

Department of Education
STUDENT AID OVERVIEW
Fiscal Year 2015 Budget Request

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

FY 2015 Authorization: Indefinite

Budget Authority:¹

	<u>2014</u>	<u>2015</u>	<u>Change</u>
Grants and Work-Study:			
Pell Grants			
Discretionary funding	\$22,778,352	\$22,778,352	0
Mandatory funding ²	<u>6,167,000</u>	<u>6,397,000</u>	<u>+\$230,000</u>
Subtotal, Pell Grants	28,945,352	29,175,352	+230,000
Federal Supplemental Educational			
Opportunity Grants	733,130	733,130	0
Federal Work-Study	974,728	974,728	0
Iraq and Afghanistan Service Grants	285	355	+70
TEACH Grants ³	<u>5,045</u>	<u>17,914</u>	<u>+12,869</u>
Total, Grants and Work-Study	1,713,188	1,726,127	+12,939
Net Loan Subsidy, Loans:⁴			
Federal Family Education Loans (FFEL) ⁵	-5,676,042	0	+5,676,042
Federal Direct Student Loans ⁶	-14,791,594	-7,156,331	+7,635,263
Federal Perkins Loan Program ⁷	0	-827,674	-827,674

¹ Table reflects discretionary appropriations and mandatory funding.

² Amounts appropriated for Pell Grants for 2014 and 2015 include mandatory funding provided by the Consolidated Appropriations Act, 2012; and the Budget Control Act of 2011.

³ 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.

⁴ 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.

⁵ Budget authority for FFEL does not include the FFEL Liquidating account. Amount for 2014 reflects a net downward re-estimate of \$1,655,679 thousand, due primarily to updated interest rate assumptions, and a net downward modification of \$4,020,363 thousand as a result of changes to guaranty agencies' retention and collections of rehabilitated loans included in the Bipartisan Budget Act of 2013.

⁶ Amount for 2014 includes a net downward re-estimate of \$9,460,485 thousand, primarily due to updated interest rate assumptions. Fiscal year 2015 request includes a net upward modification of \$7,243,186 thousand as a result of the proposed expansion of the Pay As You Earn plan.

⁷ Amount for 2015 reflects the Budget proposal to reform and modernize Perkins Loans as a mandatory credit program; the request shows the net present value of estimated future costs of the estimated 2015 loan cohort.

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FY 2015 Budget Proposal

In fiscal year 2014, the Federal Government will provide a significant investment of \$161.3 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. The Administration is proud of this commitment to higher education. To help prevent students and families from going into far too much debt than they can afford in order to finance their education, a strategic approach to student aid is needed to ensure that both students and the Nation are prepared for the challenges of the global economy. Accordingly, the fiscal year 2015 Budget includes proposals to address the college affordability challenge. The request dedicates \$169.8 billion to Federal student aid in fiscal year 2015, including \$29.2 billion in Pell Grants and over \$133.7 billion in student loans. More than 12.8 million students would be assisted with the cost of their postsecondary education at this aid level.

This overview details the package of reforms proposed by the Administration as part of its 2015 Budget that will increase aid to students while improving the effectiveness of the grant and student loan programs. Current student aid programs are described in detail under **Student Financial Assistance**, beginning on page Q-1, **TEACH Grants Overview** 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 12th in attainment among 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 bottom quartile attend. Even when high-school graduates can afford to begin higher education, they all too often fail to finish. Only about 6 in 10 4-year college students graduate within 6 years.

With a focus on the issue of college affordability – in accordance with the President’s vision of leading the world in college attainment rates by 2020 – the 2015 Budget provides sufficient resources to fully fund the \$5,830 maximum Pell Grant award in the 2015-2016 award year; reforms the Pay As You Earn repayment plan and simplifies the selection of income-based repayment plans; and reforms the campus-based student aid programs to target aid to students attending those schools with a dedication to quality education at a reasonable price.

In addition to fully funding the Pell program in fiscal year 2015, this Budget seeks to address the long-term Pell funding gap by expanding and modernizing the Perkins Loan program and converting it to a mandatory credit program. The savings associated with this proposal would offset corresponding increases in mandatory budget authority needed to maintain a fully funded Pell Grant program. This important reform to Perkins Loans will ensure the Pell Grant program has sufficient resources, while still safeguarding aid available to the neediest college students. While this Budget provides for significant contributions toward addressing future Pell funding needs, the Administration will work with Congress to ensure the long-term stability of this vital program.

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Student Aid Reform Proposals

The 2015 Budget is designed to make needed reforms to modernize and improve the Federal student aid programs. The specifics of these reform proposals are discussed below.

Expand the Pay As You Earn Repayment Plan to All Borrowers

In October 2011, the Administration announced the Pay As You Earn (PAYE) initiative to accelerate the benefits of the Income-Based Repayment (IBR) plan as modified in the Health Care and Education Reconciliation Act. The 2015 Budget proposes to extend PAYE to all student borrowers and reform the PAYE terms to ensure that program benefits are targeted to the neediest borrowers. The reforms also aim to safeguard the program for the future, including by protecting against institutional practices that may further increase student indebtedness. The most substantial change will be to **expand PAYE to all student borrowers**, regardless of when they borrowed. In addition, to simplify borrowers' experience while reducing program complexity, PAYE would become the only income-driven repayment plan for borrowers who originate their first loan on or after July 1, 2015, which would allow for easier selection of a repayment plan. Students who borrowed their first loans prior to July 1, 2015, would continue to be able to select among the existing repayment plans (for plans for which they now qualify and for loans originated through their current course of study), in addition to the modified PAYE.

The Budget proposes additional changes to PAYE to include:

- Eliminating the standard payment cap under PAYE so that high-income, high-balance borrowers pay an equitable share of their earnings as their income rises;
- Calculating payments for married borrowers filing separately on the combined household Adjusted Gross Income;
- Capping Public Sector Loan Forgiveness (PSLF) at the aggregate loan limit for independent undergraduate students to protect against institutional practices that may further increase student indebtedness, while ensuring the program provides sufficient relief for students committed to public service;
- Establishing a 25-year forgiveness period for borrowers with balances above the aggregate loan limit for independent undergraduate students;
- Preventing payments made under non-income driven repayment plans from being applied toward PSLF to ensure that loan forgiveness is targeted to students with the greatest need; and,
- Capping the amount of interest that can accrue when a borrower's monthly payment is insufficient to cover the interest to avoid ballooning loan balances.

Reform Campus-Based Aid to Better Serve Low-Income Students

Some of the roughly 7,000 institutions of higher education that participate in the Federal Pell Grant and/or Federal Student Loan programs also participate in one or more of the Federal

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Campus-based Aid programs: Federal Supplemental Educational Opportunity Grants (SEOG), Federal Work-Study and Federal Perkins Loan programs. While all schools are eligible to participate in the campus-based aid programs, antiquated formulas with stringent hold-harmless provisions have resulted in institutions receiving allocations distorted in ways that reward schools for high tuition prices, bear little reflection to the population of Pell-eligible students attending the institutions, and fail to consider whether institutions are a good value for students. The President's 2015 Budget proposes **to reform Federal allocations in the campus-based programs** to target those institutions that enroll and graduate higher numbers of Pell-eligible students, and offer an affordable and quality education such that graduates can repay their educational debt.

Perkins Loan Program Modernization and Expansion

The Budget proposes to expand and improve the Perkins Loan program into a new Unsubsidized Perkins Loan program which would provide \$8.5 billion in loans annually, allocating lending authority among institutions on the basis of the financial need of their students, and the extent to which institutions enroll and graduate higher numbers of Pell-eligible students, and offer an affordable and quality education such that graduates can repay their educational debt. This reform would replace the current program that is scheduled to terminate in 2014. When fully implemented, the new Perkins loan program **would provide eight and a half times the current Perkins loan volume and expand institutional participation** by up to an additional 2,700 postsecondary institutions. **Savings resulting from this reform** will be redirected to the Pell Grant Program, which, when added to surplus Pell Grant discretionary budget authority from the prior year, **are sufficient to fund the program through the 2016-2017 award year.**

Rather than operating through institutional revolving funds, new Perkins Loans would be originated by institutions in the same manner as Federal Direct Student Loans; however, institutions would continue to have discretion with regard to student eligibility. By modernizing and expanding the program, more students in need of additional Federal financing options would have increased access to loan funds that carry important protections and benefits, including the ability to repay through income-based repayment plans and loan forgiveness options.

SEOG and Work-Study Allocation Formula Reform

Proposed reforms to the allocation formula for SEOG and Work-Study would **redirect funding** from institutions receiving funds primarily based on historical funding levels **to institutions that enroll and graduate higher numbers of Pell-eligible students, and offer an affordable and quality education such that graduates can repay their educational debt.** Allocations to schools that fail to maintain a commitment to meeting these standards would be redistributed to better-performing institutions.

Assist Pell-Eligible Students with Specific Needs to Receive a Grant

The Budget proposes to make two small reforms to the Pell Grant program. First, it will **strengthen academic progress requirements** in the Pell Grant program in order to encourage students to complete their studies on time. Second, it would **reinstate the Ability to Benefit**

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provision for students enrolled in eligible career pathways programs, which will allow adults without a high school diploma to gain the knowledge and skills they need to secure a good job.

Reward Colleges for Results and Encourage States to Support Public Higher Education Reform and Performance

Building on the Administration's 2020 goal of having the highest proportion of college graduates in the world, the College Opportunity and Graduation Bonuses program would provide funds for a new grant program that will **reward colleges that successfully enroll and graduate** a significant number of low- and moderate-income **students on time** and encourage all institutions to improve their performance. Additionally, the State Higher Education Performance Fund would **encourage States to support, reform, and improve the performance of their public higher education systems**. For more information on these programs, see the **Higher Education** account, beginning on page T-1.

STUDENT AID PROGRAMS OUTPUT MEASURES

Aid Available to Students¹

(\$ in millions)

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Pell Grants	\$32,352	\$32,958	\$33,877
Supplemental Educational Opportunity Grants	926	975	975
Federal Work-Study	1,100	1,159	1,159
Iraq and Afghanistan Service Grants ²	0	0	0
New Student Loans:			
Stafford Loans	27,398	26,226	25,984
Unsubsidized Stafford Loans	55,873	54,663	55,776
PLUS Loans	17,984	18,759	19,795
Perkins Loans	1,011	1,011	1,011
Unsubsidized Perkins Loans	0	0	4,113
TEACH Grants ³	<u>93</u>	<u>96</u>	<u>98</u>
Subtotal, New Student Loans ⁴	102,360	100,754	106,777
Total	136,738	135,847	142,788

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

¹ Shows total aid generated by Department programs, including Perkins Loan capital from institutional revolving funds, and institutional matching funds generated by the SEOG, and Work-Study programs.

² Aid available under the Iraq and Afghanistan Service Grants program is projected at \$236,000, \$285,000, and \$355,000, respectively, for fiscal years 2013, 2014 and 2015.

³ For budget and financial management purposes, this program is operated as a loan program under the Federal Credit Reform Act of 1990.

⁴ Does not include loans issued to consolidate existing loans (Consolidation Loans), which total \$27,503 million in 2013, \$25,447 million in 2014, and \$26,963 million in 2015.

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Number of Student Aid Awards

(in thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Pell Grants	8,861	8,711	8,854
Supplemental Educational Opportunity Grants	1,545	1,627	1,627
Federal Work-Study	656	690	690
Iraq and Afghanistan Service Grants	¹	¹	¹
New Student Loans:			
Stafford Loans	8,525	8,069	7,944
Unsubsidized Stafford Loans	10,408	9,861	9,824
PLUS Loans	1,307	1,310	1,318
Perkins Loans	500	500	500
Unsubsidized Perkins Loans	0	0	766
TEACH Grants	<u>32</u>	<u>34</u>	<u>34</u>
Subtotal, New Student Loans ²	20,772	19,774	20,386
Total new awards	<u>31,835</u>	<u>30,803</u>	<u>31,558</u>

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

¹ Denotes number of recipients will not exceed 1,000.

² Does not include loans issued to consolidate existing loans.

Number of Postsecondary Students Aided by Department Student Aid Programs

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Unduplicated Count (in thousands)	13,395	12,852	12,838

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 fiscal year 2015 and future years, as well as 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 and are not repeated in justifications for the **Student Financial**

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Assistance or TEACH Grants Overview program accounts, or in the **Student Loans Overview**.

Goal: To 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		
<i>The percentage of high school graduates aged 16-24 enrolling immediately in college following high school.</i>		

Year	Target: Total Percentage Enrolled	Actual: Total Percentage Enrolled
2010	68.00%	68.10%
2011	68.00	68.20
2012	68.00	
2013	68.00	
2014	68.00	
2015	TBD	

Year	Target: Difference in the percentage of low- and high-income high school graduates ages 16-24 enrolling immediately in college	Actual: Difference in the percentage of low- and high-income high school graduates ages 16-24 enrolling immediately in college
2010	26.00%	31.50%
2011	25.75	28.90
2012	25.50	
2013	25.25	
2014	25.00	
2015	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.

Targets and Performance Data
<i>The percentage of high school graduates aged 16-24 enrolling immediately in college following high school.</i>

Year	Target: Difference in the percentage of Black and White high school graduates ages 16-24 enrolling immediately in college	Actual: Difference in the percentage of Black and White high school graduates ages 16-24 enrolling immediately in college
2010	6.50%	8.50%
2011	6.25	1.20
2012	6.00	
2013	5.75	
2014	5.50	
2015	TBD	

Year	Target: Difference in the percentage of Hispanic and White high school graduates ages 16-24 enrolling immediately in college	Actual: Difference in the percentage of Hispanic and White high school graduates ages 16-24 enrolling immediately in college
2010	9.50%	10.80%
2011	9.25	1.70
2012	9.00	
2013	8.75	
2014	8.50	
2015	TBD	

Additional Information: The enrollment rate in postsecondary education immediately following high school has remained steady, slightly above the target of 68.0 percent. This metric has exceeded its goal for 4 consecutive years. More encouraging is the decrease in the difference between low- and high-income students who enrolled after high school, where the gap decreased by 2.6 percentage point from 2010 to 2011. The Administration believes its commitment to the student financial assistance programs will continue to encourage and permit more low-income students to enroll in college – and provide them the means to remain in school – than would be the case in the absence of the student financial assistance programs.

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Additional Information (continued): There was a significant closing of the difference between Black and White high school graduates enrolling in college immediately after high school between 2010 and 2011, falling from 8.5 to 1.2 percent. There was a similar significant closing of the equivalent Hispanics of any race and White non-Hispanic students statistic, dropping to a less than 2 percentage point difference between the completion rates of these races. The Administration believes this progress is encouraging and it remains committed to furthering equal educational opportunity.

Data on these measures is taken from the “Digest of Education Statistics,” published annually by the National Center for Education Statistics. Fiscal year 2012 data will be available in early 2014.

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

Measure: Graduation rate: Graduation rates for all first-time, 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
<i>The percentage of first-time, full-time degree seeking students completing within 150 percent of the normal time required.</i>

Year	Target: Students completing a 4-year degree within 150 percent of the normal time required	Actual: Students completing a 4-year degree within 150 percent of the normal time required
2010	60.00%	58.30%
2011	61.00	58.80
2012	62.00	
2013	63.00	
2014	64.00	
2015	TBD	

Year	Target: Students completing a less than 4-year degree within 150 percent of the normal time required	Actual: Students completing a less than 4-year degree within 150 percent of the normal time required
2010	40.00%	29.90%
2011	41.00	31.00
2012	42.00	
2012	43.00	
2014	44.00	
2015	TBD	

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Measure: Graduation rate: Graduation rates for all first-time, 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
<i>The percentage of first-time, full-time degree seeking students completing within 150 percent of the normal time required.</i>

Year	Target: Difference in the percentage of Black and White first-time, full-time students completing a 4-year degree within 150 percent of the normal time required	Actual: Difference in the percentage of Black and White first-time, full-time students completing a 4-year degree within 150 percent of the normal time required
2010	17.00%	22.00%
2011	16.70	22.20
2012	16.50	
2012	16.25	
2014	16.00	
2015	TBD	

Year	Target: Difference in the percentage of Hispanic and White first-time, full-time students completing a 4-year degree within 150 percent of the normal time required	Actual: Difference in the percentage of Hispanic and White first-time, full-time students completing a 4-year degree within 150 percent of the normal time required
2010	10.50%	11.40%
2011	10.00	11.10
2012	9.50	
2012	9.00	
2014	8.70	
2015	TBD	

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Measure: Graduation rate: Graduation rates for all first-time, 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
<i>The percentage of first-time, full-time degree seeking students completing within 150 percent of the normal time required.</i>

Year	Target: Difference in the percentage of Black and White first-time, full-time students completing a less than 4-year program within 150 percent of the normal time required	Actual: Difference in the percentage of Black and White first-time, full-time students completing a less than 4-year program within 150 percent of the normal time required
2010	5.80%	4.20%
2011	5.70	3.20
2012	5.50	
2012	5.40	
2014	5.30	
2015	TBD	

Year	Target: Difference in the percentage of Hispanic and White first-time, full-time students completing a less than 4-year program within 150 percent of the normal time required	Actual: Difference in the percentage of Hispanic and White first-time, full-time students completing a less than 4-year program within 150 percent of the normal time required
2010	1.30%	3.90%
2011	1.10	5.00
2012	1.00	
2012	0.90	
2014	0.80	
2015	TBD	

Additional Information: From 2010 to 2011, there were slight increases to overall graduation rates within 150 percent of the normal time for both 4-year (from 58.3 to 58.8 percent) and less than 4-year (from 29.9 to 31.0 percent) degree programs. Additionally, there was a decrease in the graduation rate gaps between Hispanic and White students at 4-year degree programs (0.3 percentage points), and between Black and White students at less than 4-year degree programs (1.0 percentage point).

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Additional Information (continued): In fact, in both 2010 and 2011, Hispanic students graduated from degree programs within 150 percent of the normal time at less than 4-year programs at a higher rate than White students (33.4 compared to 29.5 percent in 2010; 35.0 to 30.0 percent in 2011). (Digest of Education Statistics 2012, Table 377)

The difference between Black and White students at 4-year degree programs increased marginally (from 22.0 to 22.2 percent). The Department is currently reassessing out-year targets for some measures.

Data on these measures is taken from the “Digest of Education Statistics,” published annually by the National Center for Education Statistics. Fiscal year 2012 data will be available in early 2014.

Program Improvement Efforts

The Department is exploring ways to gather detailed program and student outcome data for program-specific measures that will provide reliable indicators of program effectiveness. The fiscal year 2015 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 reassessing the 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.