

The Real Cause of Pell Grant Cost Increases

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It's certainly no secret that the costs of the Pell Grant program have been growing at a rapid rate. The cost of the program, which gives undergraduate college students from low-income families' grants to cover tuition and other expenses, has more than doubled from \$16 billion in 2008 to nearly \$40 billion in fiscal year 2011. Compare that to the largest federal program for K-12 education, Title I grants for local school districts, which Congress has consistently funded at about \$14 billion over the same time period.

Most policymakers and stakeholders have attributed the rise in Pell Grant costs to the weak economy. The conventional wisdom is that high unemployment has encouraged more people to pursue a higher education—and apply for Pell Grants.

That reasoning is indeed correct, but it's not the whole story. In fact, it's not even half the story.

According to U.S. Department of Education [budget documents](#) released with the Obama Administration's fiscal year 2012 budget proposal, most of the increase in Pell Grant costs is the result of changes Congress made to the program that took effect in 2009, not rising college enrollment.

Here is how the Department of Education breaks down the numbers:

- Only 40 percent of the growth in costs of the Pell Grant program from 2008 to 2012 will be attributable to enrollment growth. Over that time, recipients will grow from 6.1 million in 2008 to an estimated 9.6 million in 2012.
- About 14 percent of the increase is attributable to changes that Congress made to key parts of the eligibility formula for Pell Grants under the College Cost Reduction and Access Act of 2007. Starting in 2009, the law upped the income threshold from \$20,000 to \$30,000 in the formula that qualifies an applicant for the maximum grant award (provided the cost of attendance meets or exceeds the maximum grant award). The law also allows applicants to exclude more of their income when applying for a grant and it created a new exclusion for certain types of income such as the Earned Income Tax Credit, the refundable child tax credit, and welfare or Social Security benefits. (The Higher Education Opportunity Act of 2008 excluded even more types of income and benefits, but the Department of Education doesn't mention those changes in its tally.)
- The year-round or "two Pell" rule accounts for another 22 percent of the program's cost increase since 2008. The Higher Education Opportunity Act of 2008 allows students to receive two Pell Grants in one academic year, mainly to pay for summer enrollment. This eligibility change alone adds about \$4 billion a year to program costs. The Department of Education notes that its own budget analysts had previously "underestimated the effect of this change" on program costs.
- Finally, about 25 percent of the growth in Pell Grant costs is attributable to an increase in the maximum grant that students can receive. In 2008, the maximum Pell Grant was \$4,731. As part of the America Recovery and Reinvestment Act, Congress boosted it to \$5,350 in 2009 and \$5,550 in 2010. The Department of Education assumes Congress will set this same maximum for 2011 and 2012 in its calculations to determine what factors contributed to growth in cost of the Pell Grant program.

In total, this means that 60 percent of the growth in the cost of the Pell Grant program had nothing to do with enrollment growth. Instead, the majority of the increasing cost can be attributed to legislative changes to the program.

So what *didn't* contribute to the growth in Pell Grant costs?

It's worth noting that the Department of Education didn't specifically include Pell Grant use at for-profit colleges as a factor contributing to cost growth. The Obama Administration last year proposed new regulations that would further limit the use of federal student aid at such schools, and one would expect that if these schools were driving up costs in the program, the Department of Education wouldn't be shy about reporting it. In fact, the budget document shows that Pell Grant costs have doubled since 2008 at for-profit schools *and* at 4-year public and private institutions. Pell Grant use at community colleges is the only outlier, where use (in terms of dollars) is up 160 percent. Community colleges took in \$5.3 billion in Pell Grants in 2008 and are expected to take in \$13.8 billion in 2012.

The Department of Education's fiscal year 2012 budget documents show that Congress and the Administration have been in the driver's seat when it comes to Pell Grant costs—not the weak economy and surging Pell Grant applications. The policies that determine the grant size and eligibility rules have been more important in determining what the program costs than even the fastest enrollment growth rate in the program's history.

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