

**Department of Education**  
**STUDENT AID OVERVIEW**  
**Fiscal Year 2010 Budget Request**  
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## STUDENT AID OVERVIEW

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

FY 2010 Authorization (\$000s): Indefinite

Budget Authority (\$000s):

	<u>2009</u>	<u>2010</u>	<u>Change</u>
<b>Pell Grants:</b>			
Discretionary funding <sup>1</sup>	\$17,288,000	0	-\$17,288,000
Mandatory funding <sup>1</sup>	2,090,000	\$3,030,000	+940,000
Proposed rescission <sup>1</sup>	0	-3,030,000	-3,030,000
Proposed new mandatory account	<u>0</u>	<u>28,654,059</u>	<u>+28,654,059</u>
Subtotal, Pell Grants	19,378,000	28,654,059	+9,276,059
Academic Competitiveness/SMART Grants <sup>2</sup>	73,000	1,386,000	+1,313,000
Supplemental Educational Opportunity Grants	757,465	757,465	0
Work-Study	980,492	980,492	0
Leveraging Educational Assistance Partnerships <sup>3</sup>	63,582	63,852	0
College Access and Completion Fund	0	500	+500
TEACH Grants <sup>4</sup>	-1,508	-2,442	-934
Federal Family Education Loans <sup>5, 6</sup>	-24,573,759	-2,729,084	+21,844,675
Federal Direct Loans <sup>6, 7</sup>	-6,593,146	-13,847,300	-7,254,154
Perkins Loans <sup>8</sup>	<u>67,164</u>	<u>-497,710</u>	<u>-564,874</u>
Total	-9,848,710	14,765,832	+24,614,542
<b>Recovery Act appropriation:</b>			
<b>Pell Grants:</b>			
Discretionary funding	15,640,000	0	-15,640,000
Mandatory funds	643,000	831,000	+188,000
Proposed rescission	0	-831,000	-831,000
Reclassification of unneeded balances: (non-add)			
From discretionary	-7,522,941	0	+7,522,941
To mandatory	7,522,941	0	-7,522,941
Proposed rescission of unneeded balances	0	-7,522,941	-7,522,941
Work-Study	<u>200,000</u>	<u>0</u>	<u>-200,000</u>
Total	16,483,000	-7,522,941	-24,005,941

<sup>1</sup> Amounts appropriated for Pell Grants from the Student Financial Assistance account, shown here for comparability.

<sup>2</sup> Amount for 2009 reflects deferral of \$887 million to 2010; amount for 2010 reflects use of deferred amount and proposed cancellation of \$511 million.

<sup>3</sup> Includes \$33.5 million in 2009 and 2010 for Grants for Access and Persistence (GAP) or Special LEAP, which are authorized when a fiscal year's appropriation exceeds \$30 million. (GAP, which was authorized in 2008, will replace Special LEAP after a 2-year transition period in which States can choose between the programs.)

## STUDENT AID OVERVIEW

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### Footnotes continued from head table.

<sup>4</sup> For budget purposes, TEACH Grants is operated as a credit program. Amounts reflect the net present value of estimated future costs; negative numbers indicate revenues exceed costs under current estimates.

<sup>5</sup> Budget authority requested for FFEL does not include the Liquidating account. Amount for 2009 includes net downward re-estimate of \$16.0 billion, due primarily to updated interest rate assumptions, and net downward loan modification of \$2.6 billion, due primarily to the effect on the Ensuring Continued Access to Student Loan Act on existing loan cohorts.

<sup>6</sup> Amount for 2010 reflects the Budget proposal to originate all new student loans through the Federal Direct Student Loan program beginning July 1, 2010.

<sup>7</sup> Amount for 2009 includes net upward re-estimate of \$119.4 million, due primarily to updated interest rate assumptions.

<sup>8</sup> Amount for 2009 reflects discretionary appropriation for Perkins Loan cancellations. Amount for 2010 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.) The negative number indicates revenues exceed costs under current estimates.

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### FY 2010 Budget Request

The Federal Government will provide nearly \$116 billion in grants, loans, and work-study assistance to help students pay for postsecondary education in 2009. 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 2010 Budget includes proposals to increase Federal student aid to more than \$129 billion in FY 2010, including \$28.6 billion in Pell Grants and nearly \$98 billion in student loans.

This overview details the package of reforms proposed by the Administration as part of its 2010 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 **Federal Pell Grants**, beginning on page P-1, **Student Financial Assistance**, beginning on page Q-1, **Academic Competitiveness Grants and SMART Grants** on page R-1, **TEACH Grants** on page S-1, and **Student Loans Overview** on page T-1.)

The United States has long been a global leader in postsecondary education, but recently this advantage has slipped. While the U.S. ranks 7th in terms of the percentage of 18-24 year olds enrolled in college, it ranks 15th in terms of the number of certificates and degrees awarded. 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 is closer to 25 percent.

These facts are especially troubling because the return to a college education has increased dramatically. In 1973, a college graduate with no further schooling earned 46 percent more per hour than a high school graduate. In 2007, the differential was 77 percent.

## STUDENT AID OVERVIEW

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The Administration's 2010 Budget makes a historic commitment to increasing college access and success by dramatically expanding financial aid while making it simpler, more reliable, and more efficient. The Budget provides guaranteed funding for Pell Grants, indexes the grant above ordinary inflation, and extends the new American Opportunity Tax Credit. It also insulates student loans from financial turmoil, modernizes and expands the Perkins Loan program, and simplifies access to student aid. At the same time, the Budget recognizes that colleges must do their share, creating incentives for colleges to keep costs affordable and help students not only enroll in school, but also finish their studies with a degree or certificate. The proposed package includes the following components.

### **Reliable Federal Pell Grants**

To ensure America has a highly-educated workforce and prevent a lack of financial resources from obstructing the opportunity to go to college, the Pell Grant program must rest on certain financial footing. The size of the Pell Grant, however, currently is determined by the annual discretionary budget process. The maximum award can stagnate for years and then grow unpredictably; regular funding shortfalls threaten the stability of the program. Evidence suggests that when young people cannot count on financial aid, they are less likely to attend college.

The Administration's Budget proposes to establish a Pell Grant maximum of \$5,550 for the 2010-11 academic year and then index the maximum grant to grow faster than inflation in future years (at a rate equal to the consumer price index plus 1 percentage point). The Budget also proposes to make funding for the Pell Grant program mandatory, rather than discretionary, to eliminate uncertainty and end the practice of "backfilling" billions of dollars in Pell Grant funding shortfalls. These changes would increase projected spending on Pell Grants by \$46.7 billion over the next 5 years.

### **Reliable and Efficient Student and Parent Loans**

Subsidies in the Federal guaranteed student loan program—Federal Family Education Loans (FFEL)—are set by Congress through the political process. The FFEL program has needlessly cost taxpayers billions of dollars, and it has subjected students to uncertainty because of turmoil in the financial markets. The Administration's Budget asks Congress to end the entitlements for financial institutions that process Federal loans to students and parents. The Budget takes advantage of low-cost and stable sources of capital so students are ensured access to loans and provided high-quality servicing by using competitive, private-sector providers to process loans and payments. This approach, which places all new loans in the Federal Direct Student Loan program, saves \$24.3 billion over 5 years; these savings are reinvested in aid to students through the proposed Pell Grant increases.

### **Additional Student Loans to Cover Gaps and Emergencies**

Current annual loan limits in the Federal student loan programs are inadequate for some students. The 50-year-old Perkins Loan program is supposed to provide these students with additional low-interest loans, but the program is too small and its current structure is inefficient and inequitable: loans are serviced directly by institutions at considerable cost, and students at less wealthy institutions often have little or no access to the program.

## STUDENT AID OVERVIEW

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The Administration proposes an expanded, modernized Perkins Loan program with \$6 billion a year in new loan volume—six times the current Perkins volume, reaching up to 2.6 million students at as many as 2,700 additional postsecondary education institutions. Instead of being serviced by the colleges, the loans would be serviced by the Department of Education along with other Federal loans. Loan cancellation costs on existing loans would be funded from the Federal share of loan collections; the institutional share of collections would be returned to schools. The loans would have the same low 5 percent interest rate and allowed loan amounts (both undergraduate and graduate) as in the current Perkins program. To make the loans available to more students and help finance the expanded Pell Grant, interest on the loans would accrue while students are in school. Overall, this proposal will save \$3.2 billion over 5 years.

### **Keeping Tuition Under Control**

While the Federal Government intends to substantially increase the aid available to needy students and families, colleges and universities have a responsibility to control their own costs. Under the current distribution formula for Perkins Loans and other campus-based aid, the more a college increases tuition, the more money the college stands to receive from the Federal Government. This sends precisely the wrong message to institutions. Under the reformed Perkins program, the formula for distributing loan funds to institutions would reward institutions for providing more need-based aid and more reasonable costs relative to comparable institutions.

### **A State-Federal Partnership to Improve College Completion**

State and local governments provide the bulk of the operating funds for the public colleges attended by 76 percent of undergraduate students. But there is little national focus on increasing college completion. The Budget invests \$2.5 billion in mandatory funds over 5 years for a College Access and Completion Fund to build partnerships aimed at improving college success and completion, particularly for students from disadvantaged backgrounds. States would have considerable flexibility in the types of programs that can be funded, with an emphasis on programs with data for evaluation and improvement. Completion is a particular problem at many community colleges, and the Administration expects the new program to benefit students at these schools as well as at 4-year institutions. This effort will expand the knowledge base about what works in increasing college enrollment and graduation and disseminate these best practices. States would be able to use a portion of the funds to continue college outreach and information activities now supported through subsidies in the guaranteed (FFEL) loan program.

### **An American Opportunity Tax Credit**

To help students pay for college, the Recovery Act created a new \$2,500 American Opportunity Tax Credit that is partially refundable to low-income students. The credit will provide tax breaks to millions of families, including many low-income families who get no tax relief for college today. The budget proposes to make this tax cut permanent, investing \$24.6 billion over 5 years in college affordability.

## STUDENT AID OVERVIEW

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### **A Simpler Application Process**

The current Free Application for Federal Student Aid (FAFSA) is longer and more involved than many Federal tax returns, and research shows it may be a reason why some students do not apply for college. The Administration proposes to streamline the financial aid process so that students can determine their eligibility well in advance. This proposal, while still under development, would simplify the process through such measures as streamlining the form itself and/or using tax data to automatically populate the form with applicant's income information.

## STUDENT AID OVERVIEW

### PROGRAM OUTPUT MEASURES

	<u>Aid Available to Students</u> <sup>1</sup>		
	(\$ in millions)		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Pell Grants	\$18,181	\$25,329	\$28,616
Academic Competitiveness Grants	372	554	608
SMART Grants	221	331	337
Supplemental Educational Opportunity Grants	959	959	959
Work-Study	1,171	1,417	1,171
Leveraging Educational Assistance Partnerships <sup>2</sup>	162	162	162
<b>New Student Loans:</b>			
Stafford Loans	30,435	32,349	33,860
Unsubsidized Stafford Loans	33,662	40,988	44,020
PLUS Loans	7,543	7,921	8,761
Graduate PLUS Loans	3,869	4,558	5,019
Perkins Loans	1,103	1,103	5,769
TEACH Grants	<u>25</u>	<u>50</u>	<u>75</u>
Subtotal, New Student Loans <sup>3</sup>	76,637	86,969	97,504
Total	97,703	115,720	129,356

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Does not include loans issued to consolidate existing loans.

## STUDENT AID OVERVIEW

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<u>Number of Student Aid Awards</u> (in thousands)			
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Pell Grants	6,121	7,022	7,590
Academic Competitiveness Grants	488	783	865
SMART Grants	78	127	131
Supplemental Educational Opportunity Grants	1,258	1,258	1,258
Work-Study	781	945	781
Leveraging Educational Assistance Partnerships <sup>1</sup>	162	162	162
New Student Loans:			
Stafford Loans	7,930	8,326	8,683
Unsubsidized Stafford Loans	7,483	9,339	9,970
PLUS Loans	733	734	772
Graduate PLUS Loans	281	323	338
Perkins Loans	495	495	2,586
TEACH Grants	<u>8</u>	<u>17</u>	<u>25</u>
Subtotal, New Student Loans <sup>2</sup>	16,930	19,234	22,374
<u>Total new awards</u>	25,818	29,530	33,160

<sup>1</sup> 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.

<sup>2</sup> Does not include loans issued to consolidate existing loans.

### Number of Postsecondary Students Aided by Department Programs

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Unduplicated Count (in thousands)	11,587	13,284	14,174

## STUDENT AID OVERVIEW

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### 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 2010 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 **Federal Pell Grant** and **Student Financial Assistance** accounts or 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*

Year	Target	Actual
	Total Percentage Enrolled	Total Percentage Enrolled
2005		68.6
2006	68.0	66.0
2007	68.0	67.2
2008	68.0	
2009	68.0	
2010	68.0	
	Difference in the percentage of <b>low- and high-income high school graduates</b> ages 16-24 enrolling immediately in college	Difference in the percentage of <b>low- and high-income high school graduates</b> ages 16-24 enrolling immediately in college
2005	28.0	27.6
2006	27.0	30.2
2007	26.75	19.8
2008	26.5	
2009	26.25	
2010	26.0	

## 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*

Year	Target	Actual
	Difference in the percentage of <b>Black and White high school graduates</b> ages 16-24 enrolling immediately in college	Difference in the percentage of <b>Black and White high school graduates</b> ages 16-24 enrolling immediately in college
2005	8.0	17.5
2006	7.5	13.0
2007	7.25	13.8
2008	7.0	
2009	6.75	
2010	6.5	
	Difference in the percentage of <b>Hispanic and White high school graduates</b> ages 16-24 enrolling immediately in college	Difference in the percentage of <b>Hispanic and White high school graduates</b> ages 16-24 enrolling immediately in college
2005	11.0	19.2
2006	10.5	10.6
2007	10.25	5.5
2008	10.0	
2009	9.75	
2010	9.5	

## STUDENT AID OVERVIEW

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**Assessment of Progress:** Progress is being made in increasing the overall enrollment rate and reducing the gap between low- and high-income students. Progress is being made in reducing the enrollment gap between White and Hispanic students; the gap between White and Black students grew slightly but is still considerably smaller than it was 2 years ago.

The Department believes proposed FY 2010 budget policies increasing Pell Grant aid and encouraging State and local efforts to encourage college attendance through the Collage Access and Completion Fund will help further reduce these gaps. Data for these measures is taken from the Current Population Survey conducted annually by the Census Bureau and published in the Condition of Education. FY 2008 actual data should be available in late 2009.

## 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 <b>4-year degree</b>	Students completing a <b>4-year degree</b>
2005	55.0	55.0
2006	56.0	56.4
2007	57.0	57.3
2008	58.0	
2009	59.0	
2010	60.0	
	Students completing a <b>less than 4-year degree</b>	Students completing a <b>less than 4-year degree</b>
2005	35.0	31.4
2006	36.0	31.0
2007	37.0	30.9
2008	38.0	
2009	39.0	
2010	40.0	

## 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. (Continued)

### 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 <b>Black and White full-time students</b> completing a 4-year degree within 150 percent of the normal time required	Difference in the percentage of <b>Black and White full-time students</b> completing a 4-year degree within 150 percent of the normal time required
2005	19.0	18.3
2006	18.5	18.1
2007	18.1	18.8
2008	17.7	
2009	17.5	
2010	17.0	
	Difference in the percentage of <b>Hispanic and White full-time students</b> completing a 4-year degree within 150 percent of the normal time required	Difference in the percentage of <b>Hispanic and White full-time students</b> completing a 4-year degree within 150 percent of the normal time required
2005	13.0	13.4
2006	12.5	13.3
2007	12.0	12.0
2008	11.5	
2009	11.0	
2010	10.5	

## 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. (Continued)

### 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 <b>Black and White full-time students completing a less than 4-year program</b> within 150 percent of the normal time required	Difference in the percentage of <b>Black and White full-time students completing a less than 4-year program</b> within 150 percent of the normal time required
2005	7.0	5.5
2006	6.5	5.4
2007	6.3	6.3
2008	6.1	
2009	6.0	
2010	5.8	
	Difference in the percentage of <b>Hispanic and White full-time students completing a less than 4-year program</b> within 150 percent of the normal time required	Difference in the percentage of <b>Hispanic and White full-time students completing a less than 4-year program</b> within 150 percent of the normal time required
2005	3.0	1.6
2006	2.5	1.5
2007	2.1	2.3
2008	1.7	
2009	1.5	
2010	1.3	

## STUDENT AID OVERVIEW

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**Assessment of Progress:** Completion rates increased moderately between 2006 and 2007 among students in 4-year institutions, while decreasing slightly at less-than-4-year programs. During the same period, the gap between completion rates among White and Black students at 4-year schools increased, while the gap between White and Hispanic students at 4-year schools declined. The gap for Black and Hispanic students compared with White students in less than 4-year institutions increased from 2006 to 2007. Because data for these measures is based on extremely small samples of students, it is not clear that these year-to-year changes are statistically significant.

Data on these measures is collected through the Graduation Rate Survey (GRS) conducted as part of the annual Integrated Postsecondary Student Aid Study (IPEDS).

### **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 2010 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.