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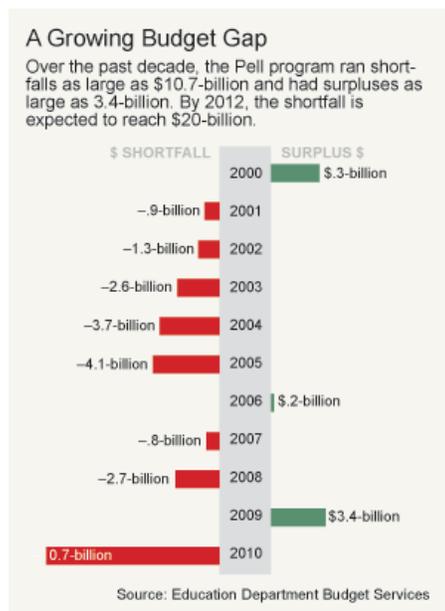
Pell Grants Face Cuts, Possible Overhaul

Even supporters now talk of unsustainable cost

By Kelly Field

As Congress grapples with a \$10.7-billion shortfall in the Pell Grant program, some lawmakers are beginning to ask whether the program, which has been the cornerstone of the federal system of student financial aid for almost 40 years, has become unsustainable.

The cost of Pell Grants has doubled over the past three years, largely because of increases in the number of recipients and growth in the maximum award. This year some 9.4 million students are expected to receive the grants, up from 6.2 million in 2008.



They include thousands of laid-off workers, like David T. Corgan, a 35-year-old Minnesotan who enrolled in Anoka-Ramsey Community College in 2008 after he lost his job managing a game store at the Mall of America. Mr. Corgan, who receives the maximum annual Pell Grant of \$5,550, says he realized he would need a college degree to find a job that was stable and paid enough to support the family he and his girlfriend hope to start. Eventually he would like to earn a doctorate in astrophysics and become a professor and researcher.

His plan could be derailed if Republicans in the U.S. House of

Representatives, who have proposed cutting \$5.7-billion from the program, have their way. Their bill, which the House passed last month, would end aid to a quarter of all recipients and cut the average award by \$785, forcing students to borrow more for their education. Mr. Corgan would see his award slashed by \$845, a cut that could force him to take fewer classes or drop out altogether.

Already there are times when he has to make \$100 last a month. "We're hitting the food shelf and counting every penny," he says.

Senate Democrats have rejected the House approach, preferring President Obama's plan to streamline the program and sacrifice other benefits to pay for Pell Grants. Eventually the parties may settle on a compromise that would erase the shortfall and shrink the Pell program, at least for a year.

In the long run, though, lawmakers may have to make some difficult decisions about how Pell Grants are awarded—decisions that could change who gets the grants and alter the very purpose of the popular program. Among the many options being considered are limiting aid for less needy students, rolling back recent expansions of the program, and tying the awards to student outcomes.

"Whatever the short-term answer is, in the long run we're going to have to look at the structure of awarding Pell Grants in a fundamentally different way," says Brian K. Fitzgerald, a former director of the Congressional student-aid advisory board.

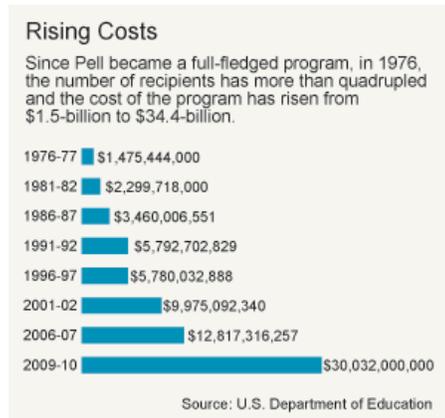
Increased Shortfalls

Congress created Pell Grants in 1972 to encourage more low-income students to go to college.

The program, which provides need-based aid to undergraduates, operates as a quasi entitlement, in that every student who qualifies for a grant receives one. But financing is set through the annual appropriations process, and spending levels are based on projections made a year and a half before students receive the awards. When student demand exceeds expectations, the program runs shortfalls that must be made up in future budgets. That happened at least a half-dozen times during the 1980s and 90s, says Mark Kantrowitz, a student-aid expert who publishes Finaid.org.

It's only in the past decade, though, that deficits have become an almost perennial problem. From 2001 to 2010, there were eight years of shortfalls in the Pell program and only two years of surpluses.

When money is short, the Education Department borrows against the next year's appropriation to maintain the maximum award. Congress often allows those debts to accumulate for a few years before paying them down with an "emergency" appropriation.



But the era of quick fixes and short-term solutions may be coming to an end. By 2012, the program's shortfall is expected to exceed \$20-billion. If lawmakers continue to push that debt on to future budgets, the program will eventually run out of money for new awards.

To bring the program's costs under control, lawmakers will have to deal with the root causes of its unprecedented growth: the recession and a recent expansion of benefits.

Since 2008 the Pell's discretionary costs have more than doubled, from \$16.1-billion in the 2008-9 academic year to an estimated \$34.4-billion in 2011-12. Roughly 40 percent of that increase is attributable to rising enrollment, according to the president's budget plan. As economic conditions have worsened and unemployment has risen, more low-income Americans have returned to college and qualified for Pell Grants.

The other 60 percent of the growth is due to increases in the maximum award and recent changes in the program. In 2007, Congress raised the income cutoff for automatically receiving the maximum award to \$30,000 from \$20,000, increased the minimum award to 10 percent of the maximum, and allowed applicants to exclude more of their income and benefits when applying for aid. A year later, it passed bills that raised the maximum grant by \$819 over two years and allowed students to receive two Pell Grants in an academic year.

A disproportionate share of the growth has occurred in the for-profit-college sector, which enrolls only 10 percent of all students but accounts for a quarter of Pell Grants. The Education Department, worried that some of this money is being wasted, has proposed cutting off aid to institutions that are failing to prepare

their students for "gainful employment."

Supporters say the proposed rule would protect taxpayers and students from fraud and abuse, but critics say it would jeopardize college access for thousands of low-income and minority students. The department is expected to make the controversial rule final soon.

Difficult Decisions

In Congress, the Pell program has long enjoyed bipartisan support. Conservatives like it because it's a voucher program, putting educational decisions in the hands of students; liberals like it because it is aimed at socioeconomic disparities in college access.

But when it comes to solving Pell's financial challenges, the parties differ. Republicans, at least in the House, have lined up behind the plan to cut the program by \$5.7-billion, reducing the maximum award by 15 percent.

"Pell Grants are on the path to bankruptcy," Rep. John Kline, Republican of Minnesota, and chairman of the House education committee, said in a statement. "We need to make tough choices now to ensure this important program remains available for students who need it most."

Democrats tend to support the president's plan to preserve the maximum award by ending year-round Pell Grants and eliminating the in-school interest subsidy on graduate loans, viewing the cutbacks as a reasonable, if painful, exercise in priority-setting.

"Everyone recognizes that we have to make difficult cuts," said Rep. Timothy Bishop, Democrat of New York, in an interview. "If the price for maintaining the maximum award at \$5,550 is eliminating year-round Pell, then that is something that we need to do."

In his proposed budget for the 2012 fiscal year, President Obama argues that his plan would put the program "on a sustainable fiscal path." The administration estimates that its proposed cuts would free up \$48.6-billion for Pell Grants over 10 years, enabling the program to grow by an average of 2 percent a year.

Whether that would be enough to put the program on solid financial footing will depend largely on the economy. If the employment rate improves, fewer students will qualify for Pell Grants, and collegegoing rates will drop, reducing demand. If unemployment remains high, and the program continues to grow at its current pace, an additional \$48-billion might not cut it. During the 2008-9 academic year, the number of students receiving Pell grants grew by more than 31 percent.

Amid such uncertainty, the only sure way to slow the growth that threatens to bankrupt the program is to change who gets the grants.

Under current law, the size of a student's Pell Grant is determined by subtracting the expected family contribution from the maximum award or the student's cost of attendance. Using that formula, every increase in the maximum award not only provides more aid to existing recipients but also expands eligibility to students with higher incomes.

One way to rein in the program's cost would be to limit aid to the neediest students, either by revising the formula used to calculate the expected family contribution or by tweaking the award algorithm.

That approach could appeal to conservatives like Rep. Virginia Foxx, Republican of North Carolina, who question whether the grants are going to students with "exceptional financial need," as Congress stipulated.

"I think we should look at whether we are meeting the needs of the truly needy," Ms. Foxx, chair of the House higher-education panel, said in an interview.

But differentiating between the merely "needy" and the "neediest of the needy" could prove difficult and might not save all that much. During the 2009-10 academic year, 76 percent of Pell Grant recipients had incomes less than or equal to \$30,000, and 70 percent qualified for the maximum award. Only one percent came from families earning more than \$60,000.

A simpler solution—and an easier sell, politically—would be to roll back some of the recent expansions in the program, particularly those that have driven up costs without significantly expanding access to college. That might include increases in the minimum award and the income-protection allowance, as well as the year-round Pell program. College lobbyists say they'd prefer specific, data-driven reductions to an across-the-board cut, which they fear would hurt the lowest-income students the most.

"We ought to look at the program and see where the dollars are going, who is getting them," said Sarah A. Flanagan, vice president for government relations and policy at the National Association of Independent Colleges and Universities. She was an aide to the late Sen. Claiborne Pell, the Rhode Island Democrat who is the program's namesake. "It may or may not be that all the expansions

of the program are helping to meet its goals."

New Focus: Completion

A less popular option, at least among colleges, would link Pell Grants to student outcomes, withholding aid from individual students, programs, or even entire colleges based on grades, completion rates, or some other variable.

The idea, which appears to be gaining traction in Congress, is to hold students or their colleges accountable for the billions in taxpayer dollars that are spent on Pell Grants each year. In interviews, both conservatives, like Ms. Foxx, and liberals, like Sen. Richard Durbin, Democrat of Illinois, expressed interest in the concept.

"I think completion has to be part of the conversation," said Mr. Durbin, the assistant majority leader. "Most of these students are not just receiving Pell, they're borrowing as well. And if they don't complete their education and get a job, they get the worst of all possible outcomes."

At a conference this year, Senator Durbin criticized colleges for their low completion rates, warning that the administration and Congress will "push you to be better stewards of taxpayer dollars."

"You cannot come to Congress to ask for more funding for Pell Grants while looking the other way as billions of dollars of our current investment is wasted," he said at a meeting of the independent-colleges association.

Congress already places some restrictions on the receipt of Pell Grants, and the Education Department has proposed adding more. Colleges where students have high loan-default rates can become ineligible to receive federal student aid, including Pell Grants. And students must demonstrate that they are making "satisfactory academic progress" toward a degree to continue receiving the awards.

The Education Department, in its controversial gainful-employment rule, would take the concept a step further, disqualifying programs whose graduates carry high debt-to-income ratios and have low loan-repayment rates. However, the rule would apply only to short-term programs, less than a year in duration.

No one in Congress or the administration has yet proposed denying aid to students who are less likely than others to graduate, such as those with dismal high-school grades or low scores on college entrance exams. But Richard Vedder, director of the Center for College Affordability and Productivity and a *Chronicle* blogger, likes

the idea.

"If we're going to have to cut people off," he says, "let's cut the right people off."

Mr. Vedder acknowledges that his plan would meet "violent opposition" from colleges because it "seems to fly in the face of egalitarian arguments that everyone should have a shot at the American dream." But he argues that it would free up more money for "deserving" students who are more likely to succeed.

Congressman Bishop, a former provost of Long Island University's Southampton College (now part of the State University of New York at Stony Brook), is among the skeptics of plans to tie Pell to completion.

"The whole thrust of public policy has been to encourage the pursuit of higher education," he said in an interview. "I would hate to see us retreat from that."

Stabilizing Pell

The increased emphasis on completion is due, in part, to President Obama's goal to have the United States lead the world in college-completion rates by 2020. Before the president set that target, in 2008, "the only goal articulated for the student-aid programs was to equalize educational opportunity," says Becky Timmons, assistant vice president for government relations at the American Council on Education. When the president announced his college-completion agenda, "the goals were switched," she says.

So far, though, the administration has pursued a strategy of carrots over sticks, preferring incentives for colleges over penalties. In his proposed budget for 2012, for example, Mr. Obama proposed providing \$175-million for two new college completion programs.

Martha J. Kanter, under secretary of education, says the administration is examining ways to make federal aid "more performance-based" but is focused for now on saving the existing program. "For us, stabilization is the biggest priority," she says.

Lawmakers, meanwhile, have turned their attention to the sector responsible for a disproportionate share of the growth of the Pell program: for-profit colleges.

Over the past 15 years, the share of Pell money flowing to for-profits has roughly doubled, to a quarter of all aid. In recent weeks, Senate Democrats, including Mr. Durbin and Iowa's Tom Harkin, chairman of the education committee, have floated plans to limit the amount of federal money flowing to the for-profit sector and to

impose new oversight responsibilities on their accreditors.

"We need to ensure that we aren't giving massive amounts of federal funds to companies that aren't providing a quality education and strong support for their students," Mr. Harkin said.

But nonprofit colleges may not escape Congressional scrutiny. Republicans say problems identified in Mr. Harkin's inquiry—low graduation rates among them—are not unique to for-profit colleges, and have threatened to expand the investigation to the nonprofit sector as well.

College lobbyists say they know they need to be preparing for discussions about the future of the Pell program and whether it can continue in its current form. For now, though, colleges and students are focusing on the immediate threat: the cuts contained in the Republican spending bill.

Last week Mr. Corgan, the community-college student from Minnesota, was in Washington to meet with his representative in Congress, Rep. Erik Paulsen, a Republican. Mr. Corgan explained that Pell Grants had allowed him to attend college and said an \$845 cut in the award could make it impossible for him to continue.

"It might reach the point where I would say, 'I can't do this anymore,'" he told his Congressman.

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 **andreology** 1 day ago

The trouble with socialism is that eventually you run out of other people's money.

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 **swish** 1 hour ago in reply to andreology

If we really had socialism, we'd be far from running out.

1 person liked this. [Like](#) [Reply](#)



education2011 22 hours ago

So a 10-15% reduction in Pell from \$5550 per academic year is going to jeopardize someone's ability to attend a community college? Let's see, \$4800 Pell, \$200 SEOG, \$10,000 Stafford or more through PLUS if dependent. So access to \$15,000 in federal aid (plus any state aid) is not enough to attend a college with maybe \$5000 in tuition/fees/books per year? First, the Pell is and probably will be enough to pay all direct costs. Part-time job or some loans will help bridge the gap to graduation. Better yet, find a private, career-focused college with much higher graduation rates that will get you to your career goal much faster, even if it costs more. Time is money! There are some good ones out there if you do your research.

5 people liked this. [Like](#) [Reply](#)



22097984 13 hours ago

After I cut the \$400 billion (from the \$553 billion starting point...or \$830 if you count a different way) out of the military budget for 2011, I see another \$34.4 billion I would cut out of next years budget. Tax me to give money to someone to go to college so that I can't put money into my kids 529 to pay for her to go to college and she can get a Pell Grant (or, more likely, a loan). No doubt this seems logical to someone with an agenda.

4 people liked this. [Like](#) [Reply](#)



iuslibrary 2 hours ago

A large part of the problem is the wasteful spending by the grantees. The Pell Grant should be used to pay direct costs of the education to the school. If the spending was used as it should, I would have no problems.

7 people liked this. [Like](#) [Reply](#)



softshellcrab 1 hour ago

Every government program will grow into an abuse. Pell grants and other government aids to higher education students are being extremely abused. The for-profit diploma mills are growing fat off of them and their executives are flying around in private jets.

Of course the article gives the most sympathetic possible example, of an otherwise hard working young guy who will be hurt by the cutback of Pell grants, etc. etc. Let me give you the other side: U. of Phoenix was caught red-handed recruiting homeless alcoholics to get Pell grants and other government aid to attend Phoenix. See the article at this site:

<http://www.businessweek.com/ma...>

Of course there are nice, hard working people using Pell grants. And of course there are many who are simply abusing the system. All government giveaway programs wind up as abuse-machines.

1 person liked this. [Like](#) [Reply](#)



fuhrmannje 1 hour ago

What fails to be part of the discussion is the actual root of the problem; the FAFSA. The FAFSA is the qualifier for the Pell Grant. The FAFSA has been over simplified. It allows for students to qualify for Pell today that would never have qualified even 4 years ago. The FAFSA needs to be adjusted to get the "real" financial picture. If you do that, you'll see substantial savings. You'll see the funds go to those that truly need the money.

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