

POLICY BRIEF 2013-04

Redesigning the Pell Grant Program for the Twenty-First Century

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Redesigning the Pell Grant Program for the Twenty-First Century

The Pell Grant program, authorized by the Higher Education Act of 1965, is the largest source of federal grant aid for postsecondary education. Over the forty years since the Pell Grant program was introduced, it has expanded dramatically in both size and scope. It currently serves an increasingly diverse set of students in an increasingly diverse mix of programs and institutions. Initially targeting just a small fraction of undergraduates, Pell Grants supported 9 million individuals (more than one out of every three undergraduates) in 2012–13, at a cost of \$32.8 billion.

Pell Grants were originally conceived as a program for recent high school graduates from poor families entering traditional four-year degree programs. Today, the program is also the federal government’s primary workforce investment effort, serving older students as they pursue a range of postsecondary opportunities. Despite the broadening of the program’s mandate, the structure of the program—a one-size-fits-all voucher—has remained fundamentally unchanged since it was introduced. With Pell expenditures more than doubling over the past five years, and in an era of increasingly tight budgets, questions are being raised about whether the program is meeting the needs of the twenty-first-century American economy and student population.

In a new Hamilton Project discussion paper, Sandy Baum of the Urban Institute and The George Washington University and Judith Scott-Clayton of Teachers College, Columbia

University, propose three major structural reforms to the current federal Pell Grant program to better serve students and displaced workers.

First, they propose augmenting the Pell Grant program’s current financial assistance mission with a new guidance and support mission: to provide timely information and coaching services to meet the needs of today’s student population. Second, they propose dramatically simplifying the eligibility and application process for Pell Grants, and fixing award eligibility for multiple years. Finally, they propose several changes to how Pell Grant awards are delivered to align the Pell Grant program’s incentives with the goal of promoting student success, and not just access.

These proposed reforms are tailored to the distinct needs and goals of the two subgroups of Pell recipients: dependent students, usually twenty-three and younger and financially dependent on their parents; and independent students, usually twenty-four and older and considered not reliant on their parents’ financial support in determining their need for financial aid.

The Challenge

Graduation rates for Pell Grant recipients are frustratingly low (table 1, first panel). Only about 45 percent of all Pell Grant recipients have completed any credential six years after entry; among dependent students, that figure is just under 50 percent, and among independent students, it is only 36 percent. While these statistics are certainly worrisome, noncompletion is not unique to Pell recipients: approximately half of all beginning students fail to complete a credential within six years of entering a program (table 1, second panel). These low completion rates not only represent forgone opportunities

TABLE 1.
Degree Completion Outcomes Six Years after Entry, for Beginning Undergraduates by Dependency Status and Pell Grant Receipt (percent)

	Total	Dependent students	Independent students
Beginning Pell recipients			
Bachelor’s degree	19.5	30.1	4.2
Associate degree	9.4	9.7	8.9
Certificate	15.9	10.7	23.3
No credential	55.3	49.5	63.7
All beginning undergraduates			
Bachelor’s degree	30.7	40.8	5.6
Associate degree	9.3	9.3	9.5
Certificate	9.4	6.0	18.0
No credential	50.5	43.9	66.9

Source: National Center for Education Statistics (NCES). 2009. "Beginning Postsecondary Students Longitudinal Study." Washington, DC. Available at <http://nces.ed.gov/surveys/bps/>.

for individual students, but also may contribute to broader economic challenges for the country as a whole.

These statistics suggest that there is room for improvement in the Pell Grant program. In addition to its traditional goals of expanding access to higher education and reducing the financial burdens on students and their families, the Pell Grant program can also serve as a tool to increase degree and certificate completion.

The reforms proposed by Baum and Scott-Clayton respond to four key challenges. First, students need better information and personalized guidance to help them make better choices about individual institutions and programs of study. Second, recent high school graduates face economic opportunities and constraints that are different from those facing older students who may have families of their own and different educational goals. With today's diverse population of students, the Pell Grant program's one-size-fits-all structure does not successfully meet the different needs of younger and older students. Third, applying for federal aid within the current system is far too complicated, and creates unnecessary barriers to student access. Fourth, the time students take to complete their degrees has increased substantially, but there are few incentives currently built into the Pell Grant program that encourage timely completion. Indeed, some features of Pell Grant regulations actually provide disincentives for timely completion.

The authors propose reevaluating the structure of the Pell Grant program to make every dollar of funding work better, and to ensure that the program better serves its recipients. A reformed Pell program that better reflects today's employment and education realities could more effectively guide students into programs in which they are more likely to succeed, help them prepare for stable employment and satisfactory earnings as well as more-fulfilling lives, and benefit the American economy overall.

A New Approach

Baum and Scott-Clayton propose augmenting the financial aid component of the Pell Grant program with guidance and support services that are specifically tailored for dependent and independent students. They also propose simplifications of the eligibility and application process. Finally, they propose strengthening incentives for student achievement and program completion for all Pell Grant recipients.

Establish guidance and support services tailored for dependent and independent students.

Citing evidence from recent studies, Baum and Scott-Clayton argue that all students need better information and guidance about the educational programs and institutions in which they have a reasonable chance of succeeding, the employment and graduate study options likely to be available when they complete

their studies, and the costs they will incur in completing their credentials. Independent students, most of whom have work or family responsibilities, may face barriers to success that are different from those faced by recent high school graduates. Therefore, the authors propose a structured support system to accompany the Pell Grant funding for both groups of recipients. They suggest that an investment on the order of 5–10 percent of current Pell Grant funding (\$2 billion–\$4 billion) could support meaningful and effective additional services for new recipients.

Relatively low-cost coaching services (ranging from \$200 to \$1,000 per student) can have substantial impacts on younger students' decisions to enroll in college, as well as their likelihood of completing the first year. Prior to enrollment, coaching services may help students interpret aid award letters and prioritize the tasks and paperwork required to complete the enrollment process. After enrollment, coaching services may help identify barriers to remaining in school and provide students with links to relevant, institution-specific resources.

Dependent students would receive light-touch, technology-facilitated guidance from the point of submitting a financial aid application through initial enrollment and academic coaching services through the first year. A number of private nonprofit and for-profit organizations provide services either directly to students or through contracts with institutions. Although personalized services would be more expensive, recent research suggests the impact may justify the cost, and may even exceed the impact of additional increases in financial aid on a per-dollar basis, suggesting that such services would be a beneficial addition to the current voucher-based Pell Grant program.

For independent Pell Grant recipients, particularly those looking to improve their employment-related skills, the authors propose mandatory meetings with a third-party career counselor before enrollment in a program of higher education. For example, counselors could be made available in redesigned and adequately funded One-Stop Career Centers, the workforce information and education offices established under the Workforce Investment Act of 1998; these One-Stops provide numerous services to job seekers at one location, thereby reducing their transportation and time burdens. Whether provided in these or other venues, these services should be designed to help students formulate their goals and make informed choices about the programs most likely to help them achieve those goals. Funding these facilities to assess and counsel independent Pell Grant recipients could significantly improve postsecondary completion rates. These savings to students and taxpayers have the potential to compensate for the investment in better guidance both before and during postsecondary studies.

Developing the optimal design for these counseling services will require careful experimentation and evaluation of

alternative models. There is a growing body of research on the effectiveness of occupational training programs and support services; the authors suggest that this evidence could provide the basis both for the initial basic design of the program for independent students and of pilot programs around the country to develop effective local strategies.

Simplify the current eligibility and application process to allow for easier access to Pell Grants.

Currently, students must fill out a lengthy and complicated Free Application for Federal Student Aid (FAFSA) form each year to maintain eligibility for federal funds. Recent research strongly indicates that the complexity of the application process creates barriers to student access. For instance, students in low-income families who receive personalized information about eligibility and assistance in completing and submitting a FAFSA form are significantly more likely to apply to and enroll in college, and more likely to stay enrolled longer.

In the authors' proposal, the Pell program would automatically calculate eligibility for young people when they reach age seventeen using information retrieved electronically from their parents' tax returns for the prior three years. This would enable families to be informed of their eligibility for Pell Grants approximately a year before students graduate from high school. The Pell eligibility set at age seventeen would be valid until the student automatically becomes an independent student at the age of twenty-four. An appeals process would allow awards to be adjusted based on unusual changes in family circumstances.

Students enrolling at age twenty-four or older would submit a brief application allowing data to be automatically retrieved from the IRS to determine their eligibility for grants, rather than manually gathering income, assets, and other information and inputting it into the FAFSA forms. Students would be eligible if their average income over the past three years fell below a specific income threshold. If eligible, they would receive adequate funding to complete their credentials, for five years or until they left or completed the program in which they enrolled.

Fixing eligibility for multiple years would greatly reduce the financial uncertainty students might face when beginning a postsecondary program. It would also help address the problem of students failing to reapply for aid each year.

To make it easier for both independent students and families with dependent students to determine their aid eligibility far in advance of need, the authors suggest that award sizes be based on a simple formula, with widely available look-up tables based on income and family size. For most students, eligibility would be based only on adjusted gross income and family size. For dependent students, eligibility would be based only on parents' financial circumstances, and neither students' income nor the timing of siblings' enrollment would affect the amount of aid awarded.

Roadmap

- In the upcoming reauthorization of the Higher Education Act in 2014, Congress will make reforms to the Pell Grant program to improve its efficiency and improve student outcomes. These reforms include the addition of new guidance and coaching services, dramatic simplification of the eligibility and renewal process, and restructuring of how grants are disbursed to promote timely student success.
- The Department of Education will use information provided on a simplified Pell application to proactively reach out to younger students with timely information and links to additional sources of support. The Department of Education could contract out personalized services to trusted third parties, with the goal of providing younger students with assistance on aid award letters, paperwork, and time management through the first year of study.
- One-Stop Career Centers—a program administered by the Department of Labor—or similar organizations will provide third-party pre-enrollment counseling for independent students. By requiring students to receive independent guidance before committing to specific programs and institutions, the federal government can ensure that independent students are using their Pell Grants in ways that directly enhance their career goals. This would require an investment on the order of 5–10 percent of current Pell Grant funding (\$2 billion–\$4 billion).
- The Department of Education will simplify Pell Grant eligibility tables based on a need analysis formula using only adjusted gross income and family size for most applicants, and will work with the Internal Revenue Service to facilitate the use of existing income tax data to automatically calculate eligibility. The Pell program would determine eligibility once; eligibility would remain fixed for several years to reduce financial uncertainty and eliminate the need for students to reapply.
- The Department of Education will modify the formula for allocating Pell Grant funding to be based on the number of credits attempted and to allow students to be funded to progress more rapidly through their programs. Currently, only students enrolled for twelve or fewer credit hours per semester receive differential funding based on the number of credits taken each semester.
- The Department of Education will also pilot an incentive program for college completion. Students would be rewarded with a \$250 or \$500 bonus if they complete their associate or bachelor's degree on time. Even when fully implemented, the costs of these incentives would likely increase total Pell spending by less than 2 percent per year.
- The Department of Education will centralize tracking of SAP requirements that currently by institutions within the same system that currently monitors Pell Grant disbursements, so students who lose eligibility at one institution cannot simply transfer to a different one.

Learn More about This Proposal

This policy brief is based on The Hamilton Project discussion paper, “Redesigning the Pell Grant Program for the Twenty-First Century,” which was authored by:

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The authors also suggest reaching out to students even earlier in their academic careers. Early awareness of funding available to pay for college can have a positive impact on academic preparation and planning for college. Such gains could be achieved by reaching out to middle school and high school students with information about the availability of and eligibility rules for Pell Grants. Because eligibility is based on information the IRS already has, the Pell program would proactively notify those who are flagged as eligible about their status either directly or via modules in tax preparation software.

Enhance completion incentives to support student success.

Baum and Scott-Clayton suggest that the incentives embedded in the Pell Grant program should be better aligned to the goal of promoting timely completion by students in their postsecondary programs. They propose that Pell Grants for all recipients should be based on the number of credits that students enroll in. Currently, funding levels depend on number of credits attempted only for students attending less than full-time (fewer than twelve credit hours per semester), but not for students attending more than full-time. Timely completion requires an average of fifteen hours per semester; thus, this system does not encourage students to earn credit hours with the intensity required to complete a bachelor’s degree in four years or an associate degree in two years. A system that funds students according to the number of credits for which they are enrolled would no longer penalize students who want to finish faster. It would also allow students to receive additional Pell Grant funding if they choose to take additional courses during the summer term.

This credit-based system would include several protections against overuse. First, lifetime Pell Grant awards will be capped at a fixed number of credits so students who accelerate will have fewer credits available in future years; this means

there is no incentive for institutions to simply inflate credits or for students to take more credits than are necessary for the degree as occurs under the current program.

Second, students would be eligible for Pell Grants to cover up to 125 percent of the credits required for their specific degree or credential, up to a lifetime maximum of 150 credits, encouraging them to take the credits required to graduate, but ensuring that they do not take an excess of credits in order to keep receiving grant money.

Third, satisfactory academic progress (SAP) requirements, which typically require that students maintain a minimum GPA of 2.0 and complete at least two-thirds of credits they enroll in, would be strengthened so that students will have incentives to attempt only those credits they think they can successfully complete. Under the current system, a student who loses Pell Grant eligibility for failing to make academic progress at one institution can access the program without question at a different institution.

While students already can reap significant real-world benefits by completing their degrees in a timely manner, students might pay more attention to a nominal financial incentive that is concrete and immediate. Baum and Scott-Clayton propose on-time completion bonuses of \$250 for completing an associate degree within two calendar years of entry or \$500 for completing a bachelor’s degree within four calendar years of entry. Currently, only 20 percent of Pell recipients complete a bachelor’s degree within six years and only 10 percent complete an associate degree within six years. Thus, even assuming that all students who would ever graduate would now graduate on time under these reforms, the cost would average only \$125 per Pell recipient. This represents less than 5 percent of the average annual award.

Conclusion

The Pell Grant program has played an important role over the past forty years in helping millions of low-income Americans attend college or receive workforce training. As currently structured, however, the Pell program provides grants without providing any assistance for students as they attempt to steer their own courses through the maze of available options, and lacks a sufficient strategy for supporting student success. Furthermore, as the Pell Grant program continues to grow to meet the financial needs of an increasingly diverse student body, it is under heavy scrutiny by policymakers in an era of tight budgets. Baum and Scott-Clayton propose reforming the Pell Grant program in order to better serve all recipients in the face of increases in the diversity of the student population and the programs and institutions they may attend. Enacting these reforms would leave the existing structures for processing and delivering Pell Grants intact, but would better address the academic needs and workforce goals of both dependent and independent recipients by transforming the program to meet the needs of a twenty-first-century workforce.

Questions and Concerns

1. How can we afford to add new guidance and outreach services to the Pell program when many critics believe existing costs are already too high?

One reason critics may perceive current costs as too high is because of dissatisfaction with the program's results. The authors believe the program should be designed to maximize its impact on both student access and success per dollar of available funding, and that it is possible to separate questions of structure from questions of funding. The proposed support services would add costs, but potentially less than initially meets the eye because the services would be per recipient rather than per recipient per year. For example, with 2.6 million new independent Pell recipients in 2011–12, providing each recipient with guidance and counseling worth \$500 would cost just \$1.3 billion, which is less than 4 percent of current Pell spending. This should be a manageable additional cost, and research evidence suggests it could have a meaningful impact on student outcomes. If no additional funds are available, the additional services could be financed by setting the per credit award size to maintain overall cost neutrality.

2. If students can get more Pell assistance for taking more credits, won't they be inclined to overload on courses and balloon the costs of the program as the summer Pell did?

To the extent that students accumulate more credits and thus acquire more education, the authors view this as a good outcome. By placing lifetime limits on eligibility, the incentive for students to take wasteful credits will be reduced because doing so will leave them with fewer credits available in the future. Moreover, strengthening the existing SAP requirements that track students' progress toward completing a degree or certificate reduces the incentives for students to take more courses than they can reasonably handle in a given term.

3. Shouldn't concerns about the quality and effectiveness of existing One-Stops make us hesitant to require all independent Pell recipients to use them or services like them?

The requirement proposed here that independent students receive advising from a disinterested third party before enrolling in a postsecondary program does not depend on One-Stops. The fundamental idea is that these students need assistance in assessing their own prospects and in determining the ability of the many available programs to meet their needs. Institutions with an interest in students' enrollment are not in a position to provide objective guidance. The authors suggest the existing One-Stop system as a starting point to avoid establishing a second parallel bureaucratic structure, but it is possible that the whole system should be replaced. A number of experts have proposed reform of the existing One-Stop system.

The authors' intent is to stimulate a discussion of the best approach to meeting this need and to encourage experiments with rigorous evaluation of alternative approaches. The idea is to support services that will supplement those provided by institutions, particularly those in the for-profit sector and in community colleges, which educate the vast majority of independent students.

4. The proposed Pell Grant reforms focus on modifying student choices and behaviors to improve their postsecondary success. Don't we also have to change the way institutions perform in order to ensure that more Pell Grant recipients earn degrees and certificates?

Improving the success of Pell Grant recipients certainly requires changes at the institutional level. This likely requires directing students to institutions with stronger records as well as improved guidance, support, and instruction within institutions. Changes to institutional eligibility for participation in Pell are beyond the scope of this paper, but it is possible that the requirements need to be tightened to eliminate the worst institutional actors from the system. The authors have supported other proposals that direct some federal financial aid funds to institutions based on their success in supporting Pell recipients through their studies. However, the authors oppose making individual students' Pell Grants a function of institutional performance.

Highlights

In a new Hamilton Project discussion paper, Sandy Baum of the Urban Institute and The George Washington University and Judith Scott-Clayton of Teachers College, Columbia University, propose three major structural reforms to the current Pell Grant system, each tailored to the different circumstances of independent and dependent students.

The Proposal

Establish guidance and support services tailored for both dependent and independent students.

All students need better information and guidance about the educational programs and institutions in which they have a reasonable chance of succeeding, the employment and graduate study options likely to be available when they complete their studies, and the costs they will incur. Independent students, most of whom have work and/or family responsibilities, face barriers to success that are different from those faced by dependent students, most of whom are recent high school graduates, so the authors suggest slightly different services for each group.

Simplify the current eligibility and application process to allow for easier access to Pell Grants.

When young people reach the age of seventeen, the Pell program would automatically calculate their Pell Grant eligibility based on their parents' tax returns for the prior three years. For all students, eligibility would be based on just income and family size, and for all, eligibility would be fixed for multiple years. This would greatly reduce the financial uncertainty that students face when beginning a postsecondary program and eliminate the problem of students failing to reapply for aid each year.

Enhance timely completion incentives to support student success. Students would be funded according to the number of credits for which they are enrolled, so that recipients who want to finish on time are no longer penalized relative to those who stretch out their studies. Students would be eligible for Pell Grants to cover up to 125 percent of the credits required for their specific degree or certificate, up to a lifetime maximum of 150 credits, and those who finish on time would receive a small bonus.

Benefits

The proposed Pell Grant reforms would for the first time make Pell a true program with students as participants, and not just a grant with students as recipients, and would increase the likelihood that beneficiaries will succeed in college. Moreover, the program would be tailored to the different needs of dependent and independent students, and would better achieve the array of goals it has grown to serve. Access to higher education for low-income students would be improved, and students would be incentivized to complete their degrees in a more-timely manner at a lower cost both to them and to the Pell Grant program.



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