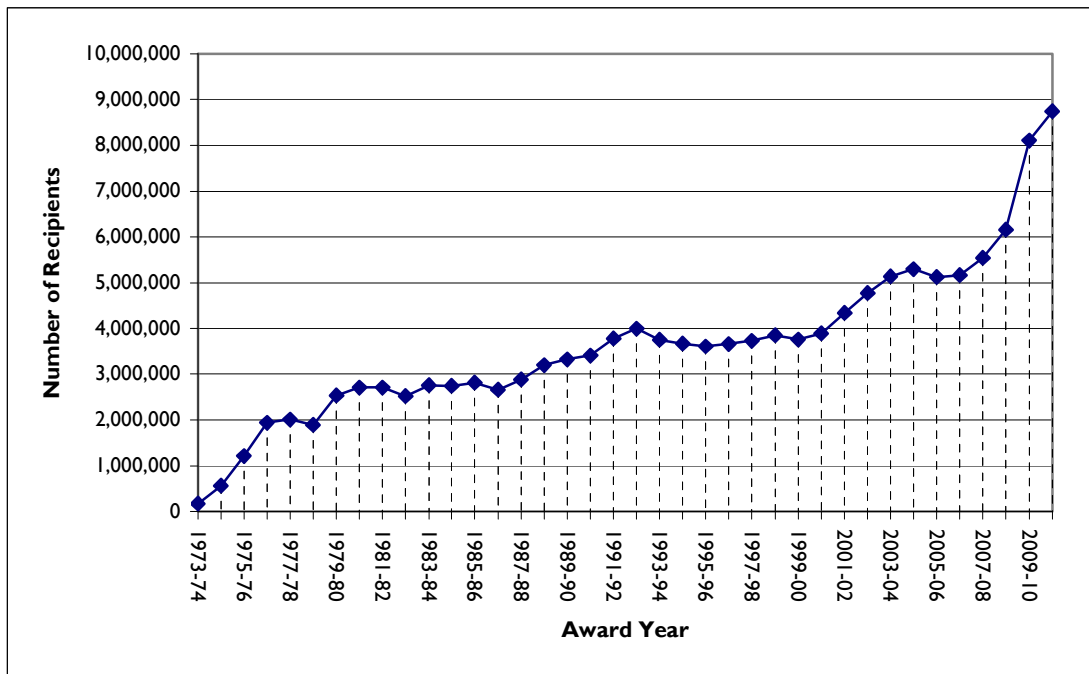
<sup>33</sup> The SAFRA Act amended the HEA to terminate the authority for new loans to be made or insured under the FFEL program after June 30, 2010. Beginning with AY2010-2011, all new Subsidized and Unsubsidized Stafford Loans, PLUS Loans, and Consolidation Loans will be made under the William D. Ford Federal Direct Loan program.

<sup>34</sup> Much of the information in this section is based on the U.S. Department of Education's *Federal Student Aid Handbook* for 2009-2010, available at <http://ifap.ed.gov/ifap/byAwardYear.jsp?type=fsahandbook&awardyear=2009-2010>.

## Characteristics of Recipients

The Pell Grant program reaches a significant portion of undergraduates each year. In AY2007-2008, 27% of all undergraduates were estimated to have received Pell Grants.<sup>35</sup> During the program's first year in AY1973-1974, approximately 176,000 students received a Pell Grant award.<sup>36</sup> Since then, the annual number of Pell Grant recipients has risen substantially. Based on data provided by ED, the number of Pell Grant recipients reached 8,105,000 in AY2009-2010 and is estimated to grow an additional 640,000 in AY2010-2011 to 8,745,000.<sup>37</sup> **Figure 3** illustrates the changes in the number of Pell Grant recipients from AY1973-1974 to AY2010-2011. It is important to note that myriad factors<sup>38</sup> can affect the number of Pell Grant recipients in any given award year.

**Figure 3. Pell Grant Recipients, AY1973-1974 to AY2010-2011**



**Source:** U.S. Department of Education, *AY2008-09 Pell Grant End-of-Year Report* (for AY1973-1974 through AY2007-2008).

**Notes:** Data for AY2009-2010 and AY2010-2011 are estimates provided by the U.S. Department of Education and are subject to change.

<sup>35</sup> CRS analysis of AY2007-2008 NPSAS data. A CRS analysis of AY2003-2004 NPSAS data shows that the percentage of all undergraduates estimated to have received Pell Grants in AY2003-2004 was also 27%.

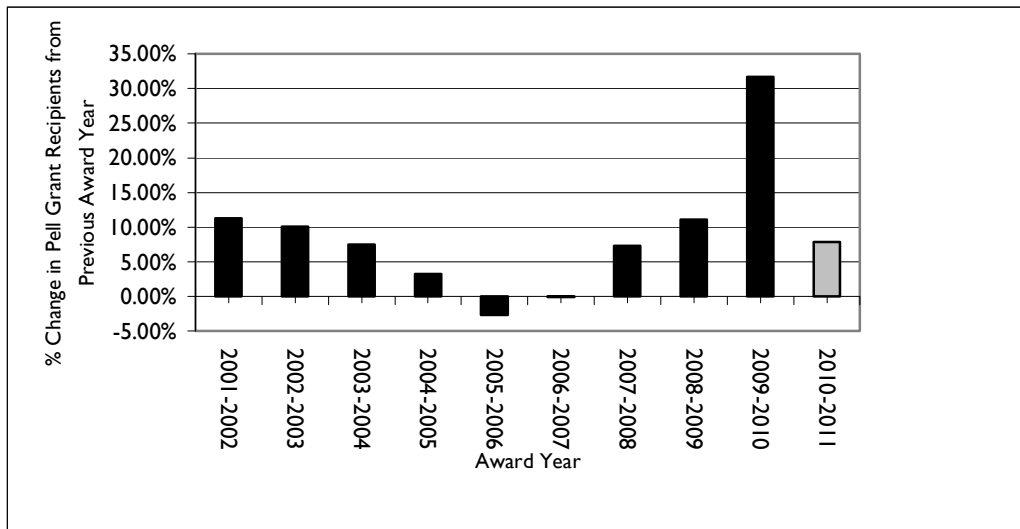
<sup>36</sup> U.S. Department of Education, *AY2008-09 Pell Grant End of Year Report*, Table 1.

<sup>37</sup> U.S. Department of Education, unpublished data provided to CRS.

<sup>38</sup> Such factors include, but are not limited to, (1) amendments to the HEA that affect the federal need analysis calculation and Pell Grant award rules; (2) changes in the maximum grant level specified in annual appropriations bills; (3) trends in enrollment at postsecondary institutions; and (4) macroeconomic and microeconomic variables.

**Figure 4** shows the annual percentage change in Pell Grant recipients over the past 10 years. From AY2001-2002 to AY2010-2011, the average annual percentage change in Pell Grant recipients was 8.75%. During AY2005-2006 and AY2006-2007, the number of Pell Grant recipients decreased by 2.65% and .06%, respectively. Pell Grant recipients increased by 32% in AY2009-2010 and are estimated to increase by 8% in AY2010-2011.<sup>39</sup>

**Figure 4. Percentage Change in Pell Grant Recipients, AY2001-2002 to AY2010-2011**



**Source:** U.S. Department of Education (ED), *AY 2008-09 Pell Grant End-of-Year Report*, Table I, and unpublished data provided by ED.

**Notes:** Data for AY2010-2011 are estimates and subject to change.

## Income

There is no absolute income threshold that determines who is eligible or ineligible for a Pell Grant award. Nevertheless, Pell Grant recipients are primarily low-income. In FY2008 (AY2008-2009), an estimated 62% of dependent Pell Grant recipients had a total family income<sup>40</sup> at or below \$30,000. Independent Pell Grant recipients' income is generally lower than their dependent counterparts. In FY2008, an estimated 83% of independent Pell Grant recipients had a total income at or below \$30,000.<sup>41</sup>

It is important to note, however, that a small percentage of Pell Grant awards go to mid- and high-income families. For the most part, these awards are smaller than the average Pell Grant award

<sup>39</sup> Recipient data for AY2009-2010 and AY2010-2011 are estimates and subject to change. Data provided by the U.S. Department of Education.

<sup>40</sup> Total family income is defined here as the adjusted gross income (if a tax filer), any taxable income (if not a tax filer), and any non-taxable income.

<sup>41</sup> Data in this paragraph taken from Tables 2-B, 2-C, and 2-D from the *AY 2008-09 Pell Grant End-of-Year Report*.

for all students and are typically provided to dependent students from families who have multiple students enrolled in postsecondary education at the same time.<sup>42</sup>

## Participation Rate

Although the primary purpose of the program is to aid needy undergraduate students, a significant amount of low-income undergraduate students who enroll in postsecondary education do not receive a Pell Grant, primarily because they did not apply for federal financial aid.<sup>43</sup> **Table 4**, which presents a CRS analysis of data from the National Postsecondary Student Aid Study (NPSAS), shows the percentage of dependent and independent undergraduates from different income levels who were Pell recipients in AY2007-2008. Two participation rates are provided for each income level and dependency status; 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 a Pell Grant.

With regard to the lowest income categories, estimates presented in **Table 4** suggest that approximately 63.2% of all dependent undergraduates from families with total family income of less than \$10,000 were Pell recipients, and 81.5% of the aid applicants from that income category were Pell recipients. Approximately 53.3% of all independent undergraduates with total income of less than \$5,000 were Pell recipients, and about 79.3% of the aid applicants in that category received a Pell Grant. **Table 4** shows that, in general, as income rose, participation rates in the Pell program dropped for dependent and independent students.

**Table 4. Estimated Pell Grant Participation by Dependency and Total Family Income, AY2007-2008**

Total Family Income	Estimated Percentage Receiving Pell Grants <sup>a</sup>	
	All Students	All Federal Aid Applicants
<b>Dependent Undergraduates<sup>b</sup></b>		
Less than \$10,000	63.2	81.5
\$10,000-\$19,999	72.7	87.4
\$20,000-\$29,999	64.9	80.6
\$30,000-\$39,999	53.5	70.8
\$40,000-\$49,999	32	49.5
\$50,000-\$59,999	15.4	25.3
\$60,000 or more	2.3	4.2

<sup>42</sup> According to Table 2-A of the *AY 2008-09 Pell Grant End-of-Year Report*, approximately 67,593 Pell Grant recipients, or 1.1% of the total recipient population, had a family income above \$60,000.

<sup>43</sup> Furthermore, some students who apply and qualify for Pell Grant aid do not enroll in postsecondary institutions. Some have labeled this measure as a “show-up” rate. According to data provided in Table 1 of the *AY 2008-09 Pell Grant End-of-Year Report*, approximately 74% of Pell Grant applicants who applied and qualified for Pell Grant aid based on their EFC level in AY2008-2009 actually enrolled and received a Pell Grant.



Total Family Income	Estimated Percentage Receiving Pell Grants <sup>a</sup>	
	All Students	All Federal Aid Applicants
<b>Independent Undergraduates<sup>c</sup></b>		
Less than \$5,000	53.3	79.3
\$5,000-\$9,999	65.5	85.2
\$10,000-\$19,999	52.3	74.1
\$20,000-\$29,999	34.8	54.2
\$30,000-\$49,999	28.2	55.5
\$50,000 or more	0.23	0.85

**Source:** CRS estimates from 2007-2008 NPSAS.

**Note: How to read Table 4:** The first row shows that 63.2% of all dependent undergraduate students with a total family income of less than \$10,000 received a Pell Grant in AY2007-2008, whereas 81.5% of dependent undergraduate students with a total family income of less than \$10,000 who applied for Federal Student Aid received a Pell Grant in AY2007-2008.

- a. Includes students enrolled at any intensity.
- b. Includes income of dependent student and parents.
- c. Includes income of independent student and spouse.

It is noteworthy that a significant number of low-income undergraduate students did not receive a Pell Grant in AY2007-2008. Based on data presented in **Table 4**, it appears that a large portion of low-income undergraduate students did not apply for federal student aid.<sup>44</sup> The percentage of dependent undergraduates from the lowest income category who received a Pell Grant is markedly higher when aid application is taken into account, 81.5% versus 63.2%. A similar increase in participation characterized the lowest-income independent undergraduates when aid application is considered—from 53.3% to 79.3%. 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 sufficient resources to meet their costs. At least some of those who believed they were ineligible for aid may have actually been eligible. Among other possible explanations are that very low-income students in particular find the federal financial aid application process too complex to pursue, or that such students may not be aware of the availability of federal student aid. Additionally, aid outreach efforts at low-cost institutions may be less vigorous. It is also important to note that current operational data for award years 2008-2009, 2009-2010, and 2010-2011 suggest increases in the number of students who applied for federal financial aid across all income categories.

<sup>44</sup> The ability to speak with confidence about the income levels of students who did not file a FAFSA is adversely affected by certain data quality issues. For non-aid filers, income information is derived from surveys of students and from imputation.

## Enrollment Status

Pell recipients, regardless of dependency status, are more likely to be exclusively full-time students than are undergraduates as a whole and far less likely to be enrolled exclusively part-time. **Table 5**, based on a CRS analysis of NPSAS data, shows the distribution of dependent and independent undergraduates in general and Pell recipients in particular by enrollment status.

**Table 5. Estimated Distribution of Undergraduates and Pell Grant Recipients by Enrollment Status, AY2007-2008**

Enrollment Status	All Students	Pell Recipients
<b>Dependent Undergraduates</b>		
Exclusively full-time	62.1%	68.8%
Exclusively part-time	18.7%	10.5%
Mixed (status changed during enrollment period)	19.2%	20.7%
Total	100%	100%
<b>Independent Undergraduates</b>		
Exclusively full-time	31.5%	49.9%
Exclusively part-time	54.1%	28.4%
Mixed (status changed during enrollment period)	14.4%	21.7%
Total	100%	100%

**Source:** CRS estimates from 2007-2008 NPSAS.

**Notes:** Due to rounding, sum of column entries may not equal column totals.

**How to read Table 5:** The first row shows that 62.1% of dependent undergraduate students were enrolled exclusively full-time, whereas 68.8% of dependent undergraduate Pell Grant recipients were enrolled exclusively full-time. The first row under the sub-heading titled "Independent Undergraduates" shows that 31.5% of independent undergraduate students were enrolled exclusively full-time, whereas 49.9% of independent undergraduate Pell Grant recipients were enrolled exclusively full-time.

## 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 6** shows the distribution of dependent and independent undergraduates and Pell Grant recipients by type and control of the institutions they attended.

**Table 6. Estimated Distribution of Undergraduates and Pell Grant Recipients by Type and Control of Enrolling Institution, AY2007-2008**

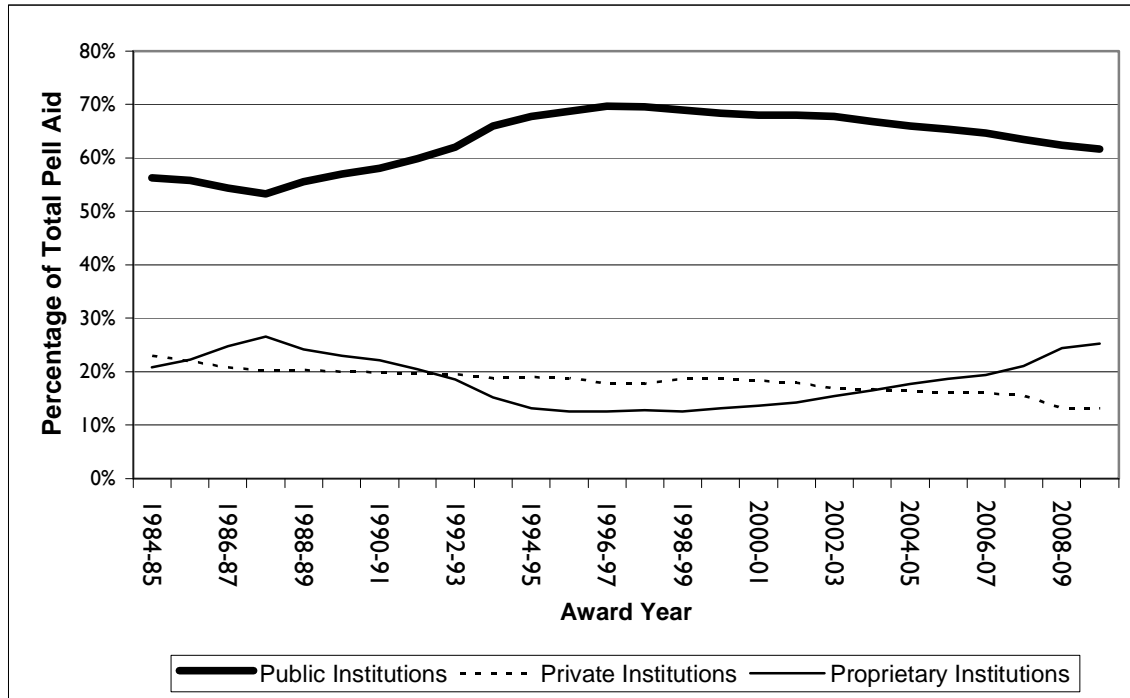
Type and Control of Institution	% of Total Dependent Undergraduates Enrolled	% of Dependent Pell Grant Recipients	% of Total Independent Undergraduates Enrolled	% of Independent Pell Grant Recipients
Public Four-Year	38.1	37.8	19.2	19.3
Private Four-Year	16.3	15.3	9.3	9.9
Public Two-Year	32.3	27.8	48.6	32.9
Proprietary	4	9.6	14.6	28.7
More than one institution during enrollment period	9.2	9.5	8.3	9.2
Total	100	100	100	100

**Source:** CRS estimates from 2007-2008 NPSAS.

**Note:** Due to rounding, sum of column entries may not equal column totals.

Recently, there has been a renewed focus on the distribution of Pell Grant aid by type of institution. While proprietary institutions have consistently increased their share of Pell Grant aid since the beginning of the last decade, public institutions continue to be the largest beneficiary of Pell Grant aid. **Figure 5** illustrates, however, that the total share of Pell Grant aid at public institutions declined from 68% in AY2002-2003 to 62% in AY2009-2010. Total Pell Grant aid during this same period increased by approximately \$16.7 billion, from \$11.7 billion to \$28.4 billion.

**Figure 5. Percentage of Total Pell Grant Aid Received by Type of Institution, AY1984-1985 to AY2009-2010**



**Sources:** Compiled by CRS from data published by The U.S. Department of Education (ED) in the *End-of-Year Reports for the Title IV/Pell Grant Program* for each applicable award year. AY2009-2010 data were provided by ED and are unpublished.

Additionally, **Figure 5** shows that proprietary institutions received approximately 25% of the total Pell aid in AY2009-2010 compared to 15.4% in AY2002-2003. Despite this large increase, proprietary institutions received a larger share of Pell aid in the late 1980s, receiving nearly 27% of all Pell aid in AY1987-1988. It is important to note that requirements for institutions to participate in the Pell Grant program have varied over the time period highlighted in this figure. Changes to institutional eligibility requirements, either through legislation or regulatory guidance, may have increased or limited the number of participating institutions from year to year, or disproportionately affected certain types of institutions.

## Role of the Pell Grant

The Pell Grant is intended to function as the foundation aid for needy undergraduates; all other need-based federal student aid is to build on the Pell Grant.<sup>45</sup> 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

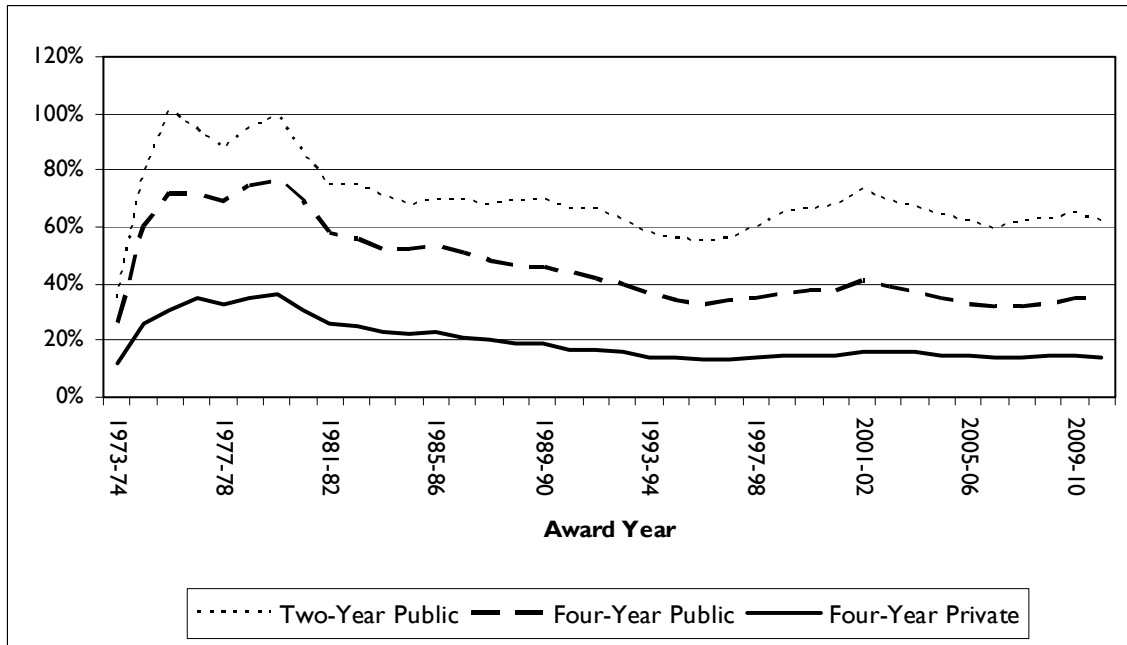
<sup>45</sup> Eligibility for the Pell Grant program and annual Pell Grant level maximum award levels is also used for determining eligibility or award levels in other federal programs. For example, a student must receive a Pell Grant in order to receive aid under the Academic Competitiveness Grant (ACG) Program. Also, individuals can receive a national service educational award under the Serve America Act that is equal to the annual Pell Grant maximum award.

question by analyzing the purchasing power of the Pell Grant and the distribution of other federal aid to Pell recipients.

## Purchasing Power

The total maximum Pell Grant, available to students with a zero EFC who enroll on a full-time basis, is often used as a gauge of the Pell Grant program’s level of support in each year. In AY2010-2011, the total maximum grant (\$5,550) is expected to cover approximately 62% of the average tuition, fees, room, and board at public two-year institutions, 34% at public four-year institutions, and 14% at private four-year institutions. **Figure 6** compares the total maximum grant to average undergraduate tuition, fees, room, and board charges at public two-year, public four-year, and private four-year institutions between AY1973-1974 and AY2010-2011. It is evident that the maximum was at its peak relative to these average charges during the 1970s.

**Figure 6. Percentage of Tuition, Fees, Room, and Board Covered by the Total Maximum Pell Grant, by Institution Type and Control: AY1973-1974 to AY2010-2011**



**Sources:** CRS calculations using data from National Center for Education Statistics (NCES), *2009 Digest of Education Statistics*, Table 334; and The College Board, *Trends in College Prices, 2009*.

**Notes:** The purchasing power of the Pell Grant through AY1992-1993 was constrained by a statutory cap on the percentage of cost of attendance (COA) that a Pell Grant could cover. From AY1973-1974 to AY1984-1985, the cap was 50%; from AY1985-1986 to AY1992-1993, the cap was 60%. After that time there has been no absolute limit on the percentage of COA that can be covered.

From the mid-1980s through the early 1990s, the total 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 estimated percentages for AY2010-2011 remain below the AY1985-1986 percentages (54% for public four-year colleges and 23% for private four-year colleges).

Another approach to measuring the purchasing power of the maximum Pell Grant is to compare its coverage of *only* the average tuition and fees published by IHEs.<sup>46</sup> For example, in AY2009-2010, the maximum Pell Grant covered approximately 79% of the average published in-state tuition and fees at four-year public institutions. At two-year public institutions, where students often commute to classes, the maximum Pell Grant in AY2009-2010 exceeded the average published tuition and fees at these institutions (\$5,550 compared to \$2,544). At for-profit institutions, where tuition and fees are typically higher, the maximum Pell Grant covered only 39% of the average published tuition and fees in AY2009-2010. Finally, at four-year private (not-for-profit) institutions, the maximum Pell Grant covered only 21% of the average published tuition and fees in AY2009-2010.<sup>47</sup>

It is also important to note that in all sectors of higher education, published tuition, fees, and room and board have consistently risen more rapidly than average prices in the economy for a number of years.<sup>48</sup> An analysis of the purchasing power of the Pell Grant maximum award as a percentage of the COA or tuition and fees only, therefore, could also include an examination of why published prices at institutions of higher education have risen at such a rapid rate.<sup>49</sup> Some economists and public policy analysts believe the Pell Grant program, while immensely popular and successful in providing access to postsecondary education for many low-income undergraduate students over the years, has not adequately served the goal of making college more affordable. Rather, some believe there is a connection between increased federal student aid in general and the rate of increase in tuition and fees at institutions of higher education.<sup>50</sup> Others have concerns about the role of the Pell Grant in the process known as tuition discounting. For instance, do increases in the Pell Grant maximum award lead to reductions in tuition discounts offered by IHEs to lower-income Pell Grant recipients, ultimately resulting in a displacement of aid to middle- and high-income students?

## 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 HEA<sup>51</sup> were Pell recipients.

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<sup>46</sup> Some analysts believe the purchasing power of the maximum Pell Grant could be measured by its coverage of tuition and fees only because students can choose to live off campus and some living expenses, which are included as part of the student's COA, will be incurred by the student whether or not the student chooses to attend a postsecondary institution.

<sup>47</sup> The Pell Grant maximum award's coverage of average published tuition and fees for different types of institutions in AY2009-2010 was calculated by CRS using 2009 College Board data available at <http://www.collegeboard.com/press/releases/208962.html>.

<sup>48</sup> Increases in published tuition and fees do not necessarily correspond to increases in the amounts students pay, which are dependent on myriad factors including tuition reductions/discounting and the amount of grant and scholarship aid they receive from all sources (College Board, *Trends in College Pricing, 2009*, [http://www.trends-collegeboard.com/college\\_pricing/1\\_4\\_over\\_time\\_constant\\_dollars.html](http://www.trends-collegeboard.com/college_pricing/1_4_over_time_constant_dollars.html)).

<sup>49</sup> The economics of tuition and fees in higher education is complex and beyond the scope of this report.

<sup>50</sup> A frequently cited study of longitudinal data released in 2005 by economists at the University of Oregon suggested there is little evidence that increases in Pell Grants are positively linked to increases for in-state tuition at public universities. The study did conclude, however, that increases in Pell Grants appear to be matched nearly one for one by increases in list (and net) tuition at private universities and for out-of-state tuition charges at public universities. See [http://www.uoregon.edu/~lsingell/Pell\\_Bennett.pdf](http://www.uoregon.edu/~lsingell/Pell_Bennett.pdf). Overall, research on the correlation between the increase in federal student aid and the rate of increase in tuition and fees at institutions of higher education is generally viewed as inconclusive.

<sup>51</sup> Federal need-based student aid from the HEA is defined here as Pell Grants, Academic Competitiveness Grants (continued...)

AY2007-2008 NPSAS data suggest that Pell Grants alone may not have constituted the primary foundation for these students. In AY2007-2008, approximately 58% of undergraduate federal need-based aid recipients received Pell Grants, whereas a slightly higher portion (67%) of undergraduate need-based aid recipients borrowed Stafford Subsidized Loans.<sup>52</sup>

Another approach to delineating the role of Pell Grants is to explore the extent to which Pell recipients, as a group, relied solely on the grant to meet college costs without having to secure other federal aid, particularly loans with their repayment obligation. In AY2007-2008, only 12.9% of Pell recipients relied on a Pell Grant as their only source of aid and many participated in other federal student aid programs, sometimes at a high rate. Among the other types of federal need-based student aid available to students, Pell recipients were most likely to also borrow Subsidized Stafford Loans (over 59.6% of Pell recipients received these loans—with an average amount of \$3,366).

**Table 7** shows the average percentage of Pell Grant recipients’ cost of attendance covered by their Pell Grant award, their loans from the Federal Family Education Loan (FFEL) program and William D. Ford Federal Direct Loan (DL) program, and their total aid package in AY2007-2008, by total family income. This table allows one to examine the extent to which Pell Grants and other aid received helped Pell Grant recipients meet their cost of attendance. **Table 7** shows, for example, that among all Pell Grant recipients, aid from FFEL and DL loans covered, on average, 25.2% of the cost of attendance for these recipients—which is higher than the average coverage by Pell Grant aid alone.<sup>53</sup> In addition, **Table 7** illustrates that, in general, as family income for Pell Grant recipients increases, so does the percentage of COA covered by FFEL and DL loans.

**Table 7. Pell Grant Aid, FFEL and DL Federal Loans, and Total Aid as Average Percentages of Cost of Attendance for Undergraduate Students Who Received a Pell Grant, by Total Family Income**  
(AY2007-2008)

	Pell Grant Aid as a Percentage of COA	FFEL and DL Loans <sup>a</sup> as a Percentage of COA	Total Aid <sup>b</sup> as a Percentage of COA
All Pell Grant Recipients	19.0%	25.2%	60.2%
<b>Total Family Income (Dependent)<sup>c</sup></b>			
Less than \$20,000	26.8%	17.6%	63.9%
\$20,000 to \$29,000	23.6%	21.0%	66.7%
\$30,000 to \$49,000	15.3%	22.9%	63.0%

(...continued)

(ACG), Science and Mathematics Access to Retain Talent (SMART) Grants, Federal Supplemental Educational Opportunity Grants (FSEOG), Federal Perkins Loans, Federal Work-Study earnings, and Stafford Subsidized Loans.

<sup>52</sup> Further, approximately 47% of federal need-based aid recipients secured Stafford Unsubsidized Loans. For more information on Stafford Unsubsidized Loans, see CRS Report R40122, *Federal Student Loans Made Under the Federal Family Education Loan Program and the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*, by David P. Smole.

<sup>53</sup> When one controls for only Pell Grant recipients who benefited from a FFEL or DL loan, the average coverage increases to 40.4%.

	Pell Grant Aid as a Percentage of COA	FFEL and DL Loans <sup>a</sup> as a Percentage of COA	Total Aid <sup>b</sup> as a Percentage of COA
\$50,000 or more	8.7%	27.1%	63.2%
<b>Total Family Income (Independent)<sup>d</sup></b>			
Less than \$20,000	20.2%	28.8%	59.3%
\$20,000 to \$29,000	20.7%	25.5%	55.0%
\$30,000 to \$49,000	13.8%	28.7%	51.7%
\$50,000 or more	N/A	N/A	N/A

**Source:** CRS estimates from 2007-2008 NPSAS.

**Notes:** N/A=Reporting standards not met in NPSAS for accurate analysis.

- a. This column also includes Pell Grant recipients who may not have benefited from any FFEL and DL program loans in the 2007-2008 academic year. FFEL or DL loans are defined as Stafford loans, PLUS loans, or both.
- b. Total aid includes all federal, state, institutional, and private financial aid received by the student in the form of grants, loans, work-study assistance, or other types of aid.
- c. Includes income of dependent student and parents.
- d. Includes income of independent student and spouse.

The overall price of education has an impact on the extent to which Pell Grant recipients secure Stafford Loans. For Pell Grant recipients attending public two-year institutions, where the average cost of attendance is typically lower than at public four-year institutions, and particularly lower than at private four-year institutions, the propensity for borrowing was much less than for Pell Grant recipients as a whole. For AY2007-2008, 26% of Pell Grant recipients at public two-year institutions borrowed Subsidized Stafford Loans, and 12% borrowed Unsubsidized Stafford Loans.<sup>54</sup> For Pell Grant recipients attending for-profit institutions, which include less-than-two-year, two-year, and four-year institutions, the propensity to borrow was much higher. For AY2007, 92% of Pell Grant recipients borrowed Stafford Subsidized Loans at for-profit institutions, and 83% borrowed Unsubsidized Stafford Loans.

## Program Funding

This section reviews the latest program funding trends, explores the concept of discretionary funding shortfalls in the program, and provides a historic look at previous funding surpluses and shortfalls. Additionally, this section provides insight into how funding shortfalls in the program have been addressed in the past and explores the potential implications of the SAFRA Act on the estimated FY2010 funding shortfall.

<sup>54</sup> To some extent, the lower rate of Stafford borrowing at public two-year institutions may be due to the requirement that students be enrolled at least half-time to borrow Stafford loans since a higher percentage of students enrolled in two-year IHEs are part-time students than students enrolled in public and private four-year IHEs.



## **Role of Discretionary Funding**

Annual discretionary appropriation bills provide the largest portion of funding for the Pell Grant program, and this funding typically remains available for use for two fiscal years. An annual appropriation is usually 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.<sup>55</sup> Thus, while FY2010 funds are provided with the purpose of supporting awards made from July 1, 2010, to June 30, 2011, these funds are available for obligation from October 1, 2009, to September 30, 2011, and may support multiple award years. As mentioned earlier, annual discretionary appropriation bills also establish the base discretionary maximum grant for each applicable award year.

## **Increasing Role of Mandatory Funding**

The CCRAA, the ARRA, the Technical Amendments to the HEA of 2009 (P.L. 111-39), and, most recently, the SAFRA Act amended the HEA to provide mandatory funding for the Pell Grant program. These additional mandatory appropriations were provided to primarily fund annual increases to the discretionary base maximum award amounts. Prior to the CCRAA, mandatory funding had been provided for the Pell Grant program in previous years, but usually for a specific purpose (e.g., to supplement discretionary funding to pay for accumulated funding shortfalls) other than increasing the maximum grant award amount.<sup>56</sup>

From a budgetary perspective, the recent increases in mandatory appropriations for the program have been offset largely by enacted provisions that have resulted in estimated savings from the federal loan programs, which are classified as mandatory programs. Most recently, the SAFRA Act amended the HEA to terminate the authority for new loans to be made or insured under the FFEL program after June 30, 2010. Part of the estimated savings from this change in the federal loan programs was used to provide \$13.5 billion in mandatory appropriations for general use in the program from FY2011 through the end of FY2012.

The SAFRA Act also established indefinite mandatory appropriations for the program to provide for increases to the discretionary base maximum award amount in FY2010 and beyond. Under this category of funding, the amount of mandatory appropriations provided for the program for each year is not specified and will equal the amount necessary to fully fund the increase in each year. Prior to the SAFRA Act, mandatory appropriation amounts were specified from FY2008 to FY2017 under the CCRAA to fund mandatory add-on amounts in each year. In addition, a requirement for the Secretary of Education to reduce or increase the add-on amounts for any year the appropriated amount was insufficient or exceeded the expected cost of the add-on amount was also included in the CCRAA. This requirement was included to ensure that the costs associated with the mandatory add-on would align with the appropriated amounts in the HEA.<sup>57</sup> The SAFRA

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<sup>55</sup> The annual appropriation for the Pell Grant program is available immediately upon enactment at any point on or after October 1. In the event the annual appropriation is not enacted at the beginning of the fiscal year, a continuing resolution typically provides prorated funding for the program until an appropriation measure is enacted.

<sup>56</sup> For example, mandatory funding in the amount of \$4.3 billion was provided in P.L. 109-49 to pay exclusively for the accumulated funding shortfall through AY2005-2006.

<sup>57</sup> Several issues surfaced regarding this requirement, including the ability and timing of ED to accurately measure such insufficiency or surplus of funds given the operational and administrative requirements under other provisions in the HEA.

Act eliminated the specific mandatory appropriation amounts for FY2010 and all subsequent years, but the requirement for the Secretary to adjust the increases funded with mandatory appropriations each year remains in the HEA.<sup>58</sup>

## Summary of Recent Funding (FY2008-FY2018)

As the federal government’s single largest source of grant aid for postsecondary education, the Pell Grant program has garnered considerable attention over the past several years in Congress, resulting in significant increases in both discretionary and mandatory funding. An appropriate timeline for summarizing recent funding increases could commence with FY2008, since it marks the first year in which significant mandatory funding was provided for the program under the CCRAA.<sup>59</sup> **Table 8** summarizes the history of discretionary and mandatory appropriations for the Pell Grant program from FY2008 to FY2018. It is important to note that some of the advance mandatory appropriations provided in previous measures were subsequently rescinded in the SAFRA Act.<sup>60</sup> The data in **Table 8** are divided into two categories: (1) discretionary appropriations; and (2) mandatory appropriations (inclusive of any rescissions to prior advance appropriations) effective upon the enactment of the SAFRA Act.

**Table 8. Pell Grant Appropriations, FY2008 to FY2018**  
(dollars in millions)

<b>Discretionary Appropriations</b>				
<b>Fiscal Year</b>	<b>Award Year</b>	<b>Annual Appropriations(\$M)</b>	<b>ARRA Funding (\$M)</b>	<b>Total Discretionary Funding (\$M)</b>
2008	AY2008-2009	\$14,215	—	\$14,215
2009	AY2009-2010	\$17,288	\$15,640	\$32,928
2010	AY2010-2011	\$17,495	—	\$17,495
2011	AY2011-2012	\$23,162	—	\$23,162
<b>Total Discretionary Appropriations (FY2008 to FY2011)</b>		<b>\$72,160</b>	<b>\$15,640</b>	<b>\$87,800</b>

<sup>58</sup> Although the SAFRA Act did not eliminate this requirement, it remains effective only for AY2008-2009 and AY2009-2010 because specific appropriation amounts remain in the HEA for FY2008 and FY2009 to fund the add-on awards associated with these years. Beginning with FY2010, “such sums as necessary” to fund the increases to the discretionary base award are provided and the requirement would not apply. A reduction or increase in the mandatory add-on award for AY2008-2009 or AY2009-2010 is unlikely since most awards have already been disbursed for these years. It is possible that beginning in FY2010, ED could use the mandatory funds provided as “such sums” to fund add-on awards from prior years.

<sup>59</sup> **Table 9** in this report provides a more comprehensive history of the discretionary funding levels in the program since FY1973.

<sup>60</sup> See **Table A-3** for a history of mandatory appropriations before the enactment of the SAFRA Act.

Mandatory Appropriations (Post-SAFRA Act)					
Fiscal Year	Award Year	CCRAA Funding (\$M)	ARRA Funding (\$M)	SAFRA Act (\$M)	Total Mandatory Appropriations(\$M)
2008	AY2008-2009	\$2,041 <sup>a</sup>	—	—	\$2,041
2009	AY2009-2010	\$2,090	\$643	—	\$2,733
2010	AY2010-2011	—	—	\$4,988 <sup>b</sup>	\$4,988
2011	AY2011-2012	—	—	\$18,188 <sup>c</sup>	\$18,188
2012	AY2012-2013	—	—	Such Sums <sup>d</sup>	Such Sums
2013	AY2013-2014	—	—	Such Sums	Such Sums
2014	AY2014-2015	—	—	Such Sums	Such Sums
2015	AY2015-2016	—	—	Such Sums	Such Sums
2016	AY2016-2017	—	—	Such Sums	Such Sums
2017	AY2017-2018	—	—	Such Sums	Such Sums
2018	AY2018-2019	—	—	Such Sums	Such Sums
<b>Total Mandatory Appropriations (FY2008 to FY2018)</b>		<b>\$4,131</b>	<b>\$643</b>	<b>\$23,176 + Such Sums</b>	<b>\$27,950 + Such Sums</b>

**Sources:** CRS analysis of the HEA, the SAFRA Act, respective annual appropriations measures, and unpublished information from the U.S. Department of Education.

- Includes \$11 million for the elimination of the tuition sensitivity rule in AY2007-2008.
- This amount is an estimate as of December 2010 and represents the total appropriations required to increase the discretionary maximum award of \$4,860 by \$690 to \$5,550 in AY2010-2011. This amount also includes \$472 million required to fund the mandatory add-on of \$490 in AY2009-2010. Estimate is subject to change.
- Includes \$13.5 billion in mandatory appropriations for general use in the program for FY2011 through the end of FY2012, as provided in the SAFRA Act. The remaining \$4.7 billion is an estimate of the amount of appropriations required to increase the discretionary base maximum grant by \$690 in AY2011-2012 and is subject to change.
- “Such Sums” means the amount of mandatory appropriations that may be necessary to fully fund the increase to the discretionary base maximum award at levels specified in the HEA for a given year.

## Discretionary Funding Shortfalls and Surpluses

The annual discretionary appropriation level and base maximum Pell Grant level are determined well in advance of the award year they are intended to support and are based on estimates of program costs at that time. The annual appropriation is determined on the basis of estimates of the program costs that are likely to be incurred at the chosen discretionary base maximum grant. To the extent those estimates of future program costs are inaccurate, the annual appropriation may be too much or too little. The HEA requires the Secretary of Education, when he has determined that the appropriated funds are insufficient to satisfy all Pell entitlements,<sup>61</sup> to notify each chamber of

<sup>61</sup> The authorizing statute speaks of *entitlements* when it describes the award determined for a student based on the published award schedule.

Congress of the funding shortfall, identifying how much more funding is needed to meet those entitlements.

**Table 9** provides a history of annual discretionary appropriations, estimated expenditures, and estimated annual shortfall or surplus levels from FY1973 to FY2011. Beginning with FY1990, the estimated cumulative funding shortfall or surplus is also provided. The annual funding shortfall or surplus differs from the cumulative shortfall or surplus, which may accumulate over multiple award years.<sup>62</sup> It is also important to note that Congress may have provided a reduced appropriation level in a given year when a funding surplus was available for use from the previous year. Conversely, Congress may have provided additional appropriations in a given year to pay for an estimated funding shortfall from the previous year.

**Table 9. Annual and Cumulative Discretionary Funding Shortfalls in the Pell Grant Program, FY1973-FY2011**

(dollars in millions)

Fiscal Year	Award Year	Discretionary Appropriation Level	Estimated Total Expenditures <sup>a</sup>	Annual Surplus or (Shortfall) <sup>b</sup>	Cumulative Surplus or (Shortfall)
1973	1973-1974	\$122	\$48	\$74	N/A
1974	1974-1975	\$475	\$358	\$117	N/A
1975	1975-1976	\$840	\$926	(\$86)	N/A
1976	1976-1977	\$1,326	\$1,475	(\$149)	N/A
1977	1977-1978	\$1,904	\$1,524	\$380	N/A
1978	1978-1979	\$2,160	\$1,541	\$619	N/A
1979	1979-1980	\$2,431	\$2,357	\$74	N/A
1980	1980-1981	\$2,157	\$2,387	(\$230)	N/A
1981	1981-1982	\$2,604	\$2,300	\$304	N/A
1982	1982-1983	\$2,419	\$2,421	(\$2)	N/A
1983	1983-1984	\$2,419	\$2,797	(\$378)	N/A
1984	1984-1985	\$2,800	\$3,053	(\$253)	N/A
1985	1985-1986	\$3,862	\$3,597	\$265	N/A
1986	1986-1987	\$3,580	\$3,460	\$120	N/A
1987	1987-1988	\$4,187	\$3,754	\$433	N/A
1988	1988-1989	\$4,260	\$4,476	(\$216)	N/A
1989	1989-1990	\$4,484	\$4,770	(\$75)	—
1990	1990-1991	\$4,804	\$4,904	(\$231)	(\$306)
1991	1991-1992	\$5,376	\$5,772	(\$396)	(\$702)

<sup>62</sup> In general, the annual surplus or shortfall is a measure of the difference between one year's appropriation, which is typically provided for a particular award year, and the estimated expenditures for that particular award year. The cumulative surplus is a measure that, in addition to including the annual surplus or shortfall, takes into account the prior year's surplus or shortfall amount.

Fiscal Year	Award Year	Discretionary Appropriation Level	Estimated Total Expenditures <sup>a</sup>	Annual Surplus or (Shortfall) <sup>b</sup>	Cumulative Surplus or (Shortfall)
1992	1992-1993	\$5,503	\$6,156	\$18	(\$684)
1993	1993-1994	\$6,462	\$5,621	\$460	(\$224)
1994	1994-1995	\$6,637	\$5,504	\$808	\$584
1995	1995-1996	\$6,147	\$5,466	\$716	\$1,300
1996	1996-1997	\$4,914	\$5,784	(\$870)	\$429
1997	1997-1998	\$5,919	\$6,315	(\$396)	\$33
1998	1998-1999	\$7,345	\$7,236	\$109	\$142
1999	1999-2000	\$7,704	\$7,233	\$471	\$613
2000	2000-2001	\$7,640	\$7,996	(\$356)	\$256
2001	2001-2002	\$8,756	\$9,985	(\$1,229)	(\$908)
2002	2002-2003	\$11,314 <sup>c</sup>	\$11,653	(\$339)	(\$1,247)
2003	2003-2004	\$11,365	\$12,713	(\$1,348)	(\$2,595)
2004	2004-2005	\$12,007	\$13,152	(\$1,145)	(\$3,740)
2005	2005-2006	\$12,365	\$12,695	(\$330)	(\$4,070) <sup>d</sup>
2006	2006-2007	\$17,345 <sup>e</sup>	\$12,826	\$219	\$219
2007	2007-2008	\$13,661	\$14,704	(\$1,043)	(\$824)
2008	2008-2009	\$14,215	\$16,062	(\$1,847)	(\$2,671)
2009	2009-2010	\$32,928 <sup>f</sup>	\$25,437	\$7,491	\$4,820
2010	2010-2011	\$17,495	\$28,459	(\$10,565)	(\$6,144)
2011	2011-2012	\$13,500 <sup>g</sup>	—	\$7,356	\$7,356
2011	2011-2012	\$23,162	\$30,518	\$0	\$0

**Sources:** (1) U.S. Department of Education (ED), *2008-09 Federal Pell Grant Program End-of-Year Report*; (2) unpublished data provided by ED; and (3) unpublished data provided by CBO.

**Notes:** N/A= Not available. Data on the cumulative shortfall or surplus prior to AY1989-1990 could not be verified and therefore are not provided. Prior to 1980, the program was called the Basic Educational Opportunity Grant (BEOG) Program.

- The estimated total expenditure totals for AY1973-1974 through AY1988-1989 are taken from the U.S. Department of Education, *AY2008-09 Federal Pell Grant Program End-of-Year Report* and do not include administrative cost allowance payments to institutions. The expenditure totals for AY1989-1990 to AY2005-2006 are taken from unpublished data provided by ED and reflect administrative cost allowance payments to institutions. Estimates of all data after AY2005-2006 are from unpublished data provided by CBO and also include administrative cost allowance payments to institutions. All estimates of expenditures are subject to change.
- The annual shortfall or surplus amount reflects account transfers and other adjustments and may not equal the difference between the annual appropriation and estimated total expenditures in each year.
- Includes \$1 billion in supplemental discretionary funding to pay for the FY2001 cumulative shortfall.
- In FY2006, the cumulative shortfall was estimated at \$4.3 billion, but the actual shortfall as of this report totals approximately \$4.1 billion. Any excess funds were returned to U.S. Department of Treasury.

- e. Includes \$4.3 billion in mandatory funding provided in FY2006 to exclusively supplement the discretionary funding necessary to retire the cumulative funding shortfall through AY2005-2006. The discretionary appropriation for FY2006 was \$13,045 million.
- f. Includes approximately \$15.7 billion in supplemental discretionary appropriations provided in the ARRA.
- g. \$13.5 billion in mandatory appropriations were provided in the SAFRA Act for general use in the program through FY2012. A portion of these funds will be used to pay off the discretionary funding shortfall of \$6.1 billion in AY2010-2011; the remaining \$7.4 billion will be used to supplant required discretionary appropriations in FY2011.

## **Measures to Address Funding Shortfalls**

Over the years, federal policymakers and Congress have taken a variety of measures to address the vexing issues associated with funding shortfalls in the Pell Grant program. Funding shortfalls in the Pell Grant program have, on infrequent occasions in the past, led to reductions in students' awards, recipient caps, or the need for supplemental appropriations, or to stagnating award levels from award year to award year.

For the most part, funding shortfalls in the program have been accepted as common occurrences, but the measures employed to deal with them have varied. The relative size of the estimated funding shortfall in any given year is of particular interest to Congress, officials at ED, and student aid advocacy groups.

It is important to note again that the Pell Grant program is often referred to as a "quasi-entitlement" and has been operated as an appropriated entitlement given the infrequency of reductions in students' awards or imposed recipient caps since the 1990s. Most recent funding shortfalls in the Pell Grant program have not directly impacted eligible students' awards. This section provides a brief chronological history of the measures adopted to address funding shortfalls in the program.

### **Pre-2002**

From the inception of the program in 1972 until the enactment of 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.<sup>63</sup> Reductions were made in awards in eight years using this authority (the last in AY1990-1991). 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.<sup>64</sup> FY2002 and subsequent appropriations legislation have not included such language.

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<sup>63</sup> Some form of authority to reduce awards was available to the Secretary between the inception of the program in 1972 and the 1992 amendments. Immediately prior to its repeal in 1992, the HEA provision permitted reduction in awards only within certain limits. No award could be reduced for students whose expected family contribution (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. No award could be made to a student whose initial award was reduced to less than \$100 under the reduction formula. The original language creating the Basic Educational Opportunity Grants (BEOG), the predecessor to Pell Grants, in the Education Amendments of 1972 allowed for payments on a pro rata reduced basis and specified a minimum grant of \$50 whenever the program was less than fully funded.

<sup>64</sup> The appropriations legislation during this time period 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 (continued...)

The Secretary can respond to a shortfall in Pell Grant funding by allocating funds from the most recently enacted appropriation to pay for obligations incurred in previous award years.<sup>65</sup> This permits ED to use funds from multiple fiscal years' appropriations to meet one award year's cost.

### **Funding Shortfalls From FY2002 to FY2006**

During the period between FY2002 and FY2006, a very large funding shortfall accumulated, culminating at \$4.1 billion in AY2005-2006. In short, the funding shortfall was a result of unexpected and significant growth in the number of Pell Grant applicants, driven primarily by a weakened economy, and a sustained misalignment between program cost estimates and annual appropriations. The accumulated shortfalls during this time period, however, did not result in a reduction of awards for any eligible student. The maximum grant level, on the other hand, remained stagnant at \$4,050 from AY2003-2004 through AY2006-2007.

Congress responded to the accumulated shortfall in FY2006 by providing \$4.3 billion in mandatory appropriations to eliminate the shortfall that had accumulated through AY2005-2006. These mandatory funds were appropriated in the FY2006 appropriations legislation for Labor, Health and Human Services, and Education (P.L. 109-149). Refer to **Table 9** for more information on the annual funding and expenditure levels that led to the \$4.1 billion shortfall at the end of AY2005-2006.

### **Adoption of FY2006 CBO Scoring Rule**

In addition to eliminating the AY2005-2006 funding shortfall, Congress took steps in FY2006 to limit the possibility of large accumulated funding shortfalls in the future. H.Con.Res. 95 established a permanent rule that applies to the scoring<sup>66</sup> of the Pell Grant program by CBO. The rule provides that if the appropriations of new discretionary budget authority<sup>67</sup> enacted for the program are insufficient to cover the full costs in the upcoming year—including any funding surplus or shortfall from prior years—the budget authority counted against the bill for the program will be equal to the adjusted full cost (i.e., total need). The rule also states that the budget authority for the program will be based on the maximum appropriated award amount and any changes to the eligibility criteria.

Prior to the implementation of the FY2006 scoring rule, CBO accounted for budget authority in the Pell Grant program according to the level provided in each appropriation bill. While this

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(...continued)

appropriated funds could not fully fund the appropriated maximum grant. A schedule of reduced grants would then be published.

<sup>65</sup> This response to the shortfall is only feasible if ED determines enough funds are available from the most recently enacted appropriation to meet obligations from multiple award years. A series of legal opinions at ED and other agencies in the 1990s provides the basis for the authority to use funds in an annual appropriation for multiple award years. In general, absent specific language in an annual appropriations measure limiting funds to a specific award year or purpose, the Secretary may use such funds for any award year during the period of availability specified in an appropriations measure.

<sup>66</sup> CBO “keeps score” for Congress by monitoring the results of congressional action on individual authorization, appropriation, and revenue bills against budget authority and outlay targets that are specified in the concurrent resolutions.

<sup>67</sup> Budget authority is defined as the broad responsibility conferred by Congress that empowers government agencies to spend federal funds.

approach is typical for most discretionary programs, the Pell Grant program is unique since it operates like an entitlement program and annual appropriations can be used to fund multiple award years. Prior to the adoption of the scoring rule, Congress could choose to fund new programs or increase the funding of existing programs subject to discretionary appropriations while providing less funding than required for the Pell Grant program. While the scoring rule cannot fully account for the challenges of estimating the cost of the program, it does constrain the accumulation of the funding shortfall by requiring Congress to annually reconcile previous years' appropriation levels with updated estimates of previous years' program obligations.

### Recent Funding Shortfalls and Surpluses (Post-Scoring Rule to FY2010)

During the period from FY2006 to FY2010, the program experienced a mix of accumulated funding shortfalls and surpluses. From FY2006 to FY2008, CBO estimates that the program's cumulative funding shortfall culminated at \$2.6 billion.<sup>68</sup> In FY2009, ARRA and the FY2009 Omnibus Appropriations Act (P.L. 111-8) provided a combined discretionary funding level of \$32.9 billion. These funds were used to

- retire the accumulated \$2.6 billion funding shortfall in FY2008;<sup>69</sup>
- increase the discretionary base maximum award by \$619 to \$4,860 in AY2009-2010; and
- provide for a surplus of funds totaling \$4.8 billion<sup>70</sup> available for use through FY2011.<sup>71</sup>

In December 2009, the Consolidated Appropriations Act of FY2010 (P.L. 111-117) provided \$17.5 billion in discretionary funds based on estimates of program costs for AY2010-2011 and the funding surplus in FY2009 as of March 2009. Between March 2009 and March 2010, however, the number of students applying for a Pell Grant in AY2009-2010 increased beyond historic trends as overall economic conditions continued to weaken and college enrollments increased. In March 2010, CBO published revised estimates of the program costs for AY2009-2010 and AY2010-2011, which incorporated the new economic trends and application growth not captured in the previous year's estimates. Consequently, the revised estimates provided by CBO as of March 2010, prior the enactment of the SAFRA Act, revealed an estimated cumulative shortfall in FY2010 at \$6.1 billion.

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<sup>68</sup> This estimate is current as of March 2010 and includes an annual funding surplus in FY2006 of \$219 million.

<sup>69</sup> This estimate would have been lower at the time ARRA was enacted in January 2009.

<sup>70</sup> The estimated surplus resulting from ARRA and the FY2009 Omnibus Appropriations Act was estimated by CBO to be substantially higher at the time of enactment of these bills in January 2009 and March 2009, respectively. Since students did not begin applying for a Pell Grant in AY2009-2010 until early January 2009, the substantial growth in the number of applicants was not captured until after these spending measures were enacted.

<sup>71</sup> ARRA provided \$15.6 billion in discretionary appropriations for use through the end of FY2011. House Conf. Report 111-004, which accompanied ARRA, states that \$15.6 billion was provided for a \$500 increase in the discretionary base maximum award for two years, but does not indicate the assumed base levels to which the \$500 increase would be added. In effect, by extending the period of availability of funds to the end of FY2011, ARRA created a surplus of funds that would offset the costs of maintaining a \$4,860 discretionary base award in AY2010-2011. *The Explanatory Statement in the Congressional Record of February 23, 2009*, which was issued in lieu of a conference report for the FY2009 Omnibus Appropriations Act, states that, combined with the funds provided in ARRA, the funds provided in the FY2009 Omnibus Appropriations Act will increase the discretionary maximum grant by \$619 in AY2009-2010.



## **Impact of The SAFRA Act on the FY2010 Funding Shortfall**

As discussed earlier, the SAFRA Act provided \$13.5 billion in mandatory appropriations for general use in the Pell Grant program. These mandatory appropriations are available for use from October 1, 2010, to September 30, 2012 and will be used to eliminate the estimated \$6.1 billion discretionary shortfall in FY2010, leaving an estimated surplus of mandatory funds in the amount of \$7.4 billion that will be used to supplant required discretionary funding in FY2011.

## **FY2011 Appropriations**

### *Discretionary*

In December 2010, the Continuing Appropriations and Surface Transportation Extensions Act of 2011 (CASTEA; P.L. 111-322) provided \$23.2 billion in discretionary appropriations for FY2011, or an increase of \$5.7 billion over FY2010. CASTEA, however, is set to expire on March 4, 2011. The discretionary base maximum award for AY2011-2012,<sup>72</sup> as specified in CASTEA, would remain at \$4,860, the same level as AY2010-2011. When combined with the additional increase to the discretionary base maximum grant amount funded with mandatory appropriations provided in the SAFRA Act, the total maximum grant amount a student would be eligible for in AY2011-2012 under CASTEA is \$5,550, or the same level as AY2010-2011.

The program cost associated with a discretionary base maximum of \$4,860 is currently estimated at \$30.5 billion,<sup>73</sup> but a portion of the \$13.5 billion in mandatory funds appropriated in the SAFRA Act for general use in FY2011 will be used to pay for the costs associated with the discretionary base maximum award in AY2011-2012. Therefore, the \$23.2 billion in CASTEA is sufficient to fully fund the discretionary base maximum award in AY2011-2012, based on current estimates.

On February 19, 2011, the House passed H.R. 1, the Full-Year Continuing Appropriations Act of 2011. H.R. 1 would provide \$17.5 billion in discretionary appropriations for the Pell Grant program in FY2011 to fund a discretionary base maximum grant amount of \$4,015 in AY2011-2012. When combined with the additional increase to the discretionary base maximum grant amount funded with mandatory appropriations provided for in the SAFRA Act, the total maximum grant amount a student would be eligible for in AY2011-2012 under H.R. 1 is \$4,705.

The program cost associated with a discretionary base maximum of \$4,015 is currently estimated at \$24.8 billion.<sup>74</sup> As discussed above, when the portion of mandatory funds provided for in the SAFRA Act in FY2011 is included as a discretionary funding source, the \$17.5 billion in H.R. 1 is sufficient to fully fund the discretionary base maximum award of \$4,015 in AY2011-2012. H.R. 1 would maintain the current FY2010 discretionary funding level of \$17.5 billion in FY2011, but it would reduce the total maximum grant award amount by \$845 in AY2011-2012, as compared to the current level of \$5,550 in AY2010-2011 and the level specified in CASTEA for AY2011-2012.

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<sup>72</sup> AY2011-2012 will begin on July 1, 2011, and end June 30, 2012.

<sup>73</sup> Estimated by the Congressional Budget Office (CBO) as of March 2010; subject to change in March 2011.

<sup>74</sup> Ibid.

## Mandatory

Under CASTEA, the amount of mandatory appropriations required in FY2011 to increase the discretionary maximum award of \$4,860 by \$690 to \$5,550 is estimated at \$5.2 billion.<sup>75</sup> Under H.R. 1, the amount of mandatory appropriations required in FY2011 to increase the discretionary maximum award of \$4,015 by \$690 to \$4,705 is estimated at \$5.1 billion.<sup>76</sup> These mandatory appropriations are indefinite and are not subject to annual appropriations.

H.R. 1, however, if enacted by Congress may result in additional mandatory savings as determined by CBO under budgetary scoring procedures.<sup>77</sup> As a result of the significant reduction in the discretionary base maximum award in AY2011-2012, as specified in H.R. 1, future increases to the discretionary base maximum grant amount funded with mandatory appropriations as provided for in the SAFRA Act would be eliminated beginning in FY2014. CBO currently estimates<sup>78</sup> that H.R. 1 would result in additional mandatory savings in the Pell Grant program of approximately \$66.4 billion from FY2011 to FY2021, of which \$66.3 billion is attributed to the FY2014 through FY2021 budget window.

The basis for these changes can be found in the formula prescribed in the SAFRA Act for determining future increases beginning in FY2014 and detailed in **Figure 2** of this report. In short, the formula prescribed in the SAFRA Act assumes the *total maximum award amount*, when adjusted for inflation, will not decrease below the discretionary base maximum award amount of \$4,860 in any year beginning in FY2014. Under H.R. 1, the base discretionary maximum grant of \$4,015 beginning in FY2011 would be assumed for all future years under CBO scoring rules, resulting in a total maximum award amount below \$4,860 in FY2014. Consequently, all estimated increases beginning in FY2014 and future years would result in negative values under the formula, yielding significant savings<sup>79</sup> when compared to the current baseline. Any future increases to the discretionary base maximum award funded with mandatory appropriations may require offsets in other mandatory programs.

## Current Legislative Issues

This section provides brief overviews of issues that may be considered by Congress as it deliberates on the Pell Grant program. Most of these issues focus on the potential challenges in funding the program, both in the short-term and in the long-term. For instance, should the program continue to be funded with both discretionary and mandatory funding, or should it be reclassified as an entitlement? Also, what are some of the possible causes behind the recent

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<sup>75</sup> As estimated by the Congressional Budget Office in January 2011. Subject to change in March 2011.

<sup>76</sup> Ibid.

<sup>77</sup> Provisions included in appropriations acts that affect mandatory spending programs are commonly called “changes in mandatory program spending,” or CHIMPS. CHIMPS may reduce or increase mandatory outlays in the current fiscal year or future fiscal years. CHIMPS are used more frequently in other federal programs, such as certain agricultural programs. For more information, see CRS Report R41245, *Reductions in Mandatory Agriculture Program Spending*, by Jim Monke and Megan Stubbs.

<sup>78</sup> As of January 2011; subject to change in March 2011.

<sup>79</sup> In general, CHIMPS generate savings in mandatory spending that can be used to offset increases in discretionary spending in most cases, but typically for only the fiscal year in which the change is enacted, regardless of the impact on future outlays. Therefore, under H.R. 1 the savings that are scored beyond FY2011 may not be available to offset additional discretionary spending in FY2011.

increases in program costs, and how do recent legislative changes potentially affect the future funding challenges of the program?

## **Entitlement**

The FY2010 and FY2011 President's budget requests proposed to reclassify all funding for the Federal Pell Grant program as mandatory, rather than primarily discretionary, and to index the value of future Pell Grants to the changes in the CPI-U, plus 1 percentage point. Congress did not formally consider the reclassification of the program in the FY2010 appropriations process and continued to fund the program primarily through annual discretionary appropriations. The SAFRA Act, as discussed, did provide partial indefinite mandatory appropriations beginning in FY2010 and includes an increase to future total maximum awards for FY2014 through FY2017 as determined, in part, by changes in the CPI-U.

Interest in making the Federal Pell Grant program a full mandatory entitlement is a recurring theme, although Congress has not seriously considered the issue for a number of years. During action on the Higher Education Amendments of 1992, the House and Senate authorizing committees approved versions of a reauthorized HEA that would have made the program an entitlement. These provisions were not enacted.<sup>80</sup>

Proponents of reclassification argue that full entitlement status would end the ostensible uncertainty among students, their families, and higher education institutions about the level of support the program will provide each year. Moreover, mandatory funding would preclude the annual funding shortfalls that appropriations committees and officials at ED must address during the budget process, allowing them to focus on other priorities and initiatives that are funded through annual discretionary appropriations. Additionally, advocates of reclassification may stress that permanent funding of the Pell Grant program would ensure that the neediest students continue to receive federal student aid in the foreseeable future when Congress may choose to reduce discretionary spending. Finally, some point out that since the program currently functions as a quasi-entitlement, and given the increasing role of mandatory appropriations in contributing to its overall funding, reclassification of the program would be a practical move.

Concerns about the consequences of making the Pell Grant an entitlement have centered on several issues. First, there has been a focus on the budgetary treatment of a reclassification, and the cost associated with moving the program from the discretionary ledger to the mandatory ledger under current "Pay-as-you go" (PAYGO) budgetary rules. In general, PAYGO rules specify that an entitlement program can be created or expanded only if other entitlement programs are cut or if taxes and fees are raised, except in emergencies. Under PAYGO rules, substantial savings from other entitlement programs or increased revenues would be required to initially reclassify the program from discretionary to mandatory. Furthermore, Pell Grant funding or award levels could be reduced in the future in order to expand other entitlement programs. Conversely, other entitlement programs could be reduced to expand the Pell Grant program when even minor changes are made to the federal need analysis formula, eligibility requirements, or award rules.<sup>81</sup>

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<sup>80</sup> H.R. 3553 and S. 1150 (102<sup>nd</sup> Congress), in earlier forms before amendments, would have reclassified the Pell Grant Program as an entitlement beginning in FY1997.

<sup>81</sup> After the enactment of the SAFRA Act of 2010, any changes to the federal need analysis formula, eligibility requirements, or award rules for the program could have PAYGO implications because the increase to the discretionary base maximum award funded with mandatory appropriations in each year will be funded with indefinite mandatory (continued...)

It is important to note that the enforcement of PAYGO rules can vary.<sup>82</sup> Second, some analysts have also pointed to (or questioned) the willingness of appropriations committees to cede the oversight of the spending for the Pell Grant program. Finally, some have posed questions about the potential long-term effects a mandatory Pell Grant may have on college costs.

## Program Cost Escalation

The program has experienced significant increases in program costs over the past several years. **Table 10** provides a summary of Pell Grant program costs, including costs funded with both mandatory and discretionary funds, from FY2007 (AY2007-2008)<sup>83</sup> through FY2011 (AY2011-2012). **Table 10** shows that the increase in the federal government’s obligations for the Pell Grant program more than doubled from AY2007-2008 to AY2011-2012. Moreover, the total obligations during this same time period totaled \$129.2 billion.

**Table 10. Pell Grant Program Costs, AY2007-2008 to AY2011-2012**  
(dollars in billions)

Award Year (AY)	Cost Associated with Discretionary Award Levels	Cost Associated with Mandatory Award Levels	Total Program Cost
AY2007-2008	14.7	N/A	14.7
AY2008-2009	16.1	2.3	18.4
AY2009-2010	25.4	3.0	28.4
AY2010-2011	28.5	4.7	33.2
AY2011-2012	30.5	4.7	35.2
Total	<b>115.2</b>	<b>14.7</b>	<b>129.9</b>

**Sources:** Congressional Budget Office (CBO), *Federal Pell Grant Program: Estimated Discretionary Cumulative Surplus/Shortfall and Mandatory Funding Gap*, March 2010.

**Notes:** N/A= not applicable.

Estimates of program costs are as of March 2010 and will be updated by CBO in March 2011.

Most of the factors contributing to the escalation in program costs can be attributed to enacted legislation and regulatory efforts aimed at increasing the number of recipients, the total maximum award amount, and the number of students applying for federal student aid. Some variables that play a key role in determining the cost of the program, however, have been difficult to forecast and have not aligned with historical trends over the past several years, resulting in unanticipated additional program costs. The following section explores possible reasons for increased program costs over the past several years.

(...continued)  
appropriations.

<sup>82</sup> Furthermore, it is important to highlight the difference between statutory PAYGO provisions and adopted PAYGO rules. For more information on PAYGO procedures, see CRS Report RL34300, *Pay-As-You-Go Procedures for Budget Enforcement*, by Robert Keith.

<sup>83</sup> AY2007-2008 is used as the base year in this section since it was the last year the program was funded exclusively with discretionary appropriations.

## Large Increase in the Discretionary Base Maximum Award

As discussed earlier, ARRA and the FY2009 Omnibus Appropriations Act established a \$619 increase (\$4,241 to \$4,860) in the discretionary base maximum Pell Grant award from AY2008-2009 to AY2009-2010, which represented the largest one-year increase in the base maximum award in the history of the program. Prior to the enactment of the ARRA, the largest one-year increase to the base maximum Pell Grant award was \$598, from \$452 to \$1,050 between AY1973-1974 and AY1974-1975.<sup>84</sup>

Funding provided by ARRA was treated as a temporary supplement to existing appropriations in many federal programs. In the Pell Grant program, ARRA provided temporary supplemental funding to increase the discretionary base maximum award, but also established a de facto floor of \$4,860 for the discretionary base maximum award in future years. The Consolidated Appropriations Act of FY2010 and CASTEA also specified a discretionary base maximum award of \$4,860 for AY2010-2011 and AY2011-2012, respectively.

An increase to the discretionary base maximum award in AY2011-2012 is estimated to cost, in general,<sup>85</sup> between \$500 million and \$700 million per \$100 increase. Moreover, an increase to the discretionary base maximum award in any year may result in additional residual baseline costs that must be absorbed in future years, absent a reduction to the discretionary maximum grant or other changes to program eligibility.

## Increase in FAFSA Applications and College Enrollments

According to data provided by ED, the number of students who submitted a valid application for a Pell Grant in AY2009-2010 increased by 19%, as compared to the same time period last year for AY2008-2009.<sup>86</sup> Furthermore, preliminary data suggest the number of students who have submitted a valid application for a Pell Grant in AY2010-2011 (through December 2010), which commenced July 1, 2010, has increased by 8.5% over the same time period last year for AY2009-2010.

Recent efforts by ED and Congress to simplify the web-based version of the Free Application for Federal Student Aid (FAFSA) may be a factor contributing to increased FAFSA applications.<sup>87</sup> Additionally, the coordination between ED and the U.S. Department of Labor to notify Unemployment Insurance (UI) beneficiaries of their potential eligibility to receive a Pell Grant may also be a contributing factor to increased enrollments and FAFSA applications.<sup>88</sup> In general, students may be more aware of federal financial aid as a result of efforts to promote its

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<sup>84</sup> In inflation-adjusted dollars, the \$598 increase between AY1973-1974 and AY1974-1975 would have represented a substantially larger increase than the \$619 increase between AY2008-2009 and AY2009-2010.

<sup>85</sup> Estimates for the costs associated with a \$100 increase to the discretionary base maximum award vary from award year to award year because of different eligibility parameters and other technical assumptions. The range listed here is current for AY2011-2012 as of March 2010 and was provided by CBO.

<sup>86</sup> In recent years, CBO and ED assumed applicant growth in the program would not exceed 10% to 15% over the previous year when projecting estimated demand in the program. In most years, however, the overall Pell Grant applicant growth rate is projected at 3% to 8% based on historical averages.

<sup>87</sup> For example, see <http://www.ifap.ed.gov/eannouncements/attachments/111909FAFSAWebPrePresentation1011.ppsx>.

<sup>88</sup> See *Training and Employment Guidance Letter No. 21-08*, issued by the U.S. Department of Labor on May 8, 2009, <http://wdr.doleta.gov/directives/attach/TEGL/TEGL21-08acc.pdf>.

availability and the overall benefits of higher education. All of these factors, when considered collectively, can have a measurable impact on the costs of the program.

## **Recent Economic Conditions**

Recent economic trends may also be a contributing factor to increased Pell Grant costs. For example, students may choose to enroll in college and attend at a higher intensity since the opportunity costs of forgoing employment in a weak job market are much less. More importantly, displaced workers may find it necessary to return to college to gain new technical and vocational skills to compete in the changing job market. The financial resources of some families may also be substantially less in the current economic conditions, given higher unemployment figures, stagnant wages, and a period of weakened investment markets. Furthermore, guidance issued by ED in April and May 2009 encourages financial aid administrators to use their professional judgment authority, pursuant to section 479A of the HEA, to make adjustments, on the basis of adequate documentation and on a case-by-case basis, to address circumstances not reflected in the FAFSA of a recently unemployed individual.<sup>89</sup>

## **Legislative Changes to the Federal Need Analysis Calculation and Award Rules**

Recent legislative changes to the federal need analysis calculation and Pell Grant award rules have, for the most part, benefited students and expanded eligibility for the Pell Grant program. Typically, when changes to the federal need analysis calculation and program award rules are enacted under authorizing legislation, the additional discretionary costs in the program are paid for in subsequent annual appropriations. Recent legislative changes to the need analysis calculation that have resulted in higher discretionary costs include, but are not limited to, (1) expansion of the automatic zero EFC qualification in both the HERA and CCRAA; (2) the increase in the income protection allowance levels for all students in the HERA and the CCRAA; (3) the elimination of certain untaxed income and benefits in the CCRAA; and (4) a variety of exclusions and benefits regarding the treatment of veterans education benefits, and military benefits and allowances enacted under the HEOA. Other legislative changes, such as “year-round” Pell Grants, may also have contributed to the increase in program costs.

## **Funding Beyond FY2011**

The continuation of a base maximum award of \$4,860 funded with annual discretionary appropriations could present funding challenges and difficult policy choices for Congress in future years.<sup>90</sup> Congress may choose to further evaluate, particularly within a fiscal environment that currently projects increased deficits, the effectiveness of and relative need for varied public investments in light of many competing priorities. CBO, for instance, currently estimates the average annual discretionary cost of the program for a \$4,860 base maximum award over the next

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<sup>89</sup> See *Dear Colleague Letters GEN-09-04* and *GEN-09-05* at <http://ifap.ed.gov/dpcletters/attachments/GEN0904.pdf> and <http://ifap.ed.gov/dpcletters/attachments/GEN0905.pdf>, respectively.

<sup>90</sup> Although there is no statutory requirement for Congress to provide a specific discretionary base maximum award in any award year, any future reductions or increases to the discretionary base maximum award of \$4,860 established in AY2010-2011 could have potential PAYGO implications as a result of eliminating the authorized maximum award levels in the SAFRA Act.

10 years (FY2011 to FY2020) at approximately \$32 billion.<sup>91</sup> By comparison, the average annual cost of the program over the previous 10 years (FY2002 to FY2010) is estimated at \$16.5 billion.<sup>92</sup> Additionally, further efforts to simplify the FAFSA could have the intended consequence of increasing application rates, while at the same time expanding eligibility for Pell Grants by changing the federal need analysis calculation,<sup>93</sup> leading to additional increases in future program costs.

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<sup>91</sup> As of April 2010; unpublished data from CBO.

<sup>92</sup> As of April 2010; costs for AY2009-2010 and AY2010-2011 are estimates.

<sup>93</sup> For more information on some of the changes to the need analysis calculation that the House of Representatives considered in 2009, refer to CRS Report R40742, *The Student Aid and Fiscal Responsibility Act of 2009*, coordinated by David P. Smole.

## Appendix. Tables on Selected Pell Grant Information Prior to the Enactment of the SAFRA Act

**Table A-1. Authorized Maximum Pell Grant Award Amounts (Pre-SAFRA Act), AY2009-2010 Through AY2014-2015**

Fiscal Year	Award Year	Authorized Maximum Award
FY2009	AY2009-2010	\$6,000
FY2010	AY2010-2011	\$6,400
FY2011	AY2011-2012	\$6,800
FY2012	AY2012-2013	\$7,200
FY2013	AY2013-2014	\$7,600
FY2014	AY2014-2015	\$8,000

Source: HEA.

**Table A-2. Mandatory Add-On Amounts to the Base Maximum Award (Pre-SAFRA Act), AY2008-2009 to AY2012-2013**

Award Year	Mandatory Add-On Amount
AY2008-2009	\$490
AY2009-2010	\$490
AY2010-2011	\$690
AY2011-2012	\$690
AY2012-2013	\$1,090

Source: HEA.



**Table A-3. Mandatory Appropriations for the Pell Grant Program (Pre-SAFRA Act), FY2008-FY2017**

(dollars in millions)

<b>Fiscal Year</b>	<b>Award Year</b>	<b>CCRAA Funding</b>	<b>ARRA Funding</b>	<b>FY2009 Technical Amendments to the HEA</b>	<b>Total Mandatory Appropriations</b>
FY2008	AY2008-2009	\$2,041	—	—	\$2,041
FY2009	AY2009-2010	\$2,090	\$643	—	\$2,733
FY2010	AY2010-2011	\$3,030	\$831	—	\$3,861
FY2011	AY2011-2012	\$3,090	—	—	\$3,090
FY2012	AY2012-2013	\$5,050	—	—	\$5,050
FY2013	AY2013-2014	\$105	—	\$153	\$258
FY2014	AY2014-2015	\$4,305	—	—	\$4,305
FY2015	AY2015-2016	\$4,400	—	\$52	\$4,452
FY2016	AY2016-2017	\$4,600	—	—	\$4,600
FY2017	AY2017-2018	\$4,900	—	—	\$4,900
<b>Total Mandatory Appropriations (FY2008 to FY2017)</b>		<b>\$33,611</b>	<b>\$1,474</b>	<b>\$205</b>	<b>\$35,290</b>

**Source:** CRS analysis of the HEA prior to the enactment of the SAFRA Act.

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