

Department of Education
STUDENT AID OVERVIEW
Fiscal Year 2012 Budget Request

CONTENTS

	<u>Page</u>
Summary of Request	O-1

STUDENT AID OVERVIEW

Federal Student Aid Programs
(Higher Education Act of 1965, Title IV)

FY 2012 Authorization (\$000s): Indefinite

Budget Authority (\$000s):¹

	<u>2011 CR</u>	<u>2012</u>	<u>Change</u>
Grants and Work-Study:			
Pell Grants:			
Discretionary funding	\$23,162,000	\$28,600,059	+\$5,438,059
Mandatory funding ²	<u>18,718,184</u>	<u>12,556,000</u>	<u>-6,162,184</u>
Subtotal, Pell Grants	41,880,184	41,156,059	-724,125
Student Success Incentive Payments	0	50,000	+50,000
Academic Competitiveness/SMART Grants ³	561,000	0	-561,000
Supplemental Educational Opportunity Grants	757,465	757,465	0
Work-Study	980,492	980,492	0
Leveraging Educational Assistance			
Partnerships ⁴	63,852	0	-63,852
Iraq and Afghanistan Service Grants	182	211	+29
Teacher Education Assistance ⁵	<u>22,178</u>	<u>199,149</u>	<u>+176,971</u>
Total, Grants and Work-Study	<u>44,265,353</u> ⁶	43,143,376	-1,121,977
Net Loan Subsidy, Loans:⁷			
Federal Family Education Loans ⁸	-24,492,933	-2,109,428	+22,383,505
Federal Direct Student Loans ⁹	-26,783,518	-27,222,693	-439,175
Perkins Loans ¹⁰	0	-1,240,798	-1,240,798

¹ Table reflects appropriations.

² Amounts appropriated for Pell Grants for 2011 and 2012 include mandatory funding provided by the Student Aid and Fiscal Responsibility Act (P.L. 111-152). Request in 2012 provides for the appropriation of \$7.7 billion in mandatory savings from the student loan program into the Pell Grant program.

³ Amount for 2011 reflects amount deferred from FY 2010. The programs are scheduled to sunset on June 30, 2011.

⁴ Includes \$33.9 million in 2011 for Grants for Access and Persistence (GAP) or Special LEAP, which are authorized when a fiscal year's appropriation exceeds \$30 million. The 2012 Budget includes the proposal to eliminate LEAP.

⁵ Includes funding for TEACH Grants for 2011 and part of 2012 (through June 30), as well as a request for \$185 million for a new program, Presidential Teaching Fellows – which would replace TEACH Grants – in 2012. For budget purposes, TEACH Grants is operated as a credit program. Amounts reflect the new loan subsidy, or the net present value of estimated future costs.

⁶ Funding levels for discretionary programs in FY 2011 represent annualized continuing resolution levels of the 4th Continuing Appropriations Act, 2011 (P.L. 111-322).

⁷ Total net subsidy in any fiscal year reflects the estimated net cost of the loan program for that fiscal year. It includes both positive and negative subsidies and upward and downward impacts of re-estimates and modifications of existing loans. A negative subsidy occurs when the present value of cash inflows to the Government is estimated to exceed the present value of cash outflows. Normally budget authority is not shown if it is negative. However, for informational purposes, the amounts here reflect estimated negative budget authority. Negative subsidy is reported (as negative outlays) to a negative subsidy receipt account.

⁸ Budget authority requested for FFEL does not include the FFEL Liquidating account. Amount for 2011 reflects net downward re-estimate of \$24.49 billion, due primarily to updated interest rate assumptions. FY 2012 request also includes a net downward modification of \$409 million as a result of the proposed debt conversion policy.

STUDENT AID OVERVIEW

Continued:

⁹ Amount for 2011 includes net downward re-estimate of \$5.7 billion, due primarily to updated interest rate assumptions.

¹⁰ Amount for 2012 reflects Budget proposal to fund Perkins Loans as a mandatory credit program; the request shows the net present value of estimated future costs. (Loan cancellations will be funded from the Federal share of collections on outstanding loans.)

STUDENT AID OVERVIEW

FY 2012 Budget Request

The Federal Government will provide in FY 2011 over \$174 billion in grants, loans, and work-study assistance to help students pay for postsecondary education. These funds help millions of Americans obtain the benefits of a higher education. With the dramatic increase in higher education costs and the vital role advanced training plays in today's global economy, however, an even greater investment is needed, especially in Pell Grants to low-income students. Accordingly, the FY 2012 Budget includes proposals to increase Federal student aid to more than \$189 billion in FY 2012, including \$36.1 billion in Pell Grants and over \$151 billion in student loans. Almost 16 million students would be assisted in paying the cost of their postsecondary education at this level of available aid.

This overview details the package of reforms proposed by the Administration as part of its 2012 Budget to increase aid to students while improving the effectiveness of the Pell Grant and student loan programs. (Current student aid programs are described in detail under **Student Financial Assistance**, beginning on page P-1, **Academic Competitiveness Grants and SMART Grants** on page Q-1, **TEACH Grants** on page R-1, and the **Student Loans Overview** on page S-1.) The administrative costs requested in support of these student aid programs are presented in the **Student Aid Administration** section, beginning on page AA-1.

The United States has long been a global leader in postsecondary education, but recently this advantage has slipped. While the U.S. ranks 5th in terms of the proportion of 25-64 year olds with a postsecondary education, it ranks 9th in attainment among the younger generation, those aged 25-34. There is an opportunity gap as well. Today, high-school graduates from the wealthiest families are virtually certain to continue on to higher education, while just over half in the poorest bottom quarter attend. Even when high-school graduates can afford to begin higher education, they too often fail to finish. Only about half of college students graduate within 6 years; for low-income students, the completion rate in the same time period is closer to 25 percent.

The Administration's 2012 Budget provides student aid funding aligned with the goals of supporting education reform, strengthening the teaching profession, and leading the world in college completion rates by 2020. Specifically, the Budget would provide a package of mandatory funding to protect the maximum award level of \$5,550 for Pell grant awards for low-income students; modernize and expand the Perkins Loan program; rationalize our programs for aspiring teachers by replacing the TEACH grant program with a new, better-targeted teacher fellowship program; and simplify access to student aid by allowing students to streamline their student loan debt and receive a single student loan bill each month. At the same time, the Budget would create incentives for colleges to help students not only enroll in school, but also finish their studies with a meaningful degree or certificate – and reward institutions that are successful at leading students to these outcomes.

Improving the Pell Grant Program

Rising demand for, and rising costs in, the Pell Grant program, has led to the need for modifications in the program in order to continue providing financial aid to those students with

STUDENT AID OVERVIEW

greatest need. These modifications include both measures that **reduce costs and increase program efficiency and require tough choices in order to put the Pell Grant Program – including its maximum grant of up to \$5,550 – on a solid and sustainable financial foundation.**

For instance, the Budget proposes to **eliminate the availability of a second Pell Grant in a single award year to certain students.** This initiative was intended to help students pay for educational expenses incurred as a result of completing their programs of study in a shorter period of time. Thus far, however, the costs of this initiative have far exceeded expectations, and significant concerns exist that – in the aggregate – program completion rates have accelerated only marginally, if at all. In light of the extraordinary costs of this initiative, and before any additional costs are incurred, the Administration believes it is prudent to thoroughly study whether the benefits generated are sufficient to justify the expense. Additionally, the Administration also believes that further study should be done to explore whether alternative program modifications could effectively encourage and assist students in completing their education programs more quickly in a fiscally responsible way.

Easier Student Loan Repayment

When the FFEL program stopped originating new loans on June 30, 2010, over 6 million student loan borrowers had both FFEL and Department-held (either Direct Loan or ECASLA) student loans. The repayment process for these borrowers involves making payments to multiple student loan holders, which puts them at greater risk for default. To assist these borrowers simplify loan repayment, the Administration proposes to allow such borrowers to convert existing FFEL debt by **moving the FFEL debt and servicing to the Department of Education.** The terms and conditions of the loans would remain the same, and borrowers would be able to make streamlined payments to cover multiple loans to a single servicer. This 9-month long opportunity – proposed from January 1, 2012 through September 30, 2012 – would allow those borrowers with split servicers to migrate their loans to one holder. This program would be offered as an option for a borrower and would provide a benefit of up to 2 percent of the students' loan balance if they choose to convert their debt.

Additional Student Loans to Cover Gaps and Emergencies

Current annual loan limits in the Federal student loan programs are inadequate for some students. While the existing Perkins Loan program provides some students with additional low-interest loans, the program is too small, inefficient and inequitable to help many qualified students. Under the current program for example, loans are serviced directly or indirectly by institutions at considerable institutional and Federal cost, and students at less wealthy institutions often have little or no access to the program.

The Administration supports creating an **expanded, modernized Perkins Loan program** providing \$8.5 billion in new loan volume annually—eight and a half times the current Perkins volume—and, when fully implemented, reaching over 3 million students at as many as 2,700 additional postsecondary education institutions. Instead of being serviced by the colleges, loans would be serviced by the Department of Education along with other Federal loans. Loan volume will be allocated among degree-granting institutions using a method to be determined in consultation with Congress. The Administration intends for this new formula to provide

STUDENT AID OVERVIEW

incentives for successfully graduating more low-income students. Schools will continue to have flexibility in awarding Perkins loans to students. The loans would have the same 6.8 percent interest rate as the current Stafford Loan program, and loan limits (both undergraduate and graduate) would remain the same as in the current Perkins program. To make loans available to more students, while sustaining historic investments in the Pell Grant program, interest on the loans would accrue while students are in school. As current Perkins Loan borrowers repay their loans, schools will remit the Federal share of those payments to the Department of Education. Schools will retain their own share of the revolving funds, as well as amounts sufficient to cover the costs of the various Perkins Loan forgiveness provisions. Mandatory loan subsidy costs associated with this program would be shown in a new Federal Perkins Loan program account.

Rationalize Programs for Aspiring Teachers

The TEACH Grant program (TEACH) provides awards up to \$4,000 each year to undergraduate and graduate students who commit to teach in a high-need school and high-need subject for at least 4 years following graduation. Institutions of higher education are eligible to receive funding to provide TEACH Grants irrespective of the quality of their teacher preparation program. In fact, 22 institutions of higher education that have a State-identified low-performing or at-risk teacher preparation program award TEACH Grants to their students. While TEACH aims to recruit and prepare effective teachers, data from national surveys and other sources suggest more than three-fourths of TEACH Grant recipients will fail to graduate and complete their service requirement, much less prove effective in the classroom. For students who fail to meet the service requirement, grants are converted to Unsubsidized Stafford Loans carrying a 6.8 percent fixed interest rate.

In order to enhance the likelihood that grant recipients will be well-prepared to enter and likely to persist in the teaching profession, **the Administration proposes to overhaul and replace TEACH with the Presidential Teaching Fellows (PTF) program.** The replacement program provides formula aid to States that hold teacher preparation programs accountable, expand the field of effective providers, and make career milestones like certification and licensure rigorous and meaningful. At least 75 percent of funds will finance scholarships up to \$10,000 to assist talented, needy individuals pay for the final year costs associated with attending the most effective teacher preparation programs in the State. Fellows will have to be prepared to teach a high need subject, such as mathematics or science, and commit to teach at least 3 years in a high need school.

To receive funding, States are required to measure the effectiveness of their teacher preparation programs based on their graduates' success in improving elementary and secondary student achievement, among other outcome measures. Funds are to be available on equal terms to traditional and alternative certification preparation programs.

Eliminate Interest Subsidies to Graduate and Professional Students

Currently, graduate students are eligible to borrow up to \$8,500 per academic year for a Subsidized Stafford loan. However, the costs of this subsidy are large and experts believe that it fails to encourage more students to enroll and is not well targeted to borrowers who will struggle repaying their loans after leaving school. As a result of the expansion of the Interest-Based Repayment program and the creation of the Public Service Loan Forgiveness program in

STUDENT AID OVERVIEW

combination with other loan forgiveness programs, the burden of paying back student loans has been reduced. Additionally, among all education levels, those who have completed graduate and professional education have the highest median incomes, and thus are less in need of subsidization. The Administration proposes to **eliminate paying interest subsidies on graduate and professional student loans**. The estimated \$2.2 billion in savings in 2012 resulting from this proposal will help students with the greatest need – those receiving Pell Grants – finance their education.

A Simpler Application Process

The Department of Education has taken administrative steps to greatly improve the financial aid process. However, the current student aid application – the Free Application for Federal Student Aid (FAFSA) – still includes many data elements that have a relatively small effect on the distribution of Federal aid and confuses many potential applicants. The Administration supports congressional action to streamline the financial aid process by **shortening the FAFSA application form and making it more understandable for potential applicants to determine what data to report**. These legislative changes will make it possible for students to complete their aid applications by retrieving all the financial information they need electronically.

A Program Rewarding Student Success in Higher Education

The Administration is committed to rewarding institutions of higher education that are able to produce good outcomes for all its students, but particularly its low-income students. The Administration proposes to **create a College Completion Incentive Grants program which would reward institutions for achieving better outcomes for students**. The program will also encourage States to lay the foundation for increasing the number of students who graduate from college. Finally, it will provide new and better information to parents and students to promote transparency and help them choose wisely among their postsecondary options.

STUDENT AID OVERVIEW

PROGRAM OUTPUT MEASURES

Aid Available to Students¹ (\$ in millions)

	<u>2010</u>	<u>2011 CR</u>	<u>2012</u>
Pell Grants	\$36,515	\$35,773	\$36,073
Academic Competitiveness Grants	548	0	0
SMART Grants	384	0	0
Supplemental Educational Opportunity Grants	959	959	959
Work-Study	1,171	1,171	1,171
Leveraging Educational Assistance Partnerships ²	162	162	0
Iraq and Afghanistan Service Grants ³	0	0	0
Presidential Teaching Fellows ⁴	0	0	134
 New Student Loans:			
Stafford Loans ⁵	40,559	44,509	38,488
Unsubsidized Stafford Loans ⁵	47,261	52,726	65,442
PLUS Loans ⁵	16,501	18,863	20,388
Perkins Loans	971	971	4,228
TEACH Grants	<u>109</u>	<u>131</u>	<u>68</u>
Subtotal, New Student Loans ⁶	105,401	117,200	128,614
 Total	 145,140	 155,265	 166,950

NOTE: Detail may not add to total aid available due to rounding.

¹ Shows total aid generated by Department programs, including Federal Family Education Loan capital, Perkins Loan capital from institutional revolving funds, and institutional and State matching funds.

² Reflects only the LEAP program's statutory State matching requirements. State maintenance-of-effort and discretionary contributions above the required match significantly increase the number of grant recipients, the amount of available aid, and the average award.

³ Aid available under the Iraq and Afghanistan Service Grants program is projected at \$180,000, \$232,000, and \$235,000, respectively, for FYs 2010, 2011 and 2012.

⁴ The 2012 Budget request proposes to create the Presidential Teaching Fellows program, which would provide grants to States to fund scholarships for students planning to teach in high-need areas.

⁵ Aid available in 2010 includes loans made through the Federal Family Education Loans program through June 30, 2010. SAFRA (March 23, 2010, P.L. 111-152) requires all new student aid loans to be originated in the Federal Direct Student Loan program as of July 1, 2010.

⁶ Does not include loans issued to consolidate existing loans, which total \$17.1 billion in 2010, \$19.5 billion in 2011, and \$22.7 billion in 2012.

STUDENT AID OVERVIEW

Number of Student Aid Awards

(in thousands)

	<u>2010</u>	<u>2011 CR</u>	<u>2012</u>
Pell Grants	8,873	9,413	9,614
Academic Competitiveness Grants	786	0	0
SMART Grants	150	0	0
Supplemental Educational Opportunity Grants	1,339	1,339	1,339
Work-Study	713	713	713
Leveraging Educational Assistance Partnerships ¹	162	162	0
Iraq and Afghanistan Service Grants	* ²	* ²	* ²
Presidential Teaching Fellows	0	0	13
New Student Loans:			
Stafford Loans	10,194	10,992	10,375
Unsubsidized Stafford Loans	10,301	11,196	13,132
PLUS Loans	1,372	1,540	1,617
Perkins Loans	493	493	2,148
TEACH Grants	<u>37</u>	<u>44</u>	<u>25</u>
Subtotal, New Student Loans ³	22,397	24,265	27,297
Total new awards	34,419	35,892	38,976

NOTE: Detail may not add to Total due to rounding.

¹ Reflects only the LEAP program's statutory State matching requirements. State maintenance-of-effort and discretionary contributions above the required match significantly increase the number of grant recipients, the amount of available aid, and the average award.

² Denotes number of recipients will be fewer than 1,000.

³ Does not include loans issued to consolidate existing loans.

Number of Postsecondary Students Aided by Department Programs

	<u>2010</u>	<u>2011 CR</u>	<u>2012</u>
Unduplicated Count (in thousands)	13,825	15,248	15,976

STUDENT AID OVERVIEW

PROGRAM PERFORMANCE INFORMATION

Performance Measures

This section presents selected program performance information, including, for example, GPRA goals, objectives, measures and performance targets and data; and an assessment of the progress made toward achieving program results. Achievement of program results is based on the cumulative effect of the resources provided in previous years and those requested in FY 2012 and future years, and the resources and efforts invested by those served by this program.

Because Federal student assistance grant and loan programs rely on the same program data, performance indicators and strategies that apply to these programs are grouped here in the **Student Aid Overview**. They are not repeated in justifications for the **Student Financial Assistance, Teacher Education Assistance** or **ACG/SMART Grant programs** accounts, or in the **Student Loans Overview**.

STUDENT AID OVERVIEW

Goal: To help ensure access to high-quality postsecondary education by providing financial aid in the form of grants, loans, and work-study in an efficient, financially sound, and customer-responsive manner.

Objective: Ensure that low- and middle-income students will have the same access to postsecondary education that high-income students do.

Measure: College enrollment rates: Postsecondary education enrollment rates will increase each year for all students, while the enrollment gap between low- and high-income and minority and non-minority high school graduates will decrease each year.

Targets and Performance Data

The percentage of high school graduates ages 16-24 enrolling immediately in college following high school

Year	Target	Actual
	Total Percentage Enrolled	Total Percentage Enrolled
2007	68.00	67.20
2008	68.00	68.60
2009	68.00	
2010	68.00	
2011	68.00	
2012	TBD	
	Difference in the percentage of low- and high-income high school graduates ages 16-24 enrolling immediately in college	Difference in the percentage of low- and high-income high school graduates ages 16-24 enrolling immediately in college
2007	26.75	23.20
2008	26.50	24.80
2009	26.25	
2010	26.00	
2011	25.75	
2012	TBD	

STUDENT AID OVERVIEW

Measure: College enrollment rates: Postsecondary education enrollment rates will increase each year for all students, while the enrollment gap between low- and high-income and minority and non-minority high school graduates will decrease each year. (Continued)

Targets and Performance Data

The percentage of high school graduates ages 16-24 enrolling immediately in college following high school

Year	Target	Actual
	Difference in the percentage of Black and White high school graduates ages 16-24 enrolling immediately in college	Difference in the percentage of Black and White high school graduates ages 16-24 enrolling immediately in college
2007	7.25	13.90
2008	7.00	16.00
2009	6.75	
2010	6.50	
2011	6.25	
2012	TBD	
	Difference in the percentage of Hispanic and White high school graduates ages 16-24 enrolling immediately in college	Difference in the percentage of Hispanic and White high school graduates ages 16-24 enrolling immediately in college
2007	10.25	7.50
2008	10.00	7.80
2009	9.75	
2010	9.50	
2011	9.25	
2012	TBD	

STUDENT AID OVERVIEW

Additional Information: Progress has been shown in reducing the gap between low- and high-income students over the period from 2006-2008, falling from 30.2 to 24.8 percent. A similar decrease over 2006-2008 was recorded between Hispanic and White students, where the percent difference in college enrollment fell from 10.6 to 7.8. Both these metrics exceeded the target rates set for the years 2007 and 2008.

Equivalent progress has not been recorded in decreasing the percentage difference in Black and White student enrollment. The Department is considering possible reasons for this. The Department believes policies that have taken effect in FY 2010, including the Race to the Top Fund which rewards States that, in part, create and implement solutions to reducing achievement gaps and increasing graduation rates, will foster greater progress on these measures. Additionally, the FY 2012 budget proposal's focus on improving teacher quality in high-need areas through the Presidential Teaching Fellows proposal will help place and keep talented teachers in areas where low-income students can most benefit from their knowledge and training.

Data on these measures is collected through the Graduation Rate Survey (GRS) conducted as part of the annual Integrated Postsecondary Student Aid Study (IPEDS). FY 2009 data will be available in early 2011.

STUDENT AID OVERVIEW

Objective: *Ensure that more students will persist in postsecondary education and attain degrees and certificates.*

Measure: Completion rate: Completion rates for all full-time, degree-seeking students in 4-year and less than 4-year programs will improve, while the gap in completion rates between minority and non-minority students will decrease.

Targets and Performance Data

The percentage of full-time degree seeking students completing within 150 percent of the normal time required

Year	Target	Actual
	Students completing a 4-year degree	Students completing a 4-year degree
2007	57.00	57.30
2008	58.00	57.20
2009	59.00	
2010	60.00	
2011	61.00	
2012	TBD	
	Students completing a less than 4-year degree	Students completing a less than 4-year degree
2007	37.00	30.90
2008	38.00	30.50
2009	39.00	
2010	40.00	
2011	41.00	
2012	TBD	

STUDENT AID OVERVIEW

Measure: Completion rate: Completion rates for all full-time, degree-seeking students in 4-year and less than 4-year programs will improve, while the gap in completion rates between minority and non-minority students will decrease.

Targets and Performance Data

The percentage of full-time degree seeking students completing within 150 percent of the normal time required

Year	Target	Actual
	Difference in the percentage of Black and White full-time students completing a 4-year degree within 150 percent of the normal time required	Difference in the percentage of Black and White full-time students completing a 4-year degree within 150 percent of the normal time required
2007	18.10	18.80
2008	17.70	20.10
2009	17.50	
2010	17.00	
2011	16.50	
2012	TBD	
	Difference in the percentage of Hispanic and White full-time students completing a 4-year degree within 150 percent of the normal time required	Difference in the percentage of Hispanic and White full-time students completing a 4-year degree within 150 percent of the normal time required
2007	12.00	12.00
2008	11.50	11.30
2009	11.00	
2010	10.50	
2011	10.00	
2012	TBD	

STUDENT AID OVERVIEW

Measure: Completion rate: Completion rates for all full-time, degree-seeking students in 4-year and less than 4-year programs will improve, while the gap in completion rates between minority and non-minority students will decrease.

Targets and Performance Data

The percentage of full-time degree seeking students completing within 150 percent of the normal time required

Year	Target	Actual
	Difference in the percentage of Black and White full-time students completing a less than 4-year program within 150 percent of the normal time required	Difference in the percentage of Black and White full-time students completing a less than 4-year program within 150 percent of the normal time required
2007	6.30	6.30
2008	6.10	6.20
2009	6.00	
2010	5.80	
2011	5.70	
2012	TBD	
	Difference in the percentage of Hispanic and White full-time students completing a less than 4-year program within 150 percent of the normal time required	Difference in the percentage of Hispanic and White full-time students completing a less than 4-year program within 150 percent of the normal time required
2007	2.10	2.30
2008	1.70	3.00
2009	1.50	
2010	1.30	
2011	1.10	
2012	TBD	

STUDENT AID OVERVIEW

Additional Information: Completion rates decreased slightly between 2007 and 2008 among students in 4-year institutions. During the same period, the gap between completion rates among White and Black students at 4-year schools, and between White and Hispanic students at less-than-4-year schools increased. The gap for Black students in less-than-4-year institutions decreased modestly from 2007 to 2008, while both this measure and the difference in completion rates between White and Hispanic students at 4-year schools met or exceeded target percentages in these years. The Department is in the process of reassessing out-year targets for some measures in light of actual experience. The data continues to be studied, and no formal conclusions have yet been reached.

Data on these measures is collected through the Graduation Rate Survey (GRS) conducted as part of the annual Integrated Postsecondary Student Aid Study (IPEDS). FY 2009 data will be available in early 2011.

Program Improvement Efforts

The Department is in the process of exploring ways to gather detailed program and student outcome data that will support program-specific measures, as well as provide reliable indicators of program effectiveness. The FY 2012 Budget includes funds under the Institute of Education Sciences to help States develop student-level data that could support the development of these measures for the student aid programs.

Efficiency Measures

The Department is in the process of reassessing the appropriate efficiency measures for the individual student financial aid programs. The results of this reassessment will reflect proposed program changes and be incorporated into future budget requests.