

Department of Education
STUDENT AID OVERVIEW
Fiscal Year 2011 Budget Request

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

FY 2011 Authorization (\$000s): Indefinite

Budget Authority (\$000s):¹

	<u>2010</u>	<u>2011</u>	<u>Change</u>
Pell Grants:			
Discretionary funding ²	\$17,495,000	0	-\$17,495,000
Mandatory funding ²	3,030,000	0	-3,030,000
Proposed reclassification:			
From discretionary	-17,495,000	0	+17,495,000
To mandatory	17,495,000	0	-17,495,000
Proposed new mandatory account	<u>6,463,059</u>	<u>\$34,878,000</u>	<u>+28,414,941</u>
Subtotal, Pell Grants	26,988,059	34,878,000	+7,889,941
Academic Competitiveness/SMART Grants ³	1,336,000	-36,000	-1,372,000
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	232	240	+8
TEACH Grants ⁵	22,855	12,711	-10,144
Federal Family Education Loans ^{6,7}	-9,104,047	0	+9,104,047
Federal Direct Loans ⁷	-8,472,580	-10,404,340	-1,931,760
Perkins Loans ⁸	<u>0</u>	<u>-101,496</u>	<u>-101,496</u>
Total	12,572,328	26,087,072	+13,514,744
Recovery Act appropriation:			
Pell Grants:			
Discretionary funding	0	0	0
Mandatory funds ¹	<u>0</u>	<u>0</u>	<u>0</u>
Total	0	0	0

¹ Table reflects appropriations; the 2009 Recovery Act appropriation included \$831 million in available funds for FY 2010.

² Amounts appropriated for Pell Grants from the Student Financial Assistance account, shown here for comparability. Amount for 2010 reflects the rebasing of \$17,495 million FY 2010 discretionary appropriation to mandatory and \$3,030 million in current mandatory appropriations. The amount also includes the availability of an additional \$6,463 million in mandatory funding through permanent indefinite authority under the budget proposal.

³ Amount for 2010 reflects use of \$887 million deferred from 2009, and a proposed deferral of \$561 million to 2011; amount for 2011 reflects a proposed cancellation of \$597 million.

⁴ Includes \$33.9 million in 2010 for Grants for Access and Persistence (GAP) or Special LEAP, which are authorized when a fiscal year's appropriation exceeds \$30 million.

⁵ 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 Budget authority requested for FFEL does not include the Liquidating account. Amount for 2010 includes net downward re-estimate of \$7.4 billion, due primarily to updated interest rate assumptions.

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Footnotes continued from Federal Student Aid head table.

⁷ Amounts for 2010 and 2011 reflect the Budget proposal to originate all new student loans through the Federal Direct Student Loan program beginning July 1, 2010. Amount for 2010 includes net downward re-estimate of \$2.6 billion, due primarily to updated interest rate assumptions, and net upward modification of \$1.7 billion due primarily to the proposed income-based repayment policy.

⁸ Amount for 2010 reflects discretionary appropriation for Perkins Loan cancellations. Amount for 2011 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.)

FY 2011 Budget Request

The Federal Government will provide over \$160 billion in 2010, through 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 2011 Budget includes proposals to increase Federal student aid to nearly \$174 billion in FY 2011, including \$34.8 billion in Pell Grants and nearly \$137 billion in student loans.

This overview details the package of reforms proposed by the Administration as part of its 2011 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 the **Student Loans Overview** on page T-1.) The administrative costs requested in support of these student aid programs are presented in the **Student Aid Administration** section, beginning on page BB-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 financial return from 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.

The Administration's 2011 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 Pell Grant

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above inflation, while easing the terms of repayment for borrowers who choose the Income-Based Repayment (IBR) program. 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.

Reliable Federal Pell Grants

To ensure America has a highly-educated workforce and prevent a lack of financial resources from limiting 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 would provide a record \$34.8 billion in Pell Grant awards to nearly 9 million students during the 2011-2012 award year, with a projected maximum grant of \$5,710. The Administration supports the House-passed and Senate-pending reconciliation bill that reforms the student aid programs, by indexing Pell Grants and simplifying the FAFSA. Under these proposed provisions, the Pell Grant maximum would increase annually at a rate equal to the consumer price index plus 1 percentage point, using the 2010-2011 maximum of \$5,550 as a base. 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.

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 subjected students to uncertainty due to turmoil in the financial markets. 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 \$25 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 was intended 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.

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The Administration supports pending congressional action designed to create an expanded, modernized Perkins Loan program providing \$6 billion in new loan volume annually—six times the current Perkins volume—and, when fully implemented, reaching up to 2.4 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 currently being determined in consultation with Congress. The Administration intends for this new formula to encourage colleges to control costs and offer need-based aid to prevent excessive indebtedness. Schools will continue to have discretion with regard to student eligibility. 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 loans available to more students and help finance the expanded Pell Grant, 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.

A Simpler Application Process

The current Free Application for Federal Student Aid (FAFSA) is longer and more involved than many Federal tax returns, confuses many potential applicants, and includes many data elements that have a relatively small effect on the distribution of Federal aid. The Administration supports current congressional action to streamline the financial aid process by shortening the form and removing requested information that has been shown to confuse applicants, making it difficult for students to determine the correct data to report.

An Enhanced Income-Based Repayment Program

The average student in a 4-year undergraduate program in the United States graduates with \$17,063 in student loan debt. Students who consolidate have an average debt of \$35,701. Many of these students would benefit from joining the Income-Based Repayment plan, which is designed to ease the burden of student loan debt and assist borrowers struggling with increasing levels of college debt. To ensure that student debts are manageable, and to make this repayment plan more attractive to those who would benefit, the Administration proposes to reduce monthly payments from 15 percent of a borrower's prior-year discretionary income to 10 percent. Eligible borrowers working in public service jobs would continue to have any remaining debt forgiven after 10 years of repayments. Other borrowers would receive forgiveness after 20 years, reduced from 25 years under current law.

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PROGRAM OUTPUT MEASURES

	<u>Aid Available to Students</u> ¹		
	(\$ in millions)		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Pell Grants	\$28,213	\$32,295	\$34,834
Academic Competitiveness Grants	503	548	0
SMART Grants	361	384	0
Supplemental Educational Opportunity Grants	959	959	959
Work-Study	1,417	1,171	1,171
Leveraging Educational Assistance Partnerships ²	162	162	0
Iraq and Afghanistan Service Grants	0	232	240
New Student Loans:			
Stafford Loans	36,757	41,131	43,640
Unsubsidized Stafford Loans	45,641	51,764	55,619
PLUS Loans	14,120	15,867	17,135
Perkins Loans	1,106	1,042	2,603
TEACH Grants	<u>72</u>	<u>80</u>	<u>93</u>
Subtotal, New Student Loans ³	97,696	109,884	119,090
Total	129,311	145,635	156,294

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 Does not include loans issued to consolidate existing loans, which total \$15 billion in 2010 and \$17.6 billion in 2011.

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<u>Number of Student Aid Awards</u> (in thousands)			
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Pell Grants	7,738	8,355	8,743
Academic Competitiveness Grants	716	786	0
SMART Grants	139	150	0
Supplemental Educational Opportunity Grants	1,303	1,303	1,303
Work-Study	930	768	768
Leveraging Educational Assistance Partnerships ¹	162	162	0
Iraq and Afghanistan Service Grants	0	* ²	* ²
New Student Loans:			
Stafford Loans	9,481	10,628	11,253
Unsubsidized Stafford Loans	9,881	11,042	11,685
PLUS Loans	1,207	1,336	1,411
Perkins Loans	521	490	1,225
TEACH Grants	<u>31</u>	<u>32</u>	<u>37</u>
Subtotal, New Student Loans ³	21,121	23,528	25,611
Total new awards	<u>32,109</u>	<u>35,052</u>	<u>36,425</u>

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>2009</u>	<u>2010</u>	<u>2011</u>
Unduplicated Count (in thousands)	12,759	14,115	14,818

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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 2011 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**, **Student Financial Assistance**, **TEACH Grants**, or **ACG/SMART Grant programs** accounts or the **Student Loans Overview**.

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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
2006	68.00	66.00
2007	68.00	67.20
2008	68.00	68.60
2009	68.00	
2010	68.00	
2011	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
2006	27.00	26.20
2007	26.75	23.20
2008	26.50	24.80
2009	26.25	
2010	26.00	
2011	TBD	

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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
2006	7.50	12.90
2007	7.25	13.90
2008	7.00	16.00
2009	6.75	
2010	6.50	
2011	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
2006	10.50	10.00
2007	10.25	7.50
2008	10.00	7.80
2009	9.75	
2010	9.50	
2011	TBD	

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Assessment of Progress: Progress has been shown in reducing the gap between White and Hispanic students in FY 2007 over FY 2006, in which the differential dropped by 5 percent, and remaining low in FY 2008. Equivalent progress has not been recorded in reducing the enrollment gap between White and Black students. The Department is considering possible reasons for this. The Department believes proposed policies anticipated to take effect in FY 2010, including the Race to the Top Fund which specifically pushes schools to address achievement gaps and graduation rates, and those to take effect in FY 2011, such as increasing Pell Grant aid, will help further reduce these gaps.

Based on FY 2008 data, progress is being made in increasing the overall enrollment rate and reducing the gap between low- and high-income students. Most significantly, targeted total enrollment was met and surpassed. Data for this measure is taken from the Current Population Survey conducted annually by the Census Bureau and published in the Condition of Education. It is too early, however, to forecast a trend. FY 2009 actual data should be available in early 2011.

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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
2006	56.00	56.40
2007	57.00	57.30
2008	58.00	
2009	59.00	
2010	60.00	
2011	TBD	
	Students completing a less than 4-year degree	Students completing a less than 4-year degree
2006	36.00	31.00
2007	37.00	30.90
2008	38.00	
2009	39.00	
2010	40.00	
2011	TBD	

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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
2006	18.50	18.10
2007	18.10	18.80
2008	17.70	
2009	17.50	
2010	17.00	
2011	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
2006	12.50	13.30
2007	12.00	12.00
2008	11.50	
2009	11.00	
2010	10.50	
2011	TBD	

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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
2006	6.50	5.40
2007	6.30	6.30
2008	6.10	
2009	6.00	
2010	5.80	
2011	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
2006	2.50	1.50
2007	2.10	2.30
2008	1.70	
2009	1.50	
2010	1.30	
2011	TBD	

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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. 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 2008 data will be available in early 2010.

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 2011 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.