

Pell Grants

Increasingly, the nation is focused on the importance of postsecondary credentials in helping maintain the United States' position as having the world's most highly skilled and innovative workforce. President Obama recently set the goal of having the highest proportion of college graduates in the world by the year 2020, and has urged all Americans to commit to at least one year of postsecondary education or job training.¹

In support of this goal, the Obama Administration and Congress have made significant new investments in the federal Pell Grant program to increase the accessibility and affordability of a college education for millions of low- and moderate-income students. However, more could still be done to ensure the program better serves the needs of working adults and other nontraditional students who make up the majority of today's college enrollment.² In particular, the program should be expanded to better support individuals seeking short-term, non-credit occupational training to upgrade their job skills, and should ease restrictions on the use of Pell Grants to support remedial education for individuals needing to upgrade basic literacy skills to succeed in postsecondary education.

Background

Administered at the federal level by the Office of Postsecondary Education within the U.S. Department of Education, the Pell Grant program is the largest source of grant aid under the Higher Education Act (PL 89-329), with more than a quarter of all undergraduates receiving Pell Grants.³ Originally enacted in 1972 as the Basic Educational Opportunity Grant, the program is designed to serve as the foundation program for federal financial aid to low-income undergraduate students.

Eligible students—those with a high school degree or its equivalent who are pursuing a degree or certificate at an approved institution—may use Pell Grants to support postsecondary studies in academic and occupational training programs. Pell Grant aid differs from most other forms of student aid because it is an entitlement program, meaning all individuals who qualify are guaranteed funding. Student eligibility is based on financial need, determined by a formula that takes into account student and family income and assets, and the number of family members attending postsecondary institutions.

Pell Grants At-A-Glance

Statute. Title IV, Higher Education Act, as amended (Public Law 89-329).

Administration. U.S. Department of Education, Office of Postsecondary Education.

Reauthorization. Authorized through Fiscal Year 2017.

Federal funding. Nearly \$22.5 billion in Fiscal Year 2010.

Type of program. Individual grants disbursed through institutions of higher education.

Institutions providing services. Approximately 5,500 public, private, and proprietary institutions of higher education participated in the Pell Grant program during Award Year 2008-2009.

Participants served. More than 8.3 million students received Pell Grants in Award Year 2010-2011, up from about 6.2 million in Award Year 2008-2009.

Policy recommendations.

- ▶ Expand access to Pell Grants for working adults by modifying current eligibility requirements to include individuals seeking non-credit or non-sequential coursework to enhance employment skills.
- ▶ Remove the one-year cap on remedial education to ensure that individuals can acquire the basic skills necessary to pursue emerging employment and education opportunities.
- ▶ Ensure proposed regulation of Pell-eligible proprietary institutions does not adversely impact underserved students by establishing a transition plan to ensure any students displaced by federal law or regulation can continue to access postsecondary education and training.

Legislative Status

The Pell Grant program is authorized under Title IV of the Higher Education Act (HEA),⁴ as amended by the Higher Education Opportunity Act of 2008 (HEOA).⁵ Other recent legislation—including the College Cost Reduction and Access Act (CCRAA),⁶ American Recovery and Reinvestment Act (Recovery Act),⁷ and the SAFRA Act (SAFRA)⁸—have made additional appropriations or programmatic changes. The Pell Grant program is authorized through Fiscal Year (FY) 2017, but many of the programs under HEA are up for reauthorization in 2014 and Pell could be reconsidered as part of that broader effort.

The use of Pell Grants and other federal financial assistance at for-profit postsecondary institutions has emerged recently as a significant issue for policymakers. The Department of Education proposed regulations⁹ in July 2010 that would require most programs offered by proprietary institutions to demonstrate that they are preparing students for “gainful employment.”¹⁰ Programs failing to meet these standards can become ineligible to participate in federal student aid programs, including Pell Grants. The proposal has proven to be highly controversial—more than 83,000 comments were filed during the comment period following publication of the draft rule—leading the department to delay issuing the final rule until early 2011.¹¹

Additionally, the Senate Health, Education, Labor, and Pensions (HELP) Committee conducted several hearings relating to the for-profit sector in 2010, including a hearing on an August 2010 Government Accountability Office (GAO) report that alleged fraudulent or deceptive marketing and recruitment practices at certain proprietary institutions.¹² Committee Chairman Tom Harkin (D-IA) issued two reports calling for greater accountability in the for-profit sector,¹³ and it is expected that he will seek to introduce legislation on the use of federal student aid at these institutions in 2011, though it does not appear that the new Republican majority in the House of Representatives will support such action.

Funded Activities

Pell Grants are intended to support a student’s cost of attendance, such as tuition and fees, room and board, books, supplies, transportation and other expenses. Pell Grants are disbursed on behalf of individual students to postsecondary institutions, which usually use the funds to credit the student’s account for unpaid charges such as tuition and fees, and then pay the remaining balance directly to the student. Institutions may also pay the entire amount directly to the student.

Eligibility for Pell Grant Program

Pell Grant eligibility is limited to individuals with demonstrated financial need who are “regular students,” meaning they are enrolled or accepted for enrollment in an eligible program for the purpose of obtaining a degree, certificate, or other recognized educational credential.¹⁴ Applicants must have achieved a high school diploma or its equivalent, or have otherwise passed a state-determined “ability to benefit” test, and generally cannot have earned a baccalaureate degree or its equivalent.¹⁵ Once enrolled, students must maintain “satisfactory progress” in their course of study (as defined by the institution) to continue receiving Pell Grants.

Students who are taking shorter, non-credit programs—or even for-credit courses without the intention of completing a full program and obtaining a credential—are not generally eligible for Pell. Students may participate in up to one year of remedial education if they are otherwise enrolled in an eligible program, and if the remedial education is at least at the high school level.

Grant Award

A student's Pell Grant award is calculated by first determining their Expected Family Contribution (EFC). The EFC is the amount the student or their family could be expected to contribute to the costs of their education based on a formula that can take into account available income, assets, living expenses and other data reported on the Free Application for Federal Student Aid (FAFSA) form. Different formulas are utilized if the student is a dependent student (in which case both student and parental resources are included in the calculation), an independent student without non-spousal dependents, or independent with non-spousal dependents. Dependent students and independent students with non-spousal dependents with adjusted gross income below specified levels can automatically qualify for a zero EFC in certain cases, such as when the student has received means-tested federal benefits in the preceding two-year period, or the student or a parent is a dislocated worker.¹⁶

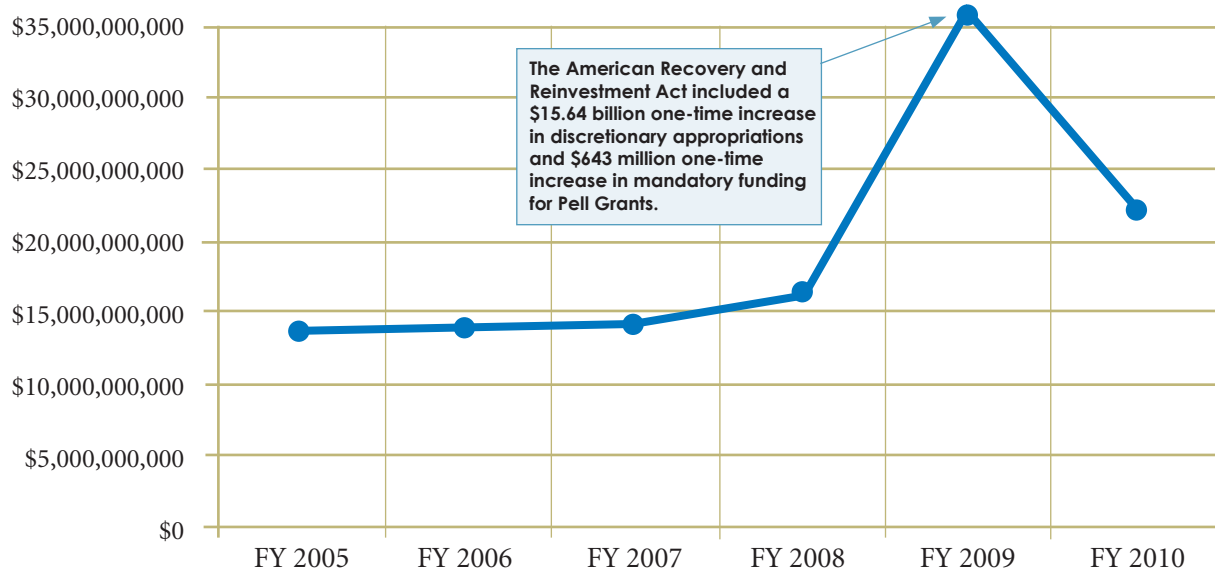
Once a student's EFC is determined, the Pell Grant award is calculated as the lesser of a) the maximum Pell Grant allowable for the award year, minus the student's EFC, or b) the institution's Cost of Attendance (COA) minus the student's EFC. If the student attends less than full-time, the total award must be prorated; that is, a student attending school half-time would receive half the grant award they would receive if they were attending school full-time.¹⁷ The maximum EFC is 95 percent of the maximum Pell Grant authorized for a specific year; students that exceed this level are ineligible for assistance. Any student—including a student attending less-than-half-time—who is eligible to receive a Pell Grant is guaranteed to receive a minimum grant award, currently equal to 10 percent of the maximum award level specified by Congress each year.¹⁸

Generally, students are eligible for one Pell Grant award per academic year, although students enrolled at least half-time in a degree or certificate program can receive a second grant during a single award year if they are enrolled in courses attributable to a subsequent academic year, such as summer courses.¹⁹ This enables students to accelerate their studies and obtain postsecondary credentials more quickly. The law imposes a lifetime limit of eighteen semesters of Pell Grant eligibility for all students receiving their first Pell Grant on or after July 1, 2008.²⁰

Funding for Postsecondary Education and Training under Pell

Pell Grants are somewhat unusual because they are structured as an entitlement, but largely funded through annual discretionary appropriations. Every year the government sets two funding levels that determine how much aid an individual student may receive: a maximum *authorized* award level, which is established under the HEA, and a maximum *appropriated* award level, which reflects the combination of a base maximum award set under annual appropriations bills and a mandatory funding increase authorized under SAFRA. Historically, the appropriated maximum award is generally lower than the authorized maximum under HEA. For example, during Award Year (AY) 2009-2010, the authorized maximum award for an individual was \$6,000 under HEA, but Congress only provided funding to support a maximum award of \$5,350.²¹ The average Pell Grant award in AY 2008-2009 was \$2,971.²²

Until relatively recently, all funding for Pell Grants was discretionary, meaning Congress had to appropriate funding annually to support the program. Under the CCRAA, Congress established a new mandatory funding stream, which was designed to support "add-on" grants at specified levels in AYs 2008-2009 through 2012-2013 to all students who qualified for the minimum grant award. Under SAFRA, Congress eliminated the add-on grants and instead authorized mandatory funding for specified increases in the discretionary base maximum award. The base maximum award is currently scheduled to increase by \$690 for each of AYs 2010-2011 through 2012-2013, with increases in all subsequent award years calculated according to formulas that take into account maximum award levels from the preceding year and changes in the Consumer Price Index. This change expanded the number of students who are eligible for Pell Grants because it allows for students with higher EFCs to qualify for awards.

FIGURE 1: Federal Pell Appropriations, Fiscal Years 2005-2010

Funding Trends

Federal appropriations for the Pell Grant have increased significantly in recent years. In FY 2007, Congress appropriated nearly \$13.7 billion in discretionary funding to support the program. In FY 2009, Congress appropriated nearly \$19.4 billion in combined discretionary and mandatory appropriations through the regular appropriations process, and appropriated an additional \$16.3 billion in combined funds under the Recovery Act.²³ Total appropriations for FY 2010 were just under \$22.5 billion, including discretionary appropriations of about \$17.5 billion and mandatory funding of just under \$5 billion to cover the mandatory \$690 increase required by SAFRA.²⁴

Populations Served Through Pell Grants

In AY 2008-2009, nearly 6.2 million undergraduates received a Pell Grant.²⁵ This number increased to 7.7 million in 2009 and more than 8.3 million in 2010.²⁶ Of individuals receiving a Pell Grant in AY 2008-2009:

- ▶ 62 percent attended public institutions;
- ▶ 13 percent attended private non-profit institutions; and
- ▶ 24 percent attended proprietary institutions.²⁷

Demographically, among students receiving a Pell Grant in AY 2008-09:

- ▶ Nearly three quarters had family incomes of \$30,000 or less, and more than half (54 percent) had family incomes of \$20,000 or less;
- ▶ 42 percent of recipients were aged 25 or older;²⁸
- ▶ 21.5 percent of all male undergraduates received a Pell Grant;

- ▶ 31.8 percent of all female undergraduates received a Pell Grant;
- ▶ Almost half (46.3 percent) of all African-American undergraduates received a Pell Grant;
- ▶ 40 percent of all Hispanic undergraduates received a Pell Grant; and
- ▶ Just over one-fifth (20.5 percent) of all white undergraduates received a Pell Grant.²⁹

Institutions Typically Serving Pell Grant Recipients

In AY 2008-2009, approximately 5,500 public, private, and proprietary institutions of higher education participated in the Pell Grant programs.³⁰ Of these institutions, about 35 percent were public institutions, 37 percent were proprietary institutions, and 27 percent were private, non-profit institutions. Despite enrolling less than 12 percent of the overall U.S. undergraduate population in AY 2008-2009,³¹ proprietary schools received roughly one-quarter (23.6 percent) of all Pell Grant funds during that time period, compared to just over 13 percent of Pell Grants in AY 1999-2000.³² This increased share of Pell and other federal student aid dollars going to the for-profit sector has prompted concerns from policymakers about the quality of education at such institutions, leading to the Department of Education's proposed "gainful employment" rule and heightened congressional scrutiny of these programs.

Relationship to Other Programs

By law, funds received under a Pell Grant may not be taken into consideration when determining an individual's eligibility for, or the amount of, benefits or assistance under any other federal, state, or local program financed in whole or in part with federal funds.³³ This reflects the intent that Pell Grants serve as foundational assistance to which other forms of federal and non-federal aid may be added.

Workforce Investment Act

The Workforce Investment Act (WIA), the nation's primary workforce education and training program, limits the use of training funds to individuals who are unable to obtain other grant assistance, including Pell Grants, for such purposes.³⁴ In the regulations implementing WIA, the Department of Labor interprets this provision as requiring coordination of funding between WIA program operators and training providers and the entities administering the alternate funding source to avoid duplicate payments. Simply reducing the amount of WIA training funds available to an individual by the amount of the Pell Grant is explicitly prohibited. Instead, "the exact mix of funds should be determined based on the availability of funding for either training costs or supportive services, with the goal of ensuring that the costs of the training program the participant selects are fully paid and that necessary supportive services are available so that the training can be completed successfully."³⁵

Unemployment Insurance

Prior to the recent economic downturn, many states limited the types of education and training unemployment insurance (UI) recipients could receive and still remain eligible for UI benefits. In May 2009, the Department of Labor issued guidance encouraging states to consider expanding their definitions of acceptable training for UI recipients to include a broad range of programs—including degree and certificate programs—that enhance long-term employability. In addition, states were encouraged to notify UI beneficiaries of their potential eligibility for Pell Grants and other federal educational assistance, and ensure that staff at WIA-funded one-stop centers are trained to assist UI recipients with financial aid applications.³⁶

Federal Means-Tested Benefits

Students who have received certain types of federal means-tested benefits—including Temporary Assistance for Needy Families (TANF), the Supplemental Nutritional Assistance Program (SNAP, formerly Food Stamps), Supplemental Security Income (SSI), and others—may automatically qualify for a zero EFC for purposes of calculating Pell Grant award levels. Overall, about 38 percent of Pell Grant recipients in AY 2008-2009 qualified for an automatic zero EFC.³⁷

Performance Accountability

The Pell Grant program does not contain performance measures for students other than the “satisfactory progress” requirement. Satisfactory progress is defined by the institution, and generally requires both a qualitative component (such as grades, work completed, or other factors) and a maximum time for completion of the program, with progress measured at specific increments.

However, the “gainful employment” rules proposed by the Department of Education in July 2010 essentially create a new performance accountability measure for institutions participating in the Pell Grant program. The new rules will require most programs at for-profit institutions and some occupational programs at public and private not-for-profit institutions to demonstrate that they are preparing students for “gainful employment in a recognized occupation.” Covered programs would be required to satisfy a debt-to-income ratio test, which would measure the relationship between the median annual loan payment for program completers compared to average discretionary income and annual earnings, and a loan repayment test that would measure the percentage of former students paying down the principal on their loans. Programs meeting some but not all of these measures would be required to provide warnings to current and prospective students about the potential for high student loan burdens associated with the program, and in some cases could be placed on “restricted” status, which would require the institution to limit new enrollments in the program and provide evidence from employers testifying to the need for the training program. Programs that failed to satisfy any of the tests would be ineligible for further participation in federal student aid programs, including Pell Grants. The department is expected to issue final rules in early 2011, though it is unclear whether the proposed tests will be retained in their current form.

Policy Recommendations

Expand Access to Pell Grants for Working Adults

Undergraduate students enrolled on a less-than-full-time basis comprised more than 37 percent of total enrollment in 2008,³⁸ and more than 65 percent of students aged 24 or older.³⁹ However, half-time and less-than-half time students made up a disproportionately small segment of Pell Grant recipients, representing less than 7 percent of all recipients in AY 2008-2009.⁴⁰ Congress should consider ways to increase the number of less-than-full-time students receiving Pell Grants, including by modifying current eligibility requirements to include individuals seeking non-credit or non-sequential coursework to enhance employment skills.

Remove the One-Year Cap on Remedial Education

More than 40 percent of beginning community college students and 20 percent of beginning students at four-year institutions require some form of remedial education to develop the basic literacy skills necessary to succeed in postsecondary education.⁴¹ This challenge is not limited to younger students: a 2010 Department of Labor report on workers in “declining industries” found that more than half had “basic” or “below basic” prose literacy levels, and more than 60 percent had basic or below basic quantitative literacy levels,⁴² limiting the ability of these individuals to succeed in postsecondary education and training. To ensure that these individuals can acquire the basic skills necessary to pursue emerging employment and education opportunities, Congress should consider easing restrictions on the length of time for which remedial education can count as an allowable activity under the Pell Grant program.

Ensure Regulation of Proprietary Institutions does not Adversely Impact Underserved Students

While it is critically important that Congress and the Obama Administration take steps to reduce abusive marketing and recruitment practices within the for-profit sector, it is equally important that those efforts be implemented in a way that does not inadvertently limit educational opportunities for low-income students and other underserved populations.⁴³ Policymakers should consider establishing a transition plan to ensure any students displaced by federal law or regulation can continue to access postsecondary education and training. In addition, policymakers should consider developing additional measures of “gainful employment” (beyond the loan repayment and debt measures proposed by the Department of Education) to ensure that programs are delivering high-quality education or training leading to successful employment outcomes for individuals. Students should be empowered to make informed decisions about education and training options by ensuring that data on program outcomes and costs is publicly available to current and prospective students for all programs subject to regulation.



To download the complete version of National Skills Coalition's Training Policy in Brief, visit www.nationalskillscoalition.org/InBrief.

References

- 1 http://www.whitehouse.gov/the_press_office/Remarks-of-President-Barack-Obama-Address-to-Joint-Session-of-Congress/.
- 2 <http://nces.ed.gov/programs/coe/2002/analyses/nontraditional/sa01.asp>.
- 3 <http://www2.ed.gov/about/overview/budget/budget11/justifications/p-pell.pdf>.
- 4 PL 89-329.
- 5 PL 110-315.
- 6 PL 110-84.
- 7 PL 111-5.
- 8 Passed as Subtitle A of Title II of the Health Care and Education Reconciliation Act of 2010 (PL 111-152).
- 9 <http://www2.ed.gov/legislation/FedRegister/proprule/2010-3/072610a.html>.
- 10 Sections 101(b) and 102(b) and (c) of the HEA require that certain programs—including most degree and non-degree programs at proprietary and postsecondary vocational institutions, and some occupational training programs at public and private non-profit institutions—prepare students for “gainful employment in a recognized occupation” in order to participate in any Title IV, HEA student loan or grant program. However, this term has never been defined in law or regulation; the proposed regulations would establish a two-part test based on student loan repayment rates and debt-to-income ratios.
- 11 <http://www.ed.gov/news/press-releases/department-track-implement-gainful-employment-regulations-new-schedule-provides->.
- 12 <http://www.gao.gov/new.items/d10948t.pdf>. The report was revised and released in November 2010, which led some lawmakers to question the accuracy of the original report. See http://oversight.house.gov/index.php?option=com_content&view=article&id=1063:members-query-gao-on-revisions-to-proprietary-colleges-report&catid=22:releasesstatements.
- 13 See <http://harkin.senate.gov/documents/pdf/4ca4972da5082.pdf> and <http://harkin.senate.gov/documents/pdf/4c23515814dca.pdf>.
- 14 34 C.F.R. §600.2.
- 15 There is a limited exception for individuals pursuing a post-baccalaureate teacher’s certification.
- 16 20 U.S.C. §1087ss.
- 17 20 U.S.C. 1070a(b)(2)(B). Award Year 2010-2011 award schedules showing the award amounts based on EFC and COA may be found at <http://www.ifap.ed.gov/dpclatters/P1003.html>.
- 18 20 U.S.C. 1070a(b)(4).
- 19 20 U.S.C. 1070a(b)(5).
- 20 20 U.S.C. 1070a(c)(5).
- 21 Reflects \$4860 discretionary base award under the Consolidated Appropriations Act, 2010 (PL 111-117) and \$490 in mandatory increases authorized under the CCRAA.
- 22 <http://www2.ed.gov/finaid/prof/resources/data/pell-2008-09/pell-eoy-08-09.pdf>, Table 1.
- 23 The Recovery Act included an additional \$831 million in mandatory advance appropriations for Award Year 2010, but this funding was rescinded under SAFRA.
- 24 <http://www2.ed.gov/about/overview/budget/budget10/10action.pdf>.
- 25 <http://www2.ed.gov/finaid/prof/resources/data/pell-2008-09/pell-eoy-08-09.pdf>, Table 1.
- 26 <http://www2.ed.gov/about/overview/budget/budget11/summary/edlite-section3d.html#tables>.
- 27 <http://www2.ed.gov/finaid/prof/resources/data/pell-2008-09/pell-eoy-08-09.pdf>, Table 22.
- 28 <http://www2.ed.gov/finaid/prof/resources/data/pell-2008-09/pell-eoy-08-09.pdf>, Table 11. Calculations by National Skills Coalition.
- 29 <http://nces.ed.gov/pubs2010/2010162.pdf>, Table 3.2-E.
- 30 <http://www2.ed.gov/finaid/prof/resources/data/pell-2008-09/pell-eoy-08-09.pdf>, Table 18. Calculations by National Skills Coalition, percentages do not add to 100 percent due to rounding.
- 31 <http://nces.ed.gov/pubs2010/2010161.pdf>, Table 10.
- 32 <http://harkin.senate.gov/documents/pdf/4c23515814dca.pdf>.
- 33 20 U.S.C. §1087uu.
- 34 29 U.S.C. §2864(d)(4)(B).
- 35 <http://www.doleta.gov/usworkforce/wia/finalrule.pdf>.
- 36 <http://wdr.doleta.gov/directives/attach/TEGL/TEGL21-08acc.pdf>.
- 37 <http://www2.ed.gov/finaid/prof/resources/data/pell-2008-09/pell-eoy-08-09.pdf>, Table 2-A.
- 38 http://nces.ed.gov/programs/digest/d09/tables/dt09_205.asp.
- 39 <http://nces.ed.gov/datalab/quickstats/createtable.aspx>.

- 40 <http://www2.ed.gov/finaid/prof/resources/data/pell-2008-09/pell-eoy-08-09.pdf>, Table 13.
- 41 <http://www.all4ed.org/files/archive/publications/remediation.pdf>.
- 42 http://wdr.doleta.gov/research/FullText_Documents/Workers_in_Declining_Industries_Literacys_Role_in_Worker_Transitions.pdf.
- 43 <http://www.nationalskillscoalition.org/homepage-archive/documents/gemploymentcomments2010-09-09.pdf>.