Redesigning Pell Grants to Reflect New Realities

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Key Points

- Many Progressives are calling for “Doubling Pell,” but that approach is unlikely to achieve greater college affordability or close chronic equity gaps, even though it will add $45 billion or more per year to current costs.
- Instead, Pell Grants should be redesigned to recognize how much higher education has changed since the program was first enacted and how the program has performed over the past half century.
- A key part of a new strategy would be to redesign Pell Grants to cover basic living costs for low-income students enrolled half-time or more in any postsecondary education or training program, including an apprenticeship. Focusing Pell Grants on living costs would fundamentally change federal policy signals and incentives, shifting the primary responsibility for providing affordable tuition and aid packages to states and higher education institutions.
- To make Pell Grant reforms even more effective, Congress should make other policy changes, including expanding tuition tax credits for middle-income taxpaying families and providing institutions with incentives to enroll and graduate Pell Grant recipients.

Executive Summary

It's time to update Pell Grants. Not only is American higher education today very different than it was when the program was first enacted in 1972, but we have also learned much about how federal student aid works in the past fifty years.

Over the past half century, the federal government has invested nearly $1 trillion in a voucher-based, direct-aid strategy that puts money into the hands of students and lets them vote with their feet. The hopeful intention was that colleges would compete for these empowered students based on quality, cost, relevance, and the life outcomes of their graduates.

Pell Grants have been the primary vehicle in this strategy for helping disadvantaged students, with the explicit intention of increasing equity in higher education access and success. Yet, chronic equity gaps persist—as participation, completion, and attainment rates of low-income and minority students remain well below those of affluent and White students.

A popular notion these days, especially among Progressives, is that doubling the Pell Grant maximum award is the best way to make college more affordable. After all, Pell Grants have helped tens of millions of students attend college, and higher grant amounts would seem destined to help millions more. The advocates for this solution point out that maximum Pell Grant awards have lagged the explosive growth of published college tuition over the past decades. Doubling the maximum award, it is asserted, will restore the purchasing power of Pell Grants and help close chronic equity gaps.

Under current policies, however, doubling the maximum Pell Grant will likely lead to higher tuition and is unlikely to close chronic equity gaps. The only certain result is that the annual federal appropriations for Pell Grants would balloon from roughly $30 billion to $75 billion or more.[1]

The federal government's reliance on direct student aid to subsidize higher education costs has inadvertently created adverse incentives that sharply limit the strategy's cost effectiveness. Doubling the Pell Grant maximum would not correct these policy signals and, if anything, could make matters worse:

- **Still-Rising Tuition.** Pell Grants must first pay tuition and fees, so doubling the Pell maximum award would be an incentive for institutions to increase tuition and fees even further, canceling much of the hoped-for increase in Pell purchasing power.

- **Living Costs.** Under current rules, tuition absorbs most Pell Grants, leaving most Pell recipients scrambling to cover their basic living expenses through loans, other grants, or work. Even if the Pell Grant maximum is doubled, millions of Pell recipients will still need to pay or borrow for some or most of their basic living expenses.

- **Falling Completion Rates.** College completion rates for low-income and minority students have not improved over time despite large investments in Pell Grants and other student aid. With a big increase in Pell Grants, college completion rates could fall further, because the larger grants might cause more students to give higher education a try, at least for a while. If history is a guide, many would not finish their degrees.

- **Less-Targeted Pell Benefits.** Increases in the Pell Grant maximum not only increase the awards for current Pell recipients, but they also make more middle-class students eligible for partial Pell awards. Doubling the Pell maximum will bring several more million recipients into the program, dramatically adding to the total program costs while further reducing the progressivity of Pell Grant benefits.

- **Tax Credit Impacts.** Millions of current Pell Grant recipients are denied some, or all, benefits from tuition tax credits because the grants pay for tuition. With a big increase in Pell Grants, more students from taxpaying families will be eligible to receive Pell Grants, and the overlap between Pell Grant and tuition tax credit beneficiaries will increase.

Needed: A New Strategy to Meet the New Realities

A much better approach than doubling Pell is to adjust policies for Pell Grants and other aid programs to cost-effectively meet the needs of today's students and address chronic equity gaps. In making needed changes, policymakers should also rely on a half century of experience with Pell Grants and other federal aid programs.

A key part of a new strategy would be to redesign Pell Grants to no longer apply to tuition and required fees and instead cover the basic living costs for low-income students enrolled half-time or more in any postsecondary education or training program. For students living on campus, Pell Grants would cover the full costs of room and board as a condition placed on the institution.[2] Pell-eligible recipients living at home or off campus would receive benefits for each month they are enrolled, like veterans' benefits.

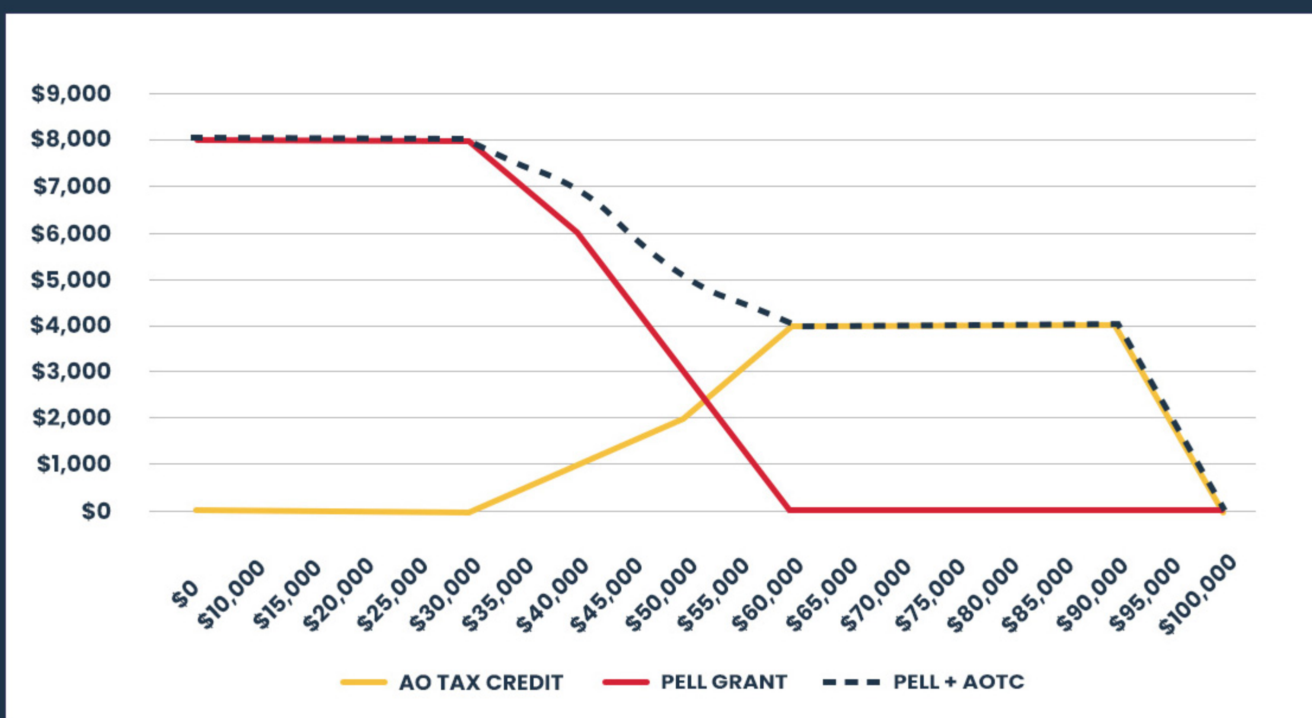
To make these Pell Grant reforms work best, many other things must happen. Chief among them, states and institutions must develop tuition and aid policies that make college more affordable to students from families with a broad range of incomes. States can help in this effort by tying tuition for public colleges to the average family's ability to pay, measured as a share of state GDP per capita, and then committing to providing enough grant aid to cover tuition and fees for students from families that cannot afford them.

Private institutions must also reconsider their tuition and aid policies as Pell Grants shift to cover living expenses. With Pell Grants no longer covering tuition, most of these institutions will be under pressure to slow the growth of or lower tuition and fees. To aid in this effort, all institutions should be required to spend 5 percent of their endowments to maintain their tax-deductible charitable status, paralleling the requirement for private foundations since 1969. Ideally, institutions would devote most of this additional payout from their endowments to moderate their tuition, which in turn will reduce pressure to increase the student aid they provide.

In addition, under this alternative strategy, the federal government must take a series of steps to correct weaknesses in the current system. These include the following reforms:

- **Congress should expand federal higher education tax credits to help students and families who pay federal income taxes.** Complementing the change to focus Pell Grants on covering living expenses for low-income students, the American Opportunity Tax Credit (AOTC) should be expanded to help offset tuition costs for middle-income families, while eliminating the current provision that provides refundability. The Lifetime Learning Tax Credit should also be expanded to encourage taxpayers of all ages to enroll in a wide variety of postsecondary and workforce programs that can lead to better jobs and a better life. Figure 1 shows how Pell Grants and AOTC tax credits might be better integrated.

FIGURE 1 – Proposed Pell Grant and American Opportunity Tax Credit by adjusted gross income



- **Congress should redesign the Supplemental Educational Opportunity Grant (SEOG) program to encourage all participating institutions to enroll and graduate more Pell Grant recipients.** Future SEOG funds should be distributed based on the number of Pell Grant recipients enrolled and the number who graduated in the previous year. Also, unlike the current SEOG program, institutions would be free to use these funds in whatever way they thought best to enroll, retain, and graduate Pell recipients.

- **Congress should streamline the student aid application process by replacing the FAFSA with a process that allows taxpaying families and independent students to apply for aid simply by submitting their income tax returns for the prior year.** Students from families that do not pay income taxes and/or are eligible to receive support from public programs such as Medicaid or SNAP would automatically qualify for full Pell Grant awards. Another improvement would be to use the simplified tax rules to estimate a family's ability to pay for college rather than the current complex rules for precisely calculating the family contribution.

- **Congress should create a new federal program that matches what states and community groups spend on early intervention efforts.** Private early intervention efforts that provide counseling, mentoring, and last-dollar financial assistance to groups of disadvantaged students have been spectacularly successful in raising the college participation and completion rates of these students. In contrast, the federal government instead funds programs, like TRIO or GEARUP, which are inherently flawed because they work through, and are constrained by, schools and colleges. The federal government could stimulate significant improvement in college participation and completion rates by incentivizing states and community groups to implement robust early intervention programs.

The Benefits of Such Reforms

These reforms would yield several important benefits, including:

- **Higher Participation and Completion Rates.** Since low-income students would no longer need to borrow to pay their living expenses, attending postsecondary education and training programs would become personally less financially risky. That, in turn, would have a positive effect on persistence and completion rates.

- **Better Targeting to the Most Disadvantaged Students.** The Pell program would become better targeted to students from the lowest income quartile, increasing effectiveness at closing chronic equity gaps.

- **Slowing or Reversing Tuition Increases.** Institutions would no longer have the incentive to raise their tuition and fees whenever Pell Grants increase because they could no longer capture that revenue stream. Meanwhile, Pell recipients would become more sensitive to tuition increases as they would need to cover those costs through institutional aid, state aid, earnings from work, or student loans.

- **Rationalizing Pell and Tax Credits.** Pell recipients who pay income taxes would no longer have their eligibility for tuition tax credits reduced due to receiving a Pell Grant, further enabling them to afford higher education. The overlap between Pell Grants and tuition tax credits would also be sharply reduced.

- **Aligning Institutional Interest to the Goal of College Completion.** By modifying the SEOG program, Congress would encourage a broad range of institutions to enroll and graduate Pell Grant recipients. Encouraging state and community-based early intervention programs would also lead to improved participation and completion rates of disadvantaged students.

Leveraging Student Loan Changes to Pay for These Reforms

While the reforms described in this paper are inexpensive compared to doubling the maximum Pell Grant, they do have associated costs. One might justify those costs simply based on the increased equity and productivity achieved by producing higher rates of college participation and completion. Still, it would be healthy given the federal government's current fiscal circumstances to cover the additional costs outright. Changes in student loan policies could net significant federal cost savings, and those could be applied to cover the cost of reforms described in this paper.

The Path Forward

These proposed reforms to the Pell Grant and other student aid programs are designed to make college affordable and productive for students, while watching out for the interests of taxpayers. Nonetheless, they will almost certainly be opposed by the higher education lobby, which benefits financially and avoids accountability due to flaws in the current system. Similarly, they will be opposed by the Progressives, whose goal seems to be "free college," regardless of the desires of students or the cost to taxpayers. Congress should ignore pressure from such groups in order to help make college more affordable and close the equity gaps.

Introduction

More than 80 million students have received a Pell Grant since the program was first enacted as Basic Grants in 1972. At least half of these Pell recipients could not have gone to college without this help, and many others would not have been able to attend the college of their choice. But it is also the case that Pell Grant awards have not kept pace with the exploding cost of college over time. This fact has led many to argue that doubling the Pell Grant maximum award is the best way to improve access and equity in American higher education.

A closer look at the data indicates a different story. The infusion of nearly a trillion dollars over the past half century into Pell Grants and other student aid programs[3] has largely not closed chronic equity gaps. The rates of college participation, completion, and attainment for low-income and minority students remain well below those of affluent and White students.

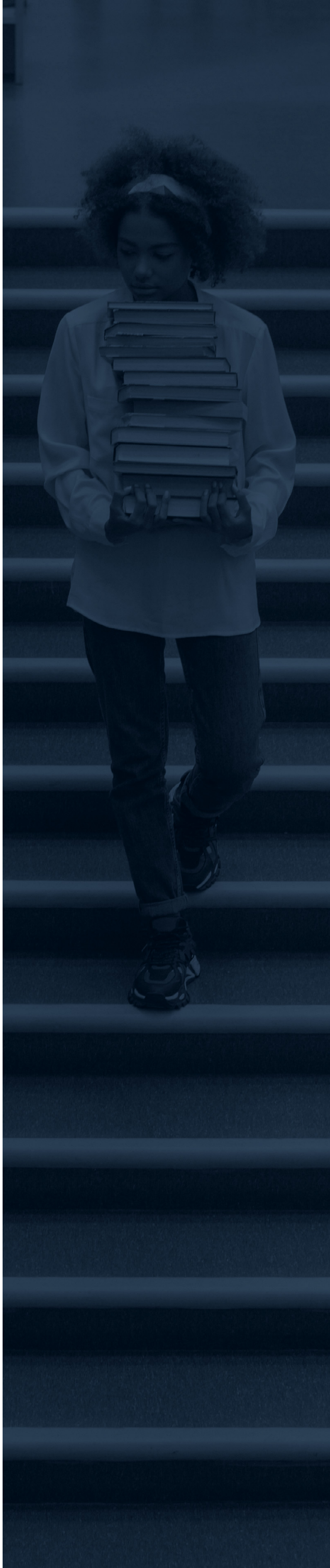
It's also important to recognize that American higher education today is much different from what existed when Basic Grants were enacted a half century ago. A few of these new realities include the following:

- **College is much more expensive.** Published prices for tuition and fees today are roughly three times higher in real terms than they were when the program was established in 1972.

- **Typical students are different.** More than one-half of Pell recipients today are financially independent compared to one-third when the program was established. Two-fifths of college students today are at least twenty-five years old compared to less than one-third in the 1970s.

- **Distance education is now common.** One in two college students today take at least one course at a distance, compared to less than one in ten in the 1970s.

- **Interactions with other state, institutional and federal aid are more complex.** Unlike in its early years, Pell Grants are today just one piece of a multifaceted student aid puzzle. The federal government now offers sizable tuition tax credits as well as tens of billions of dollars in student loans every year. State funding of student grants has grown substantially, and grants and discounts offered by institutions are now three times larger than funding for Pell Grants.



These and other new realities suggest it is time to rethink the voucher-based strategy on which federal policy has relied for the past half century. While this strategy has enabled tens of millions of students to go to college, it has not been as successful as hoped. One key reason is that vouchers, like Pell Grants, work best in a competitive marketplace with diverse supply. They do not work well when supplemented by liberal borrowing and institutions can raise prices at will to capture revenue from increased voucher amounts.

Instead of doubling the value of Pell Grants, this paper suggests that the federal government should adopt a set of policy reforms that will produce much better results at little or no additional federal cost. It contains the following four sections:

First, this paper presents a brief history of Pell Grants and tuition tax credits to provide a better sense of the initial purposes of these key forms of non-repayable aid. It illustrates trends in Pell Grant funding and the Pell maximum award over the past twenty-five years, and it compares them to the growth in education tax benefits including two tuition tax credits, other forms of non-repayable aid, and state support of higher education. For context, it compares growth in all of these areas to increases in the general cost of living and college charges.

Second, the paper examines trends over time in college participation, attainment, and completion rates for different groups of students. This analysis shows that, while college participation and attainment rates for all groups have grown over time, chronic equity gaps for these metrics have not closed. In contrast, the college completion rate has not grown and remains modest, while disparity in completion rates remains high.

Third, the paper examines why, despite the large infusion of funds over a sustained period, chronic equity gaps in higher education have not closed. It addresses the extent to which the persistence of equity gaps may be a function of Pell Grants and other student aid programs. In this context, it concludes with a discussion of possible reasons that doubling the maximum Pell award may not help to close these equity gaps.

Finally, the paper recommends a set of policies to modify Pell Grant and related programs and policies that would be much more effective at closing chronic equity gaps than doubling the maximum Pell Grants and would do so at a fraction of the additional federal cost.

The Pell Program's Initial Purposes, History, and Funding Trends

This section begins by describing the origins and initial purpose of Pell Grants when they were enacted as Basic Grants in 1972 and notes how those purposes have changed over time. It then describes the environment and the reasoning that led to two tuition tax credits being enacted a quarter century later in 1997 and how these tax credits have been modified in the subsequent quarter century. The section then examines program funding for Pell Grants over the past twenty-five years, including changes in the Pell Grant maximum award and how this compares to funding of tuition tax credits and other forms of non-repayable aid. The final part of this section compares

Pell Grant funding with the largest category of public support of higher education—state funding of public postsecondary education.

The Initial Purpose of Pell Grants

When the Basic Grants program was enacted in 1972, it represented a sharp turn from a key policy embedded in the Higher Education Act of 1965 (HEA). As such, Basic Grants are an early example of how a key component of the Great Society programs of President Lyndon B. Johnson was reconsidered within a decade.

The authors of the HEA in 1965 sought to address chronic inequities in higher education primarily by providing funds to institutions so that they could, in turn, provide grant aid to financially needy students. But soon after the HEA was enacted, it became apparent that this approach was not working as intended. The basic problem was that the number of students reasonably classified as being financially needy far exceeded the number of grants that were being funded. As a result, institutions had a great deal of discretion over who would receive these grants, and there was concern that many institutions were not sufficiently targeting aid toward the neediest students.

Pell Grants were renamed for Senator Claiborne Pell of Rhode Island in 1980 because he was the chief sponsor of the legislation establishing Basic Grants. The (possibly apocryphal) story is that Senator Pell, as he was skiing, had a vision of a program in which students would know by the ninth grade or even earlier how much federal aid they would be eligible to receive when they reached college age.

> The authors of the Higher Education Act originally sought to address inequities by providing funds directly to institutions, not indirectly through needy students.

Sometimes forgotten in the retelling of this story, however, is that others had argued for a fundamental reform in the HEA structure before Senator Pell skied down the slope. For example, a working group headed by Alice Rivlin at the U.S. Department of Health, Education, and Welfare (HEW) issued a report at the end of the Johnson administration that argued the need to change some of the basic parameters of the HEA when it came to financial aid. The Rivlin report solution was to move to a voucher-like program in which all eligible students would be able to receive a grant that they could use at the institution of their choice. Also lost in the fog of history was that key staff in the Nixon administration argued for moving to a system of one grant, one loan, and one work-study that also sought to provide aid on a more systematic basis than what was allowed in the HEA.

Each of these ideas and others funneled into what became a highly contentious debate over how future grant aid would be provided during consideration of the Education Amendments of 1972. It is worth noting that, at the time, the higher education associations generally lobbied against Basic

Grants because they would reduce the discretion of colleges and universities over financial aid awards. Since then, however, the higher education establishment has become among the strongest supporters of Pell Grants, presumably because they produce large amounts of money for thousands of campuses.

A Brief Legislative History of Tuition Tax Credits

The federal government began offering tax-based incentives for higher education in 1954. At that time, these educational tax benefits excluded scholarships and fellowships from taxation and allowed parents to claim tax exemptions for their children between the ages of nineteen and twenty-three if they were enrolled in college.[4]

For the next several decades, Congress avoided postsecondary tax credits. A primary impetus for creating the Guaranteed Student Loan (GSL) program in 1965 was to avoid passage of tuition tax credits. When pressure to enact tuition tax credits built again in the second half of the 1970s, it was headed off by the passage of the Middle-Income Student Assistance Act (MISAA) in 1978, which increased the Pell maximum award, expanded income eligibility, and removed the income cap on student loans so that all students regardless of family income could borrow interest-free in the GSL program (a provision that was cut back in 1981 after President Ronald Reagan took office).

The federal role in providing tax benefits for higher education, however, took a sharp turn in 1997 when Congress enacted two tuition tax credits at the urging of President Bill Clinton, who had promised tax credits to help the middle class afford college costs during his reelection campaign in 1996. This legislation represented a deliberate shift away from what had become the traditional reliance on grants, loans, and work-study as the primary means for making college more affordable.

The federal role in providing tax benefits for higher education took a sharp turn in 1997 when Congress enacted two tuition tax credits at the urging of President Bill Clinton.

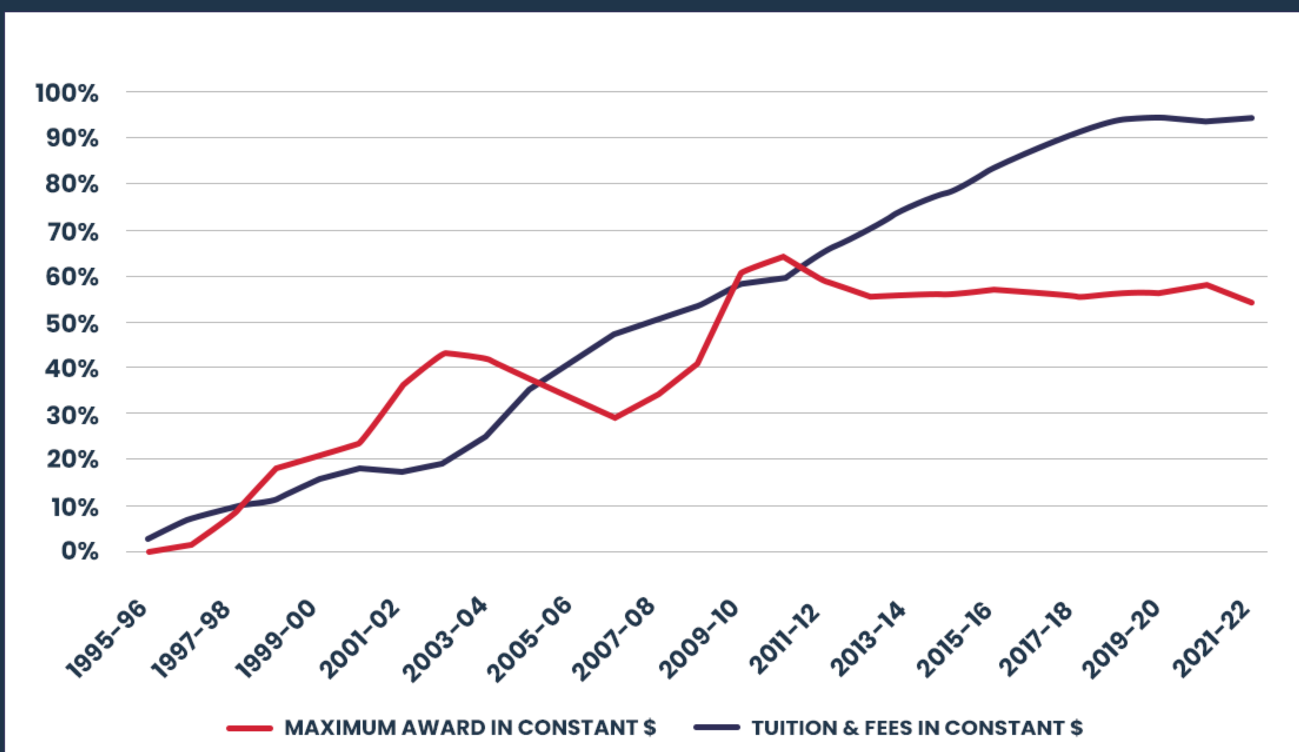
The primary education tax benefit in the 1997 legislation was the Hope Tax Credit, which tried to capture the intent of the Georgia Hope Scholarship by offering income tax credits for tuition and fees paid by parents up to an annual maximum of $1,500. President Barack Obama called for modification of the Hope Tax Credit as part of his 2008 presidential campaign, and in 2009, legislation changed the name of the credit to the *American Opportunity Tax Credit* (AOTC). It also modified several key parameters, including increasing the maximum annual credit to $2,500, expanding income eligibility for the credit, and making it refundable up to $1,000 to students whose families paid little or no income taxes. The AOTC was made permanent in 2018, totally wiping the Hope Tax Credit off the books.

The *Lifetime Learning Tax Credit* was the other postsecondary tax credit created in 1997. Its primary intent was to aid students older than traditional college age, especially those who are currently employed. There have been far fewer changes to the Lifetime Learning Tax Credit, and it has become a secure source of support for older students. Today, it allows for a non-refundable annual tax credit of $2,000 for postsecondary or workforce program fees and tuition.

Trends in Pell Maximum Awards

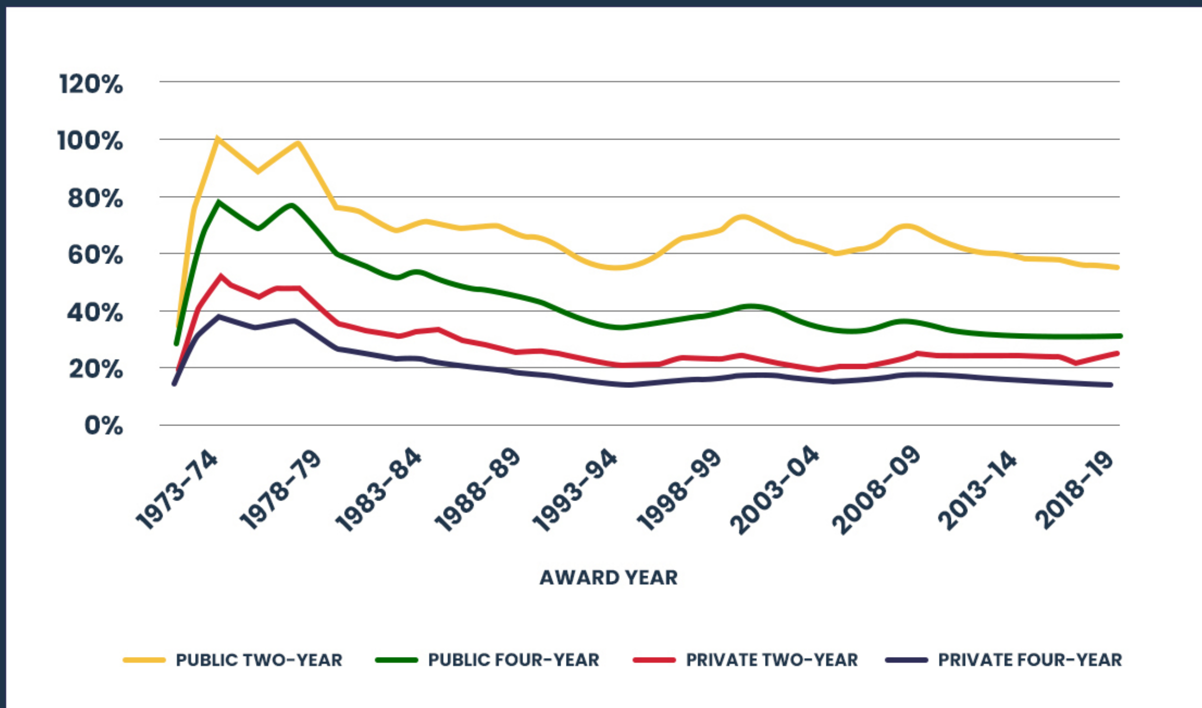
Figure 2 shows trends over the past twenty-five years in the Pell Grant maximum award and published college tuition and fees. As indicated, the maximum award is now 50 percent higher when adjusted for the general rate of inflation than it was twenty-five years ago. But college tuition has risen much faster than inflation, so the maximum award has consistently lost value relative to college charges. From 2002 to 2022, for example, the Pell Grant maximum as a share of public tuition and fees fell by one-third; the drop in the share of private tuition and fees was much less (22 percent to 18 percent).[5] Figure 3 indicates that Pell Grants have been dropping as a share of tuition at different types of institutions since the program began in 1972.[6] This lag in the Pell Grant maximum relative to what colleges charge has been used to advocate for a big increase in the Pell maximum award.

FIGURE 2 – Changes in maximum Pell Grant award and published tuition and fees in constant dollars, 1995-96 to 2021-22



SOURCE: COLLEGE BOARD, TRENDS IN STUDENT AID, 2022, ONLINE DATA TABLE 8 AND DIGEST OF EDUCATION

FIGURE 3 – Percentage of tuition, fees, room, and board covered by the total maximum Pell Grant, by institutional sector: AY 1973-1974 to AY 2020-2021



SOURCE: CRS CALCULATIONS USING DATA FROM NATIONAL CENTER FOR EDUCATION STATISTICS (NCES), *DIGEST OF EDUCATION STATISTICS, 2021,* TABLE 330.10.

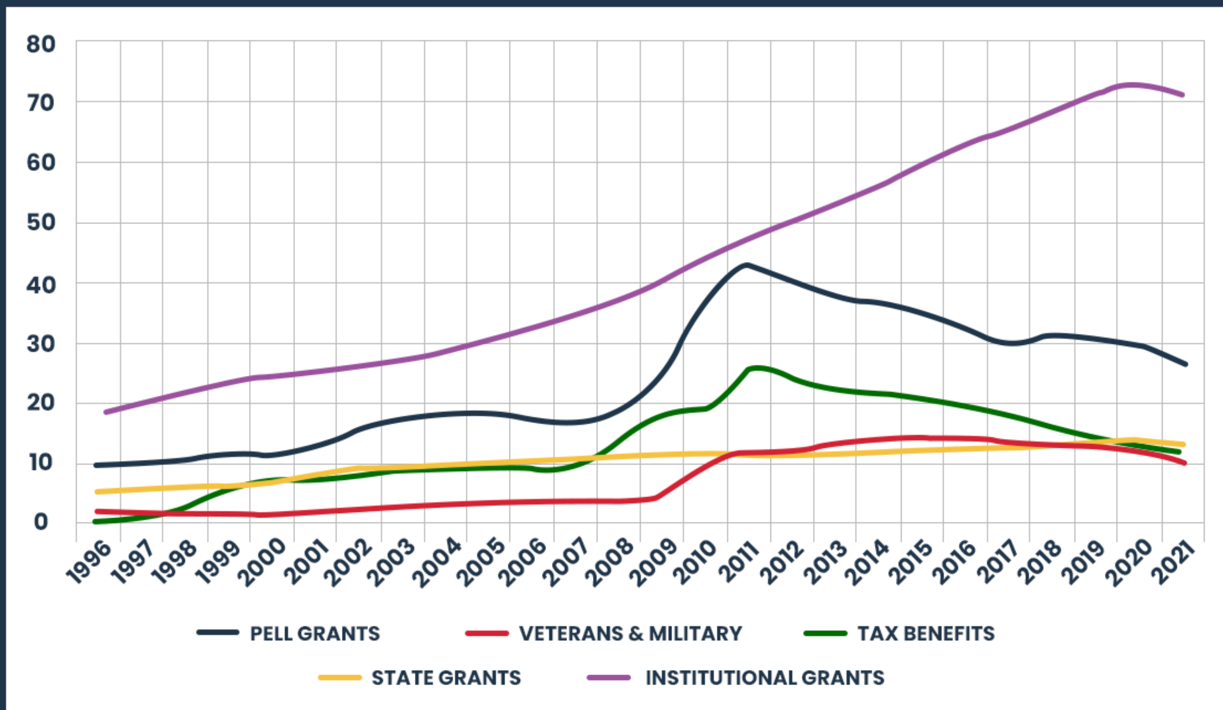
Trends in Funding for Non-Repayable Aid

Figure 4 below shows trends over the past twenty-five years in Pell Grant funding compared to other forms of non-repayable aid, including educational tax benefits, veterans' educational benefits, institutionally funded grants and discounts, and state grants. Several observations seem merited:

First, total annual Pell Grant funding, when adjusted for inflation, has varied over time. It grew in fits and starts from 1996 through 2008, when funding doubled in real terms in response to hardships created by the Great Recession. Since then, however, real Pell Grant funding has declined and now is 40 percent less than when it peaked in 2011. As a result, although Pell Grant funding in 2021 was nearly three times larger in real terms than it was in 1996, it was less than half of total government-funded non-repayable aid.

Second, funding of Pell Grants and educational tax benefits—primarily tuition tax credits[7]—has moved in a fairly similar way over time. Tuition tax credits also grew steadily from 1997 to 2008 and then peaked in 2011 for the same recession-driven reasons as the boost in funding for Pell Grants. In the case of education tax benefits, however, the growth spurt is also due to AOTC being made refundable in 2010, so that students and families paying little to no taxes could receive as much as $1,000. Still, since 2011, like Pell Grants, usage of tuition tax credits has dropped and now results in tax expenditures of less than half of what they were in 2010–11.

FIGURE 4 – Twenty-five year trends in different forms of non-repayable aid, 1996-2021, in billions of constant 2021 dollars



SOURCE: COLLEGE BOARD, TRENDS IN STUDENT AID, 2022, ONLINE DATA TABLE 1

Third, veterans' educational benefits remain an important form of non-repayable financial assistance. They were the primary form of aid when the Pell Grant program was first enacted as Vietnam-era veterans claimed benefits. Even today they remain an important form of aid, as Figure 3 shows. Unlike other forms of aid, however, veterans' benefits are based on service rather than financial need. Since veterans' benefits remain viewed as a successful example of helping people go to college, this connection to service has led to many proposals over time to tie financial aid and loan forgiveness to various forms of national or military service.

Finally, perhaps the most interesting observation from Figure 3 is the rapid growth in institutionally funded aid[8] over the entire twenty-five-year period, but especially in the past decade. As the figure shows, the amount of institutionally funded aid was roughly equal to Pell Grants funding in 2011, but it is now roughly three times as large as Pell Grant funding. Another indication of this trend is that at private colleges the discount rate—measured as aid and discounts as a share of the sticker price—now exceeds 50 percent.[9] These data indicate that as Pell Grant funding has fallen in real terms over the past decade, colleges seem to have both raised their charges and provided more aid to try to keep what they charge affordable.

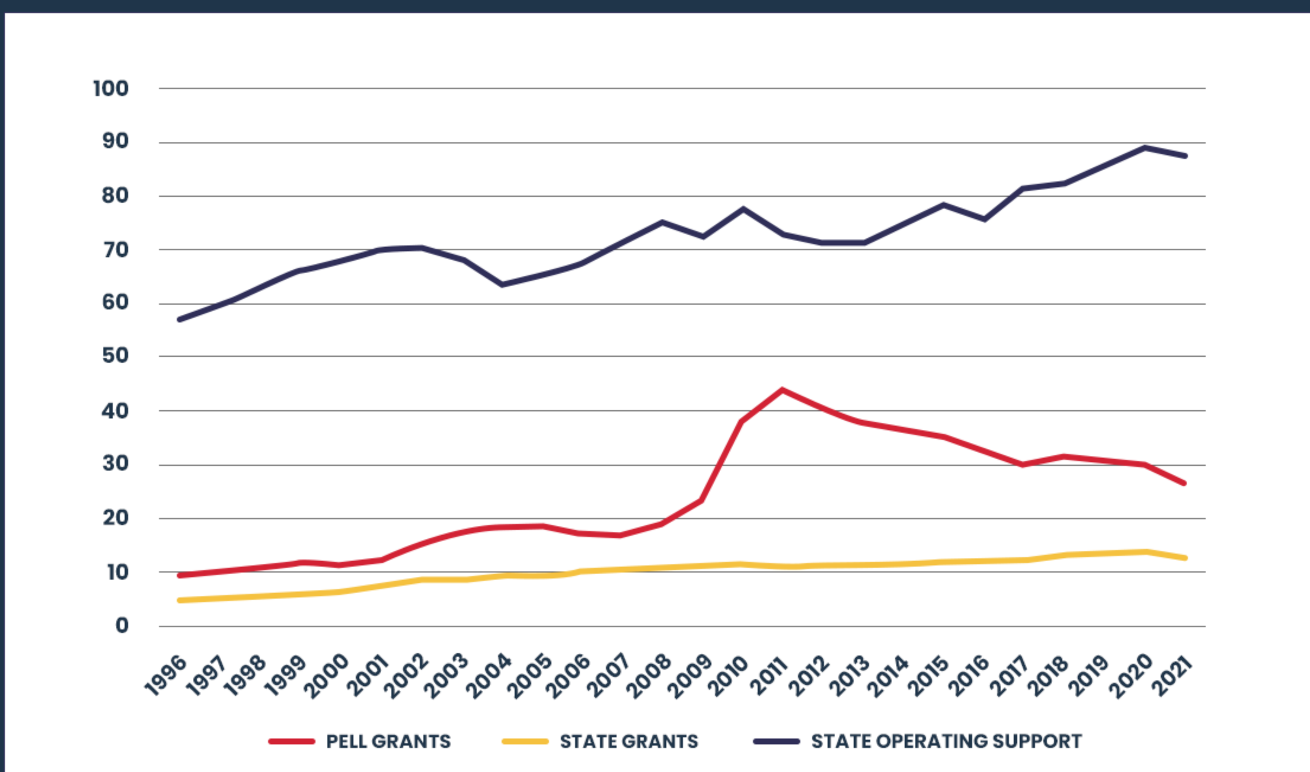
Comparing Pell Grants and State Support of Public Higher Education

Figure 5 compares trends in Pell Grant funding with the other major form of public support for higher education—state funding of higher education, including operational support of public institutions and student financial aid over the past quarter century. Several trends are of interest:

First, state operating support of public higher education has increased in real terms throughout the twenty-five-year period and is now at its highest level ever. This fact is contrary to the frequent talking point that states have been disinvesting in higher education for decades. The myth of disinvestment stems from looking at trends in state funding per student as that figure peaked in 2000–01 and dropped by 25 percent in the five years after the Great Recession when adjusted for inflation. Half of this decline per student was attributable to rapid enrollment growth in that period. State funding per student in 2021 when adjusted for inflation is now nearly equal to what it was in 2000.

Figure 5 also confirms that funding for state financial aid has grown largely in line with state operating support over an extended period, as it has stayed at roughly 10 to 12 percent of state operating support. While this trend is encouraging in terms of a growing state commitment to providing state residents with student financial aid, the amount of aid that states provide is not enough to offset the increases in tuition, fees, and other charges at public or private institutions during that time.

FIGURE 5 – Funding for Pell Grants, state grants, and state operating support, 1996-2021, in billions of 2021 constant dollars



SOURCE: COLLEGE BOARD, TRENDS IN STUDENT AID, 2022, ONLINE DATA TABLE 8 AND STATE HIGHER EDUCATION FINANCE ANNUAL REPORTS, VARIOUS YEARS

Third, and perhaps most interesting, is how funding for Pell Grants compares to the funding of state operating support and state financial aid over time. Through 2009, Pell Grant funding grew similarly to state operating support. Then, in 2009, state funding paused and fell as state coffers were strained by the Great Recession, while Pell Grant funding doubled in real terms over the next several years. As a result, by 2011, Pell Grant funding grew to half of what states spent on operating support of higher education. But in the past decade, state spending has grown in real terms while Pell Grant funding has declined, so that state spending is now more than three times as large as Pell Grant funding.

State spending has grown so that it is now three times larger than the amount spent on Pell Grants.

A similar pattern emerges when comparing Pell Grant funding to state spending on student aid. From 1996 to the Great Recession in 2008–09, state spending on student aid and Pell Grant funding experienced similar trends. But between 2009 and 2011, Pell Grant funding doubled in real terms while state funding of grant aid was constant. As a result, Pell Grant funding was more than triple state spending on student aid in 2011. Since then, however, state spending on student aid continued to grow consistently while Pell Grant funding fell by 40 percent in real terms. As a result, Pell Grant funding returned to a level that is roughly twice as large as state student aid spending by 2021.

Equity Gaps

There's little doubt that Pell Grants have enabled tens of millions of students to go to college who otherwise would have been unable to do so. But it is also clear that Pell and the other student aid programs have not achieved the desired result of eliminating or even substantially narrowing chronic equity gaps in higher education.

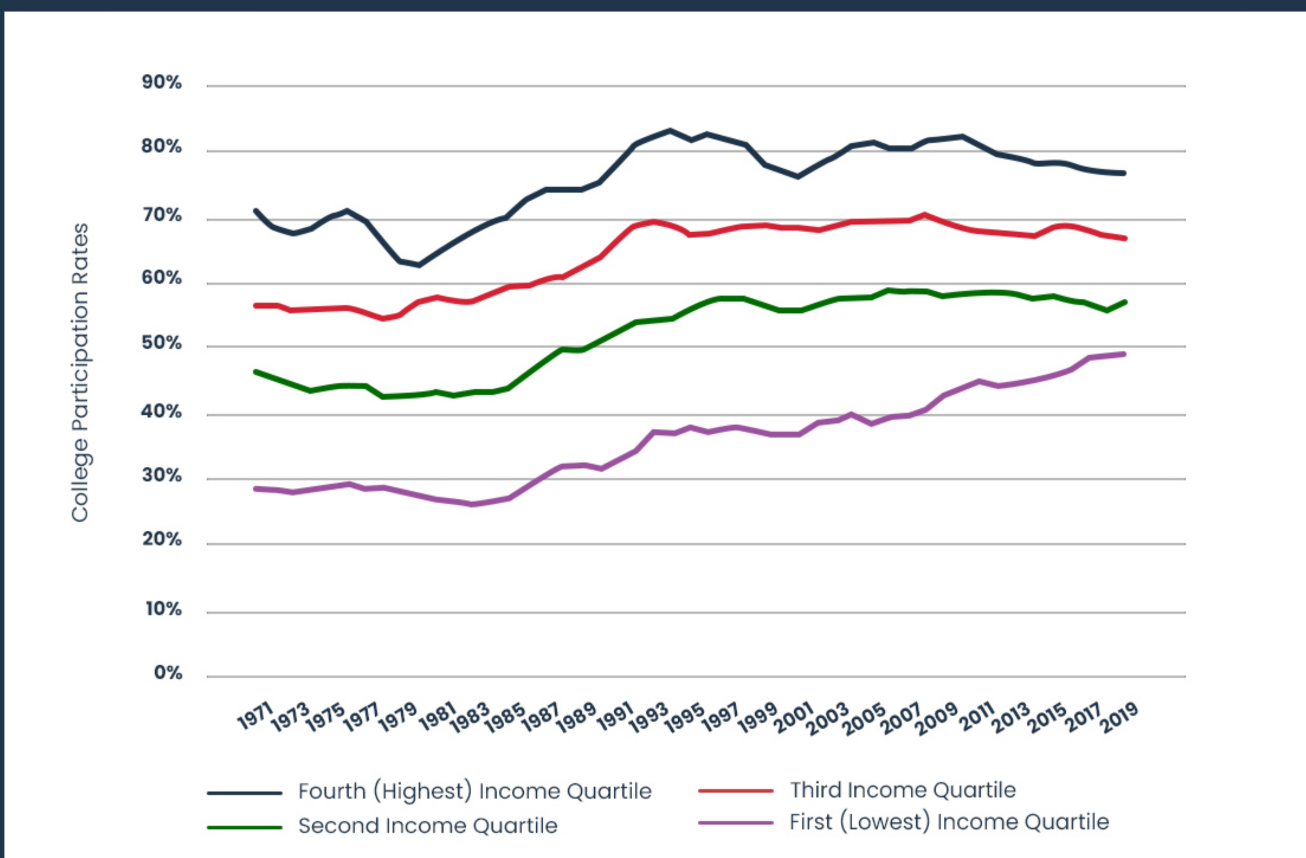
This section examines trends in college participation, degree completion, and educational attainment rates over time for diverse groups of students. It demonstrates that, despite progress, substantial equity gaps continue to exist. The section that follows explores some reasons that may help to explain why the availability and growth of Pell Grants and other forms of student aid over time have not been more successful in closing equity gaps.

Gaps in Participation Rates

A primary objective of federal student aid has been to close the gap between the participation rates of students from low-income and higher-income families. As Figure 6 indicates, the college enrollment rates of recent high school graduates for students from each income quartile grew from 1970 to 2019. Moreover, the college participation rate for the students from the lowest income quartile grew the fastest.

But Figure 6 also makes clear that significant gaps persist between students in the lowest and higher income quartiles. Family income should not determine education destiny. One source of the achievement gap is the failure of our public K–12 schools to raise the aspirations and college readiness of low-income students. But another significant factor is that the current array of student aid programs has not been successful in closing the chronic gap in college participation rates. Figure 6 does not separately indicate enrollment in community colleges, so it does not fully reflect the differences in college participation by family income, as students from the lowest income quartile have been and remain more likely to enroll in community colleges than their peers.

FIGURE 6 – College participation rates of dependent 18-to-24-year-olds, by family income quartile, 1971-2019



SOURCE: THE INDICATORS OF HIGHER EDUCATION EQUITY IN THE UNITED STATES, 2022 HISTORICAL TREND REPORT, INDICATOR 1A, RATES CALCULATED AS THREE YEAR AVERAGES

Gaps in Degree Completion Rates

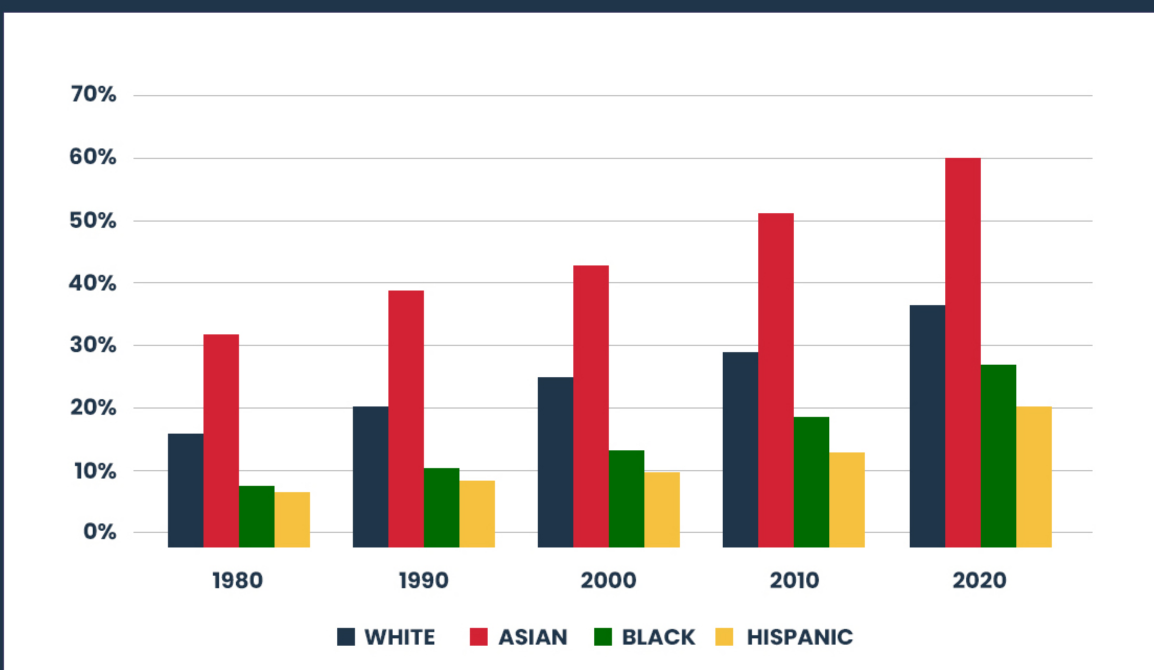
U.S. rates of postsecondary degree completion are modest relative to many other countries, in part because the American higher education system is more oriented toward providing open access than in many other countries. While data on degree completion rates are not systematically recorded in the U.S., the available studies indicate that the graduation rates for low-income and minority students are substantially lower than those for other groups of students.

For example, a study of students who enrolled in college in 2010 indicated the six-year graduation rate for students starting at four-year institutions was 46 percent for Black students and 55 percent for Hispanic students. In contrast, over two-thirds of White and Asian students finished their programs within six years (67 percent and 72 percent, respectively).[10] A more recent study of completion rates for students who enrolled in 2016 indicates that while the completion rates of all students fell slightly between the cohorts in 2010 and 2016, the rate for Black and Latino students fell more than for White and Asian students.[11]

Gaps in Attainment Rates

Over the past decade, federal and state policymakers have paid increased attention to the objective of increasing the attainment rate—the share of adult workers with a college degree. In fact, the Obama administration made increasing the attainment rate a cornerstone in its efforts to increase the global competitiveness of America, and many states have also joined in the effort to increase the attainment rates of their workers.

FIGURE 7 – Attainment rates, bachelor's degree or more, for persons 25-to-29-years-old, by ethnic/racial group, 1980-2020



SOURCE: DIGEST OF EDUCATION STATISTICS, 2019, TABLE 104.20

It seems this increased attention to attainment rates has paid off as the share of workers with college degrees has continued to grow over the past decade. For example, the portion of U.S. workers aged twenty-five and older with an associate degree or more increased from 41 percent in 2009 to 50 percent in 2019. While this growth is in line with trends in previous decades, the U.S. rate of college attainment among OECD countries dropped from the highest as recently as 2000 to thirteenth place in 2009, and then rose slightly to tenth place by 2019.[12] The most recent data also make clear that the U.S. has come up short in meeting the attainment goals that the Obama administration and others set for 2020. It is the case, however, that these goals were unrealistic when they were made, as some indicated at the time.[13]

Of greater concern with respect to Pell Grants and other forms of student financial aid is that the gaps in attainment by race and ethnicity remain just as great as ever. Figure 7 shows the attainment rates for a bachelor's degree or more among workers between twenty-five and twenty-nine years of age between 1980 and 2020. As the figure indicates, the rates grew for all four ethnic and racial groups, but the gaps between these groups of workers expanded, as the attainment rates for White and Asian workers have grown faster than those for Black and Hispanic workers.

Why Doubling Pell Grants Will Not Close Chronic Equity Gaps

As shown in the preceding section, equity gaps persist in each of the traditional measures of college participation, degree completion, and attainment. Here we address the extent to which the persistence of these equity gaps may be a function of the Pell Grants and other student aid programs not working as well as they might. Considering each of the factors below will help explain why doubling the maximum Pell Grant is unlikely to achieve the desired result of closing chronic equity gaps. If maximum Pell Grants were doubled:

- Tuitions would likely rise as colleges have enhanced incentives to absorb the larger grants through tuition increases, erasing any potential increase in student purchasing power.

- Pell Grant recipients will still have to cover daunting living expenses, as Pell awards will continue to be used mostly for tuition and fees.

- College completion rates could fall, not rise as hoped, because more high school graduates may be enticed to give higher education a try but then may not finish their degrees.

- Benefits will become less targeted to the poor because more middle-income students will become eligible for partial Pell Grants.

- The overlap between Pell Grants and tuition tax credits is likely to increase as more students from income-tax-paying families will receive Pell Grants.

Tuitions Are Likely to Rise With a Big Increase in the Pell Grant Award

One of the sharpest debates in higher education policy over the past several decades is the extent to which the growing availability of student aid has been a factor in the explosive growth of college tuition and other charges. As one example, a study sponsored by the New York Federal Reserve found that increases in subsidized loans caused 60 percent of increases in tuition.[14]

For several reasons, my own view is that the easy availability of student loans has been more of a factor than Pell Grants in the growth of college costs over time. Student loans are typically the last dollar in financial aid packages, so it makes sense that they are enabling higher prices at the margin. But there are several reasons to believe that tuition levels have also been affected by the ready availability of tuition-focused Pell Grants. When a college's tuition and fees are less than the Pell Grant maximum, the institution has a strong incentive to increase its tuition to capture the additional revenue. But even when tuition is greater than the Pell Grant maximum, institutions would have an incentive to keep growing their tuition to ensure maximum revenues in the future.

Needy Students Would Still Face Daunting Living Expenses

Observers on all sides agree that one of the biggest problems with the current Pell Grant program is that the grants do not substantially cover a student's living expenses, magnifying the opportunity costs of college attendance. Because institutions absorb Pell Grants for tuition, many Pell Grant recipients must borrow to help pay their living expenses while enrolled in school. Whether borrowers complete their degrees or not, they are saddled with these debts, which erode their future earnings.

Doubling the maximum Pell Grant award under the current rules would not solve the problem of student living expenses. For institutions that would charge more in tuition and fees than the new maximum award, there would be no change; that is, living expenses would still not be covered at all by the larger Pell award. At typical public four-year colleges, which now charge an average of $10,000 in tuition and fees, doubling the Pell maximum award would help cover more living expenses, assuming unrealistically that the institution does not increase tuition, but they would still fall far short of covering all living expenses. And if

> "Doubling the maximum Pell Grant award under the current rules would not solve the problem of student living expenses."

tuition rises in response to the increases in the maximum award, that will further reduce the share of Pell Grants covering living costs. Pell recipients at community colleges would potentially benefit the most in covering their living costs, but, ironically, most of these students live at home and their incremental living expenses are less burdensome.

With Pell Grants Doubling, College Completion Rates Could Fall

A primary objective of federal and state policy in the past decade has been to increase what has been a modest college completion rate in the U.S. relative to many other countries. Of particular concern is the fact that completion rates in the U.S. historically have been much lower for low-income and minority students.

The prevailing hope of doubling-Pell advocates is that more money will improve completion rates simply by easing the financial distress of needy students. While more grant money would surely play some role in changing behavior, the reality is that money is just one factor at the root of lower completion rates among low-income students. Other factors include poor levels of college preparation and many students not feeling included in college life. Unfortunately, there is nothing in Pell Grant policy and practice today that would address these deeper issues and lead to improved completion rate for Pell-eligible students. For example, Pell Grant recipients do not receive additional aid when they are on track to complete their degrees within a prescribed amount of time, and their institutions receive no financial incentives to encourage Pell Grant recipients to graduate.

Moreover, degree completion rates could decline substantially when Pell Grant funding is increased. While Pell increases might increase the absolute number of degrees awarded (albeit inefficiently and at a high cost), the completion rate may decline. When the personal cost of college is lower, enrollment tends to go up, and completion rates tend to go down. The higher aid amounts lower the opportunity costs of not completing a degree on time.

Completion rates may also drop because of institutional behavior. Private institutions tend to have higher completion rates than public institutions in part because they are better at providing courses when students need them to complete degrees. Public students often have trouble registering for needed classes. In short, more students enrolling in public institutions without greater institutional effort could result in lower completion rates, not higher ones.

Benefits Will Likely Become Less Targeted to Low-Income Students

The primary purpose of the Pell Grant program is to improve the ability of students from low-income families to go to college. Program advocates point to the fact that 80 percent of its benefits go to students from families with incomes of less than $40,000 as evidence that the program is well targeted to the poor.[15]

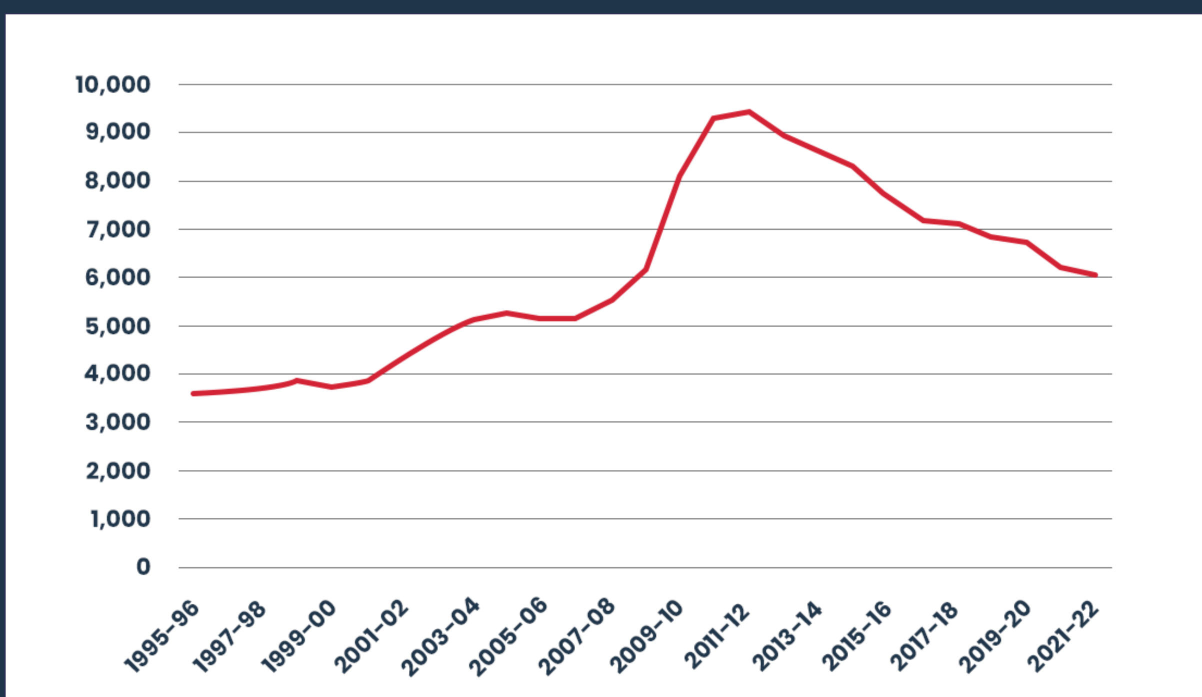
Pell Grant programs are meant to primarily improve the ability of students from low-income families to go to college.

But a more careful look at the data suggests Pell awards are not so well targeted because that calculation includes students who are financially independent of their parents. If these students were excluded from the calculation, one-third of the Pell Grant recipients who are financially dependent on their families have family incomes above $40,000.[16]

The fact that Pell benefits are not well targeted is confirmed by the trend that, over time, eligibility for Pell awards has stretched up the income scale. This lessening of targeting has occurred primarily for two reasons. First, it is beneficial politically to make Pell awards more widely available, as it means more voters will be sympathetic to appeals for more Pell Grant funding. Second, the formula driving Pell Grant awards is not well designed to target aid to the lowest-income students. When the maximum award is increased, it not only increases the size of awards for current recipients but also brings in more recipients whose family financial circumstances made them ineligible at the previous award level.

This effect can be seen in the growth in the number of Pell Grant recipients over the past twenty-five years. As Figure 8 indicates, the number of Pell Grant recipients grew at a consistent rate from 1995–96 to 2008–09 as modest increases in the maximum award led to modest increases in the number of recipients. But with the big increase in Pell funding to combat the effects of the Great Recession, the number of recipients grew by more than 50 percent in three years from 2007–08 to 2010–11 (when the maximum award grew by more than $1,300 in today's dollars). Since then, as the maximum award held steady, the number of recipients fell by one-third, so that the number of recipients was roughly equal to what it was before the Great Recession.[17]

FIGURE 8 – Number of Pell Grant recipients, 1995-96 to 2021-22 (recipients in thousands)



SOURCE: TRENDS IN COLLEGE PRICING AND STUDENT AID, 2022, FIGURE SA-15A

Under the existing formula, doubling the maximum award would likely lead to a large increase in the number of recipients. As most new recipients would be from middle-income families who do not qualify currently for awards, the Pell Grant program would become less well targeted to low-income students.

The Overlap Between Pell Grants and Tuition Tax Credits Will Increase

Since 1997 when the tuition tax credits were created, many students have been eligible to receive both the AOTC and Pell Grants. This occurs because students from moderate-income families who pay income taxes are eligible to receive modest amounts of Pell Grants as well as tuition tax credits.

Legislation in 2009 made the AOTC refundable up to $1,000 for students from families who paid little or no federal income taxes. This provision, still in effect, has added as many as 4 million tuition tax credit recipients and has increased the degree of overlap in who receives both the tax credit and Pell Grants.

As a result, the number of education tax beneficiaries climbed to all-time highs in 2011–12. The number of Pell Grant recipients was 9.4 million in 2011 while more than 13 million families received tax benefits in that year. Since then, the number of Pell Grant recipients has fallen to 6.1 million in 2021–22, a 35 percent decline, while the number of families receiving tax benefits fell to 10 million, a 23 percent decline.[18] In addition, the overlap between Pell Grant and tuition tax credit recipients increased.

Why is it a concern that millions of students are receiving benefits from both programs? The main concern is that the overlap may mean both programs are not as effective as they could be. When Pell Grant benefits are extended to middle-income students, less funding is available to more impoverished students. In addition, to the extent that a student's Pell Grant is used to pay for tuition, it reduces the amount of tuition tax credit the student may receive, because the tax credit only applies to the tuition and fees that the student or family actually pays.

Needed: A New Strategy to Meet the New Realities

The previous section showed that doubling the Pell Grant maximum award would be very costly yet unlikely to close chronic equity gaps. What is needed instead is a reassessment of the voucher-based strategy in light of the country's experience with Pell Grants and other aid programs over the past half century. The alternative approach outlined below adjusts policies for Pell Grants and other aid programs to better reflect the needs of today's students and to more effectively close chronic equity gaps.

Pell Grant Reforms

Recommendation: Pell Grants should be redesigned to cover the basic living costs for low-income students enrolled half-time or more in any postsecondary education or training program, including apprenticeships.

Although the U.S. makes large investments in Pell Grants every year, the individual awards have lagged behind the growth in college charges over time, largely because college tuitions have consistently increased much faster than general inflation. The lag in the value of Pell Grants over time is also a function of the increases in the number of recipients.

"For low-income students, the pressing need to cover these basic living costs often creates significant obstacles to attending and completing college."

Because of the declining value of Pell Grants and the rule that they must first go toward paying tuition, most or all of the grants are now absorbed in tuition payments—forcing most Pell recipients to cover living costs through part-time work, grant aid from other sources, or borrowing. A recent report by The Institute for College Access and Success (TICAS) documents the extent to which many Pell Grant recipients are unable to cover their basic needs for food and housing.[19] For low-income students, the pressing need to cover these basic living costs often creates significant obstacles to attending and completing college.

> By helping low-income students cover living costs, policymakers could discourage borrowing for living costs, lower a key obstacle to college completion, and remove an incentive for colleges to increase tuition.

The TICAS report argues that a good way to address living costs is to expand student access to SNAP benefits (formerly food stamps) to help cover these costs of attendance. Rather than expand dependence on SNAP, however, Congress could more efficiently cover living expenses by focusing Pell Grants in the future on covering the living expenses of low-income students. Under this reformulation, students attending a broad range of postsecondary education and training could use their Pell awards to help cover their living costs, as well as ancillary expenses such as textbooks and technology.

If policymakers focused Pell Grants on helping low-income students cover their living costs, they would not only substantially lower the living-cost obstacle to college completion, but they would also remove the incentive for institutions to increase tuition. By the same token, this approach would require states and institutions to cover tuition for low-income students, as some already do.
Under this reformulation of Pell, the amount of the award should vary depending on the recipient's living circumstances. For Pell recipients living in dorms on campus and on meal plans, the maximum Pell Grant should fully cover their room and board.[20] Students enrolled at least half-time and living off-campus or at home would receive a monthly stipend while they are enrolled (similar to how veterans' benefits are awarded) to offset their educational and living costs.

Recommendation: Rather than use Pell Grants to aid selected inmates, prison systems should commit to providing quality education and training to all their inmates.

Recent legislation has made a range of prisoners eligible for Pell Grants. This use of Pell Grants for prisoners is a prime example of where the voucher approach could be productively replaced by one that focuses on creating incentives for institutions to align with the public policy goals of college completion and workforce preparation when it comes to prisoners.

If Pell Grants are reformed to focus on living expenses, it makes little sense to have prisoners continue to receive Pell Grants (as they don't have living costs in the traditional sense). Moreover, prisoners, by design, have constrained education choices, making the usual direct aid approach less valuable. It makes much more sense to redirect the Pell funds toward reimbursing prison systems for effectively providing postsecondary education and training.

Other Needed Reforms for States and Institutions

Once Pell Grants no longer serve as first dollar tuition assistance, states and institutions will need to develop tuition and aid policies that make college more affordable to students from a broad range of family incomes. A prime reason for redesigning Pell Grants to help cover the living expenses of low-income students is to urge states and institutions to focus on producing tuition and aid packages that will raise the participation rates of these students across a wide range of postsecondary and workforce development institutions, schools, and programs.

Under this reformulation, states or institutions would be responsible for covering the tuition and fees of needy students at public colleges and universities, as many already do. It is worth noting that states and institutions already invest sufficient funds to make this shift. State aid now equals $15 billion, half of Pell Grant funding every year, and institutionally funded grant aid and tuition discounts now equal about $90 billion, three times greater than annual federal spending for Pell Grants.

With Pell Grants covering living expenses for low-income students, states can help by tying tuition for public colleges to the average family's ability to pay, measured as a share of state GDP per capita, and then committing to providing enough grant aid to cover tuition and fees for students from families who cannot afford them. This works best if states allow public institutions in higher demand to charge more than institutions in lower demand. But in all cases, the higher the tuition an institution charges, the less the state will need to provide in operating support, and the more it will need to provide in grant aid.

Private nonprofit institutions will also need to reconsider their tuition and aid policies. With Pell Grants no longer covering tuition, these institutions would be under pressure to freeze or lower tuition and fees. As in the case of states, changing the focus of Pell Grants to living expenses would allow private nonprofit institutions to focus more of their aid on covering tuition charges.

Recommendation: To aid in this effort, all institutions should be required to spend 5 percent of their endowments to maintain their charitable status, paralleling the requirement for private foundations since 1969.

University endowments in recent decades have grown to previously unimaginable levels. The total value of all college and university endowments was more than $800 billion in 2022, a tenfold increase in the last four decades when adjusted for inflation. More than a dozen universities had endowments of more than $10 billion in 2022, even after recent declines. Notably, tuition at private colleges and universities more than doubled during this period.

In 2017, Congress enacted an excise tax of 1.4 percent on the roughly twenty institutions with the largest endowments per capita. But this tax has been largely ineffectual and unenforceable. Some advocate for increasing the excise tax to 10 percent, but there is little evidence that this will produce better student outcomes.[21]

Congress should require institutions to spend 5 percent of the endowments on charitable purposes, just as private foundations do.

It would be better if Congress required all institutions to spend 5 percent of their endowments on charitable purposes each year to maintain their charitable tax status, just as private foundations have been required to do since 1969. And it would be better still if institutions used more of their endowments to keep tuition in check rather than devote most of these dollars to student financial aid. Ideally, institutions would devote most of this additional payout to moderating their tuition, which in turn will reduce pressure to increase the student aid they provide.

Other Needed Federal Policy Changes

In addition, under the alternative strategy suggested in this paper, the federal government must take a series of steps to correct other systemic weaknesses.

Recommendation: Federal higher education tax credits should be expanded to become a primary form of college aid for middle-income students and lifetime learners who pay federal income taxes.

While Pell Grants represent the largest federal aid expenditure, tuition tax credits also provide substantial aid to millions of parents and students every year. In fact, more people receive tuition tax credits every year than Pell Grants.

There is little coordination, however, in how these two forms of aid are awarded, and there is a fair degree of overlap in who receives both types of aid. Non-taxpaying families today can receive refundable tuition tax credits as well as Pell Grants. As Pell award levels rise, more taxpaying families will become eligible for both Pell Grants and tuition tax credits, but to the extent that their Pell Grant is used to pay for tuition, their tax credit amount may be reduced.

The system could be made more effective, and the current degree of overlap reduced or eliminated, if the two forms of aid were integrated as follows:

- To complement the shift to using Pell Grants to cover living expenses for low-income students, the AOTC should be expanded to help offset tuition costs for middle-income families who pay taxes, while its refundability for non-taxpayers should be eliminated. In this way, the benefits lost by taxpaying families who currently receive modest Pell Grants could be replaced by increases in the tuition tax credits for which they also qualify.

- The Lifetime Learning Tax Credit should also be retained and expanded to encourage lifetime learners to enroll in a wide variety of education and training programs that can lead to better jobs and a better life.

As an example, the maximum AOTC might be set at half of the Pell Grant maximum and the maximum Lifetime Learning Credit might be set at one-third of the Pell maximum. Figure 8 below shows how Pell Grants and tuition tax credits might be better integrated under this approach than is currently the case.

Recommendation: The SEOG program should be redesigned to encourage all participating institutions to enroll and graduate more Pell Grant recipients.

College completion rates in the U.S. historically have been modest compared to many other countries, which often have more selective higher education systems than the largely open-access U.S. system. This pattern had led to heightened interest in improving college completion rates in order to increase attainment rates.

Recent efforts to improve U.S. college completion rates have concentrated mostly on increasing student demand by either reducing sticker prices or providing more grant aid. In addition, the federal government now sponsors a College Completion Fund in which institutions apply for competitive two-year grants of up to $800,000 to implement programs that could potentially increase completion rates.

It would be more effective to have federal and state governments provide greater incentives for *institutions* to increase their completion rates. Such a shift in policy focus to institutions would be much more effective than simply increasing financial aid to students or awarding small competitive grants to institutions, because it could change institutional behavior. In addition, the current voucher approach has not provided sufficient protections against institutions reducing their own student aid and supplanting it with increased government student aid funds. One way to provide better incentives and combat supplanting is to reform the federal SEOG program.

SEOG appropriations, which predate the Pell Grant program, have outlived their usefulness. Because of grandfathering, SEOG funds go disproportionately to well-endowed institutions that have participated in the program for the longest time. In addition, the program requires that institutions use these funds to provide grant aid to eligible students. It therefore prevents institutions from using the funds in other ways to maximize their effectiveness in increasing the participation and graduation of disadvantaged students.

> It would be more effective to have federal and state governments provide greater incentives for *institutions* to increase their completion rates.

To increase SEOG's usefulness and effectiveness, it could be redesigned to encourage institutions to devise different strategies to increase the number of disadvantaged students who enroll and graduate. To do this, funds allocated in the future should be distributed based on the numbers of Pell Grant recipients who were enrolled and/or graduated the previous year. And unlike the current SEOG program, institutions would be free to use these funds however they thought best to achieve higher levels of enrollment, retention, and graduation among Pell recipients, leading to greater accountability.

These modifications in the SEOG program would be more effective in raising colleges completion rates for low-income and minority students than the College Completion Fund, which awards a limited number of grants to institutions based on their federal applications as the reformed SEOG program would give all institutions the incentive and resources to improve their completion rate.

Recommendation: The student aid application process should be streamlined by replacing the FAFSA with a process that allows federal tax-paying families and independent students to apply for aid by submitting their prior year's income tax returns.

Over time, many studies have confirmed that the complexity of the student aid system and the Free Application for Federal Student Aid (FAFSA) form are major obstacles to improving the college participation of low-income and minority students. Efforts over time to simplify the complex FAFSA process consistently have failed, including the most recent legislative fix, whose implementation is stalled.

Rather than trying to tweak the FAFSA form, Congress could improve the equity and effectiveness of the aid application process by taking the following three steps to simplify and streamline it:

- **All families should be allowed to use their income tax forms to apply for federal student aid.** Historically, the FAFSA form has required families to provide extensive information about their finances. Over the years, there have been many efforts to reduce the number of items on the FAFSA and to allow applicants to populate the forms with income tax information through a digital retrieval tool. It would be more efficient and effective simply to allow parents to apply for aid by indicating that the IRS could share their tax information with the proper authorities.

- **Full federal aid eligibility should be granted automatically to students from families on welfare, Medicaid, SNAP, or EITC.** Allowing families to use their tax filings to apply for aid won't help the roughly 40 percent of families who do not pay or file income taxes. Moreover, under the existing aid rules, the non-taxable income that many of these non-filers receive in the form of public support reduces the student's aid eligibility. It makes more sense to go the other way: Students whose families receive public support should be automatically eligible for full Pell Grants and other federal student aid.

- **The simplified federal income tax rules (previously called 1040A) should be used to estimate the ability of families to contribute to the student's cost of attendance.** Since the Pell Grant program was initially enacted, the federal government has issued rules for calculating the ability of families to contribute to the student's educational expenses. These extensive rules, which have been revised many times since, add to the sense of complexity and lack of transparency regarding the student aid system. An alternative would be to use the simplified rules for calculating income tax liability as a proxy for estimating the relative strength of families to contribute to their educational costs.

Recommendation: A new federal program should be created that matches what states and community groups spend on early intervention efforts.

In 1992, Eugene Lang famously threw away the speech he was going to give to the fifth-grade class at the public school from which he had graduated fifty years before. Lang decided on the spot to promise that he would pay for a college education for all the students if they did the work necessary to graduate from high school. The results were spectacular, as more than 80 percent of the students in the class went on to college, more than twice the rate that otherwise would have been expected.

In the three decades since Lang threw away his speech, early intervention efforts like "I Have a Dream" and similar programs that include counseling, mentoring, and last-dollar financial assistance aimed at classes or groups of disadvantaged students have demonstrated their ability to raise the college participation and completion rates of targeted students.

Despite this record of success of early intervention in its various forms, the federal government provides limited support for community-based early intervention efforts. The federal government has instead for many years funded the TRIO programs, and more recently GEARUP, typically working through public schools and the colleges themselves.

The essence of effective early intervention is that it occurs outside the schools and is based in the community. Congress could stimulate considerable improvement in college participation and completion rates by establishing a new federal matching program for states and community groups investing in effective early intervention.

It is also worth noting that each $100 increase in the Pell maximum award now costs about $1 billion in additional annual funding. Spending that $1 billion on matching effective early intervention efforts would likely net more benefits in the form of increased participation and completion by disadvantaged students. This approach also is more consistent with the initial intent of Senator Pell to let students know their eligibility for aid early in high school or even in middle school.

The federal government provides limited support for community-based early intervention efforts.

The Benefits of Reform

These reforms collectively would yield several important benefits, including:

- **Higher Participation and Completion Rates.** Since low-income students would no longer need to borrow to pay their living expenses, it would become far less financially risky for them to attend higher education programs. Thus, it would have a positive effect on their participation and completion rates in a broad range of programs.
- **Better Targeting to the Most Disadvantaged Students.** The Pell program would become better targeted to students from the lowest income quartile, increasing program effectiveness.
- **Slow or Stop Tuition Increases.** Institutions would no longer have the incentive to raise their tuition and fees whenever Pell Grants increase because they could no longer capture that

revenue stream. Meanwhile, Pell recipients would become more sensitive to tuition increases as they would need to cover those costs through institutional aid, state aid, earnings from work, or student loans.

- **Rationalize Pell and Tax Credits.** Pell recipients who pay income taxes would not have their eligibility for tuition tax credits reduced due to receiving a Pell Grant, further enabling them to afford higher education. The overlap between Pell Grants and tuition tax credits would also be sharply reduced.

- **Align Institutional Interest to Goal of College Completion.** By modifying the SEOG program, Congress would encourage a broad range of institutions to enroll and graduate Pell Grant recipients. Encouraging community-based early intervention programs would also lead to improved participation and completion rates of disadvantaged students.

Paying for Reform

While the reforms described in this paper are inexpensive compared to doubling the maximum Pell Grant, they do have associated costs. Some might justify those costs simply based on the increased equity and productivity achieved through the resulting higher rates of college completion. Still, it would be healthy given the federal government's current fiscal circumstances to cover the additional costs outright.

> The reforms in this paper are inexpensive compared to doubling the maximum Pell Grant, but still have associated costs.

This report does not address another major student-aid topic—namely, the many issues surrounding federal student loans and debt. That omission is not a reflection of their lower priority. A separate future piece will address how to reduce reliance on student loans now and going forward.

For now, there is at least one important way in which student loan issues are of relevance to this paper. Changes in student loan policies could net significant federal cost savings that then could be applied to cover the cost of reforms described in this paper. Conceptually, to help offset the cost of these reforms, the federal government could reduce the cost of the direct loan program by: 1) reducing unproductive or excessive borrowing, on which student borrowers later default; and 2) shrinking the amount of debt that the federal government unproductively forgives (or discharges).

Some of the unproductive borrowing and forgiveness will resolve naturally by enacting the reforms in this paper, because they will improve today's dismal college completion rates and better position borrowers to repay their loans. Even more steps can be taken to achieve cost savings in the student loan programs, including the following five proposals:

- **Expect Most Student Borrowers to Repay Their Debts.** For most college students, the federal loan contract has worked out well. Taxpayers provided students with loans because it helps our economy to have a more educated workforce. Students benefited because their college studies helped them land good jobs with higher wages. That was the mutually beneficial deal. Those students are well situated to repay their debts and should be obliged to do so.

- **Establish an Independent Network of Student Aid Counselors.** The federal loan contract has not worked out for many borrowers, often because students overborrowed and are now unable to afford repayment. To accommodate some of these situations, Congress originally envisioned Income-Based Repayment (IBR) plans (where payment amounts are reduced and students could even get credit for making payments when the amount is zero). Unfortunately, gamesmanship and flawed regulatory policies have undermined IBR (and subsequent income-driven repayment) plans, so that approach has exploded in cost while not improving student outcomes.

  One way to address overborrowing is to establish (at relatively low cost) a network of student debt counselors—independent of the colleges and loan servicers that have embedded conflicts of interest. By balancing the desires of student borrowers against the interests of taxpayers, this network could save billions of dollars in government spending. The network could also serve the interest of borrowers and taxpayers by pointing to the best repayment plans based on individual situations.

- **Place Meaningful Caps on Borrowing for Living Expenses.** Especially for graduate students, borrowing for today's living expenses has sometimes led to tomorrow's unmanageable debts. Congress would serve the best interests of students and taxpayers by placing a conservative cap on the amount that can be borrowed for non-tuition expenses. Redesigning the Pell Grant program as described in this paper would help greatly in this regard.

- **Stop Charging Students for Remediation.** When students arrive at college unprepared to do college-level work, it is both tragic and expensive. It is also absurd that the cost of this failure is borne not by the local school district but rather by students and federal taxpayers. Congress should end the practice of charging students for remedial courses and move to a system where public funds, not student loans, are used to pay providers of remediation based on performance—that is, how well they raise the basic skills of their students.

- **Impose Higher Risk-Sharing Fees on Poor Performers.** All colleges and universities should be charged an additional fee on all new student loans to reflect the institution's past performance. That fee would be adjusted to reflect the amount repaid against the amount borrowed, so that institutions with the highest non-payment rates would be charged the most for issuing new loans.

Final Thoughts

These proposed reforms to the Pell Grant and other student aid programs are designed to make college affordable and productive for a broad range of students, while watching out for the interests of taxpayers. One might expect those virtues to attract a broad range of support across the political spectrum.

> The proposed reforms to the Pell Grant and other student aid programs are designed to make college affordable and productive for a broad range of students, while watching out for the interests of taxpayers.

Nonetheless, the proposals will almost certainly be opposed by the higher education lobby, which benefits financially and avoids accountability due to current flaws in the system. They like the status quo, except that they always want more federal funding from Pell Grants and other forms of federal aid.

Similarly, these proposals will likely be opposed by the Progressives, whose goal seems to be “free college” at enormous cost to federal taxpayers. They have relentlessly pursued that goal regardless of the desires of students, who often prefer alternate paths to college, or the cost to taxpayers.

To help make college affordable and close the equity gaps, Congress should ignore pressure from such groups. They should, in short, put the interests of students and taxpayers above those of ideologues and institutions of higher education.

Endnotes

[1] This is a conservative estimate. Even though it is counter-intuitive, doubling the scholarship amount would more than double total scholarship expenditures, mainly because higher Pell maximums increase the number of middle-income students who are eligible for partial Pell awards. In addition, the legislative proposals to raise the maximum award also usually extend the availability of Pell Grants to 18 semesters (9 years) from today's 12 semesters (6 years) to allow part-time students ample time to complete their degrees. At a maximum annual award of $13,000, this increases the lifetime Pell maximum award to $117,000, from about $42,000 in 2023.

[2] Partial Pell Grants would cover the proportion of room and board that is equal to the student's Pell award portion of the maximum award. So, a 50% award would cover 50% of room and board. The student should not have to pay what the institution charges non-Pell recipients. For partial recipients living at home or off campus, the monthly stipend would be pro-rated downward.

[3] This figure for student aid funding over time is from Breaking the System: Examining the Implications of Biden's Student Loan Policies for Students and Taxpayers, Hearing Before the House Subcomm. On Higher Education and Workforce Development, 118th Cong. (March 23, 2023) (testimony of Marc Goldwein, Senior Vice President and Senior Policy Director, Committee for a Responsible Federal Budget).

[4] Information on the history of various education tax benefits including tuition tax credits comes primarily from Margot L. Crandall-Hollick and Brendan McDermott, Higher Education Tax Benefits: Brief Overview and Budgetary Effects (Washington, DC: Congressional Research Service, 2022).

[5] Jennifer Ma and Matea Pender, Trends in College Pricing and Student Aid 2022 (New York: College Board, 2022), p. 45.

[6] Cassandria Dortch, Federal Pell Grant Program of the Higher Education Act: Primer (Washington, DC: Congressional Research Service, 2023), p. 14, fig. 3.

[7] The two tuition tax credits are the primary forms of educational tax benefits, but this accounting includes other benefits such as tax deductions for student loan interest and the exclusion of selected fellowships from taxation.

[8] Institutionally funded aid includes athletic scholarships and merit aid as well as need-based aid.

[9] 2022 Tuition Discounting Study (Washington, DC: National Association of College and University Business Officers, 2023).

[10] Doug Shapiro et al., Completing College: A National View of Student Attainment Rates by Race and Ethnicity—Fall 2010 Cohort (Herndon, VA: National Student Clearinghouse Research Center, 2017), p.2.

[11] Natalie Schwartz, "College Completion Rates Stall at 62.3%, Report Finds," Higher Ed Dive, November 29, 2022, https://www.highereddive.com/news/college-completion-rates-2022-2016-cohort-stalls/637559/ (reporting on a study by the National Student Research Center).

[12] Education at a Glance 2021: OECD Indicators (Paris: Organisation for Economic Co-operation and Development, 2021), table A–1.2.

[13] See, for example, Arthur M. Hauptman, "Increasing Higher Education Attainment in the United States: Challenges and Opportunities," in Getting to Graduation: The Completion Agenda in Higher Education, ed. Andrew P. Kelly and Mark Schneider (Baltimore: Johns Hopkins University Press, 2012).

[14] David O. Lucca, Taylor Nadauld, and Karen Shen, Credit Supply and the Rise in College Tuition: Evidence from the Expansion in Federal Student Aid Programs (New York: Federal Reserve Bank of New York, 2015, revised 2017), p.2.

[15] Program data cited in Doubling the Maximum Pell Grant (Washington, DC: National Association of Student Financial Aid Administrators, 2022), p. 2, table 1.

[16] Ma and Pender, Trends in College Pricing and Student Aid 2022, p. 46, fig. SA-17B.

[17] Data on the number of recipients and the maximum award over time are from Ma and Pender, Trends in College Pricing and Student Aid 2022, p. 44, fig. SA-15B.

[18] Ma and Pender, Trends in College Pricing and Student Aid 2022, p. 38 and p. 44.

[19] SNAP Reimagined: Improving Postsecondary Education Access and Completion (Oakland: Institute for College Access and Success, 2023).

[20] For recipients of partial Pell Grant awards, the amount charged for room and board would be determined pro rata. So, if a student's Pell award is 40% of the full award, she would be responsible for 60% of room and board. The total charged for room and board would be the same for all Pell recipients and might be less than what institutions charge non-Pell recipients.

[21] For a broader discussion of these issues, see Molly F. Sherlock, College and University Endowments: Payout Rates and Spending on Student Financial Aid (Washington, DC: Congressional Research Service, 2023).

About the Author

DFI contributor **Arthur M. Hauptman** has been an independent public policy consultant since 1981 specializing in higher education finance issues. He has written extensively on student financial aid, fee-setting policies, and the public funding of higher education in the U.S. and countries around the world. A consistent theme of his work is that public policies in higher education are more effective when the three key elements of higher education financing–institutional funding, fees and financial aid–are linked systematically. In the U.S., he has consulted with many federal and state agencies as well as higher education associations and institutions. He has helped develop the rationale for a number of federal programs including direct loans, income contingent loans, and tuition tax credits. For states, he has argued for developing counter-cyclical policies, tying public sector tuition levels to general income growth, and creating funding formulas that pay institutions based of their performance and efficiency. Internationally, he has consulted with governments or funding bodies in more than two dozen industrialized and developing countries to develop financing strategies for tertiary education.

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