The Future of the Federal Pell Grant Program
by Jee Hang Lee

Funding Gridlock

The tenor of the political debate in Washington, D.C., has generated increased interest in reducing federal spending, which was a common theme during last year’s mid-term elections. In turn, this has placed significant pressure on Congress and the Administration as they work to finalize the federal government’s FY 2011 appropriations bill and create the FY 2012 appropriations bill.

In this contentious political environment, the Federal Pell Grant Program has gained increased visibility, as its funding needs continue to grow at the same time as other federal discretionary programs, including other education programs, endure major funding reductions. At the time of this writing, Congress is wrangling with the question of to what extent it should fund the program. One of the major sticking points in negotiations is how Congress and the Administration will deal with an accumulated Pell shortfall and the program’s need for overall funding level increases.

Earlier this year, the House Republicans passed their signature funding bill, H.R. 1, which included $100 billion in reductions from President Obama’s FY 2011 budget request and reduced the maximum Pell award by $845. Such a cut would result in an estimated 9.4 million students seeing their award levels significantly reduced. A last-minute deal that averted a government shutdown in April maintained the maximum Pell award of $5,550 for the 2011-12 academic year, but eliminated year-round, or “Summer Pell” funding.

The Federal Pell Grant Program has seen exponential growth in the number of total student participants, the maximum award level, and the total cost of the program to taxpayers. As recently as the 2008-09 academic year, the total number of students participating in the program was 6.2 million, including almost 2 million community college students, and the Pell Grant maximum award level was set at $4,731. By 2010-11, 8.9 million students participated in the program, including almost 3 million community college students, and the Pell Grant maximum award level was set at $5,550. In total, costs for the program more than doubled for the federal government between FY 2007 and FY 2011, from $16 billion to $36.6 billion. Given the ever-rising levels of student participation, it now appears that the Pell Grant program will cost roughly $35 to $40 billion each year moving forward.

The program’s explosive growth has raised concerns about its long-term sustainability. The U.S. Department of Education estimates that 9.6 million students will participate in the program during the 2012-13 academic year (the Congressional Budget Office estimates 9.9 million students), and it will cost the federal government over $40 billion (including mandatory funds) for that year alone. In the Student Aid and Fiscal Responsibility Act (SAFRA) of 2010, Congress included $13.5 billion in mandatory funds to address funding concerns with the program. In comparison, the non-Pell Grant...
discretionary education funding request from the Administration totals $46 billion for FY 2012. But it now appears that even with the additional mandatory funding, the Pell Grant Program will require additional funds to meet next year’s shortfall. Also complicating matters is the $20 billion total funding gap the Pell Grant Program faces for FY 2012. If this funding shortfall is not addressed, the maximum will dip to around $2,900.

Growth in the Pell Grant Program

Since the inception of the Federal Pell Grant Program (originally known as the Basic Educational Opportunity Grant Program) over 40 years ago, it has been the most critical federal needs-based financial aid program for post-secondary education. The Federal Pell Grant Program has garnered strong bipartisan and presidential support over the past four decades. With the current Pell Grant maximum award level set at $5,550, the growth of the program can be attributed to a number of factors. As outlined by the U.S. Department of Education’s budget request for FY 2012, the following four major factors have expanded participation and consequently increased the program’s overall cost:

1. Demographic changes and increases in the number of eligible students (accounting for 40 percent of the increase). Maintaining this mix and number of applicants will cost an estimated $24.0 billion in 2012-13.
2. Increases to the maximum award (22 percent). Between 2008 and 2009, the discretionary maximum Pell Grant grew by $619, from $4,241 to $4,860. Maintaining this increase will cost an estimated $4.4 billion in 2012-2013.
3. Second Pell (21 percent). This benefit was originally projected to cost about $300 million per year, but due to extraordinary take-up, the projected annual cost will be about $4.2 billion in 2012-13.
4. Need analysis changes (16 percent). Maintaining these changes, such as changes to income protection allowances and to the income at which a student automatically qualifies for a full Pell award, will cost an estimated $3.2 billion in the 2012-13 award year.

All of these changes now portent that the program will reach 10 million students very shortly and bring escalating yearly costs. It is widely expected that once the economy grows stronger, the total number of students participating in the program will decrease due to students leaving college to take jobs and increased estimated family contributions. However, it is very likely that the cost of the program will still exceed $30 billion each year.

The Way Forward

The Obama Administration, in its FY 2012 budget request, outlined four major changes to reduce post-secondary education spending to support Federal Pell Grant Program funding, all of which would require congressional legislation to proceed. Most importantly for community colleges, the Administration agreed as part of its budget deal in April to eliminate “year-round” Pell, which is estimated to cost almost $50 billion over 10 years. Congress may also look to alter the needs analysis for participation in Pell or other similar mechanisms that may limit the program’s growth. In last year’s budget request, the Administration proposed moving the entire Federal Pell Grant Program to the mandatory side of the budget, but as the funding was not offset with other cuts, it was largely ignored by Congress.

Given the current political dynamics, the chances that Congress and the Administration will be able to draft, pass, and implement these provisions in a timely manner seem remote. Unfortunately, the alternative is that the Pell Grant will be seriously underfunded, which would subject millions of students to the prospect of reduced Pell Grant awards or no awards at all.

Additional Funding in Jeopardy

In the Congressional Budget Office’s summary of H.R. 1, one item in the Federal Pell Grant Program was noted to have major implications in future years. According to the legislative language in SAFRA, if Congress does not fund the discretionary Federal Pell Grant Program maximum level at $4,860 in FY 2014, it would endanger up to $66.4 billion in mandatory funding for the program. If this were to occur, it would reduce the Pell Grant maximum award level by an additional $690 starting in FY 2014. If Congress does reduce the Federal Pell Grant Program maximum award level in the near future, it would necessitate future Congresses to pass a sizeable infusion of discretionary funds into the program to preserve mandatory funding levels in FY 2014 and beyond. Essentially, Congress would be kicking the can down the road, but it would still need to address the issue at another time.

Raise Your Voice

The Federal Pell Grant Program is facing a critical time in its history as Congress and the Administration work to deal with the funding and legislative issues related to the program. Now is the time for you and your institutions to support the students in your communities. Without your advocacy, many of our students will face dramatically lower Pell Grant awards, which may force them to forgo their pursuit of higher education. We encourage you to utilize ACCT’s online Policy Center to communicate with your members of Congress and follow federal legislative updates through the Latest Action in Washington e-mail alerts.