Window of Opportunity: Targeting Federal Grant Aid to Students with the Lowest Incomes

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Window of Opportunity: Targeting Federal Grant Aid to Students with the Lowest Incomes, a major report by the Institute for Higher Education Policy, identifies federal policy changes that can strengthen America’s investments in student financial aid. Financial barriers constitute a huge obstacle for individuals from low-income backgrounds in pursuit of higher education. This report discusses specific policy options that can adjust the Pell Grant program to meet the significant financial needs of the lowest-income students.

The federal Pell Grant represents one of the most important mechanisms developed for the assurance of financial access to postsecondary opportunities. But the ability of the Pell Grant to serve as a true foundation of financial aid for low-income students has steadily declined over the past 30 years. As a result, low-income students must come up with ever-increasing amounts of money to meet postsecondary expenses.

Demographic Characteristics of Pell Grant Recipients
The changing demographics of the undergraduate student population mean that the traditional concept of how students manage college expenses is outdated. Income must be considered in the context of other student circumstances, which have changed considerably since the implementation of the Pell Grant program.

• The vast majority of the nearly 5.2 million Pell Grant recipients in 2005–06 had family incomes of $40,000 or less, and many had incomes less than $20,000 per year.

• Independent students were far more likely to have the lowest incomes—over a quarter had family incomes of $6,000 or less.

• In 2005–06, 41 percent of dependent Pell recipients and 59 percent of independent recipients had a calculated expected family contribution (EFC) of zero. The EFC is the amount of self-help a student or student’s family can be reasonably expected to contribute toward postsecondary education, given their economic circumstances.

• Reflecting their limited resources, over half of dependent Pell recipients with a zero EFC had yearly incomes less than $15,000, as did close to three-quarters of independent recipients with a zero EFC.

Pell Grant Recipients and Financial Aid
All students who enroll in postsecondary education today contend with tuition and fees that have risen faster than inflation. Within just the past 10 years, the published tuition and fees at public four-year colleges and universities rose by 4.4 percent annually after inflation adjustment. Finding money for books, transportation, and living expenses—either on or off campus—also present a challenge for the poorest students.

Like many students, Pell Grant recipients must rely on multiple financial aid sources, including grants and loans, to cover the full cost of college attendance. But the available financial aid sources still leave low-income students with large amounts of remaining need that they must meet through work, credit cards, or personal loans.

• In 2003–04, the average Pell Grant recipient was left with slightly over $4,500 in remaining need. For zero EFC Pell Grant recipients, the average remaining need amount equaled nearly $5,000.

• Slightly more than a quarter of Pell recipients received aid from other major grant programs.

• Only 10 percent of all Pell recipients and only 8 percent of zero EFC recipients received an institutional non-need-based or merit-based grant. In both instances, dependent recipients were more likely to receive a non-need-based grant from an institution than were independent students.

• Pell recipients were far more likely to depend on loans than on additional grants or work-study aid outside their Pell award. Slightly more than half of all Pell recipients received a subsidized Stafford loan, and nearly a third received an unsubsidized Stafford loan.
While the current legislative environment has not been favorable for dramatically restructuring the Pell Grant program, a window of opportunity exists for proposals that offer specific steps to narrowly target grant aid to the lowest-income students.

### Policy Option 1

**Raise the Appropriated Maximum Pell Award**

The 2007 College Cost Reduction and Access Act delivered a much-needed boost to the appropriated maximum award for eligible recipients—the maximum Pell will reach $5,400 by the 2012–13 award year. By raising the maximum award, the program increases the amount of aid available to all Pell recipients, including those with the lowest incomes. Raising the maximum award also expands the pool of eligible recipients and includes students with higher incomes.

### Policy Option 2

**Raise Both the Minimum and Maximum Pell Awards**

Raising the minimum award has the opposite effect of raising the maximum award—it cuts some students out of the program while better targeting assistance to those with low incomes and possibly increasing their grant amounts. Raising the minimum award has a significant impact on targeting aid to the lowest income students, although this comes at the cost of cutting out students who receive smaller awards, which may be critical to their ability to meet postsecondary expenses.

### Policy Option 3

**Adjust the Federal Need Analysis Rules to Allow for a Negative EFC**

This policy option would allow a significant increase in grant aid to flow to the lowest-income Pell Grant recipients while maintaining awards for all others. Currently, need analysis rules stipulate that a student’s EFC cannot equal less than zero. A negative number is frequently derived from the EFC formula, however. At present, a family’s contribution from their available resources can be as low as minus $750. Allowing a student to have a negative EFC would be a targeted and effective way to increase the Pell for the lowest-income recipients.

### Policy Option 4

**Target New Investments to Low-Income Students**

It is important that new investments in federal grant aid be constructed so the aid is available to the students who need it most. Two new federal grant programs created in 2006—the Academic Competitiveness Grant (also known as ACG) and the National Science and Mathematics Access to Retain Talent (also known as SMART) Grant—are tied to the Pell program in how they are delivered; however, they are constrained by eligibility requirements that call into question the ability of low-income students to access these new resources.