

Federal Pell Grant Program (CFDA No. 84.063)

I. Legislation

Higher Education Act (HEA) of 1965, Title IV, Part A, Subpart 1, as amended (20 U.S.C. 1070a) (expires September 30, 1997).

II. Funding History

<u>Fiscal Year</u>	<u>Appropriation</u>	<u>Fiscal Year</u>	<u>Appropriation</u>
1973	\$122,100,000	1988	\$4,260,430,000
1975	840,200,000	1989	4,483,915,000
1980	2,157,000,000	1990	4,804,478,000
1981	2,604,000,000	1991	5,375,502,000
1982	2,419,040,000	1992	5,502,855,000
1983	2,419,040,000	1993	6,461,970,000
1984	2,800,000,000	1994	6,633,566,000
1985	3,862,000,000	1995	6,143,680,000
1986	3,579,716,000	1996	4,913,560,000
1987	4,187,000,000		

III. Analysis of Program Performance

A. Goals and Objectives

The goal of this program is to ensure access to postsecondary education for all qualified students, regardless of their financial circumstances. The program provides direct grants to help financially needy undergraduate students meet the costs of their education at participating postsecondary institutions.

B. Strategies to Achieve the Goals

Services Supported

Federal Pell Grants are available to undergraduate students enrolled in a degree or certificate program at an eligible institution. Students must have a high school diploma or its equivalent or pass an examination prepared by the Secretary to demonstrate ability to benefit from the training offered by the institution. Students must also demonstrate financial need, based on the ability of the student, or student and family, to contribute financially toward the cost of the student's postsecondary education. The 1992 Reauthorization of the Higher Education Act established a single formula for determining eligibility for all Title IV student aid programs.

A student applying for Federal Pell Grants submits a Free Application for Federal Student Aid approved by the Secretary, which is processed for the Department of Education under contract with several data entry and processing organizations. The student is notified of his or her eligibility for

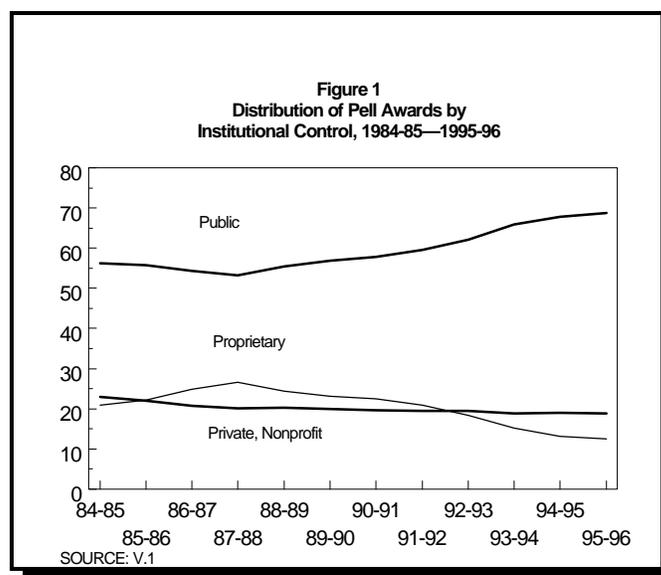
assistance through the Student Aid Report (SAR). The institutions calculate each student's award in accordance with a formula defined in the authorizing statute. Institutions then report to the Department of Education on all Federal Pell Grant funds distributed to students enrolled at the school.

As shown in Table 1, 3.6 million students received Federal Pell Grants averaging \$1,515 each in the 1995-96 award year. This represents an increase of 28 percent in the number of recipients since 1985-86 but a decrease of almost 10 percent since 1992-93 (V.1). The decline in both Pell Grant recipients and total awards in recent years is due to several factors, including a tightening of eligibility requirements in the 1992 Reauthorization of the Higher Education Act, particularly for independent students without dependents; a reduction of \$100 in the maximum award; and a slowdown in the rate of increase in applications in 1994-95, probably caused by the recovering economy.

In 1995-96, 5,725 institutions were participating in the Federal Pell Grant Program, 212 institutions fewer than in the prior year and 676 fewer than in 1992-93 (V.2). The decrease in the number of participating Pell Grant institutions is concentrated among private, for-profit (proprietary) institutions. Many of these proprietary schools had such high default rates that they lost their eligibility to participate in the student loan programs and could not survive financially.

As Figure 1 shows, the percentage of Pell Grant funds going to proprietary institutions fell steadily from 26.6 percent in 1987-88 to only 12.5 percent in 1995-96. Public institutions absorbed most of the additional funds, increasing their share of Pell awards from 53.4 percent to 68.7 percent over the same time period. The share of Pell funds going to private, nonprofit institutions fell slightly, from 22.9 percent in 1984-85 to 18.8 percent in 1995-96.

Table 1					
Statistics on the Federal Pell Grant Program, Selected Years					
	1985-86	1992-93	1993-94	1994-95	1995-96
No. of applicants	5,627,131	8,248,141	8,770,409	8,969,646	9,117,753
No. determined eligible	3,710,933	5,243,139	5,328,698	4,902,257	4,786,238
No. of recipients	2,813,489	4,002,045	3,755,675	3,674,967	3,611,821
Total awarded (\$000's)	\$3,597,380	\$6,175,902	\$5,654,453	\$5,519,424	\$5,471,708
Average award	\$1,279	\$1,543	\$1,506	\$1,502	\$1,515
Source: V.1.					



As shown in Table 2, the Pell program is targeted at low-income students. In 1995-96, 76 percent of independent Pell Grant recipients had incomes of \$15,000 or less as did 42 percent of the parents of dependent recipients. Overall, less than 9 percent of Pell Grant recipients had incomes in excess of \$30,000. In general, average awards decrease as income increases. Some 42 percent of dependent Pell Grant recipients had parents whose income was \$15,000 or less, but these students received 50 percent of the Pell Grant funds that went to dependent students.

Because they tend to have lower incomes, independent students make up the majority of the Pell Grant program (58.5 percent of recipients in 1995-96). This is down slightly, from 62.1 percent of recipients in 1992-93, due to changes made in the 1992 Reauthorization of the Higher Education Act (V.1).

Strategic Initiatives: One of the Administration's top priorities is to increase the Pell Grant maximum award to help ensure college access for low-income students. The President's 1998 budget request calls for a \$300 increase in the Pell Grant maximum award to \$3,000, its highest level ever. In addition, the 1998 budget request increases the eligibility of independent students without dependents for Pell Grants, helping to counteract changes made in the 1992 Reauthorization of the Higher Education Act.

Table 2
Distribution of Pell Grants by Dependency Status and Income, 1995-96

	Recipients	Awards	Average Award
Dependent	41.5%	42.5%	\$1,554
\$6,000 and under	14.6	17.6	\$1,867
\$6,001 - \$9,000	8.9	10.8	\$1,882
\$9,001 - \$15,000	18.2	21.5	\$1,839
\$15,001 - \$20,000	16.4	17.8	\$1,687
\$20,001 - \$30,000	26.3	22.9	\$1,354
\$30,000+	15.5	9.3	\$931
Independent	58.5	57.5	\$1,487
\$6,000 and under	44.4	49.7	\$1,667
\$6,001 - \$9,000	16.6	14.3	\$1,286
\$9,001 - \$15,000	14.6	15.4	\$1,567
\$15,001 - \$20,000	9.2	9.5	\$1,540
\$20,001 - \$30,000	11.4	9.1	\$1,192
\$30,000+	3.9	1.9	\$735
Source: V.1			

Pell Grant Performance Measures — DRAFT — March 10, 1997			
Goal:		To assist financially needy undergraduate students meet their postsecondary education costs.	
Objective	Indicators	Source and Next Update	Strategies
Recipients			
1. Provide continued access to low income strata students.	1.1 Student income distribution. Pell grant funds will continue to be targeted to those students with the greatest financial need. At least 75% of Pell Grant funds will go to students below 150% of poverty level. <i>Currently 76% of Pell Grant funds do so.</i>	1.1 Program data, annual, 1997	<ul style="list-style-type: none"> ● OPE will help to assure that the maximum Pell award is high enough so that the Pell Grant, along with other financial aid, will ensure access for all eligible recipients. In addition, we expect that our reauthorization proposals will address effective targeting.
2. Maintain a high level of recipient satisfaction.	2.1 Overall satisfaction with Pell Grant Program. Satisfaction will show continuous improvement over time. <i>Baseline measure will be established via initial survey.</i>	2.1 Office of Postsecondary Education (OPE)/Office of the Under Secretary's Planning and Evaluation Service (PES) student aid applicant survey, annual, 1997	<ul style="list-style-type: none"> ● Establish a "backup" processing system that will eliminate the possibility of any major delays in application processing. ● Improved monitoring of the Central Processing System and Public Inquiry Contract to help assure reasonable turnaround time in application processing and better communications with recipients.
Institutions			
3. To streamline delivery of funds to institutions and return high quality data to the Department.	3.1 To continue to reduce the transaction turnaround time. Decrease the current transaction turnaround time through implementation of the just-in-time delivery system. <i>Current turnaround is 7-10 days.</i>	3.1 Program data, annual, 1997	<ul style="list-style-type: none"> ● Publication of the "just-in-time" payment regulations will serve to streamline delivery of funds. ● Elimination of the paper Financial Aid Transcripts as well as implementation of the "just-in-time" delivery system, should increase school satisfaction.
4. Maintain a high level of institutional satisfaction.	4.1 Overall satisfaction with the Pell Grant Program. Institutions have a high degree of satisfaction with the delivery of the program. <i>Initial survey will establish baseline satisfaction rate.</i>	4.1 Survey, annual, 1997	

Pell Grant Performance Measures — DRAFT — March 10, 1997			
Goal:		To assist financially needy undergraduate students meet their postsecondary education costs.	
Objective	Indicators	Source and Next Update	Strategies
Taxpayers			
5. Provide a program that is cost-effective for the taxpayer.	5.1 Contractor performance. All major deliverables will meet established quality standards and be produced on time and within cost. <i>Prototype contractor report is under development.</i>	5.1 Evaluation by CPO and COTR, monthly, 1997	<ul style="list-style-type: none"> • Incorporation of performance based provisions in the major Pell contracts, as the procurements come up for recompetition, will make the program more cost-effective for the taxpayer.
6. Provide strong fiscal management of the program.	6.1 Positive audits results, (no material internal control weaknesses for the Pell Grant Program). No material internal control weaknesses identified in the Pell Grant portion of ED's Department-wide financial statement audit. <i>No material weaknesses were identified as a result of the most recent financial statement audit.</i>	6.1 Financial program audits, annual, 1997	<ul style="list-style-type: none"> • Enhancements to data through our Data Quality Plan as well as increased automation of financial reporting through the EDCAPS system will improve the fiscal management of the program.

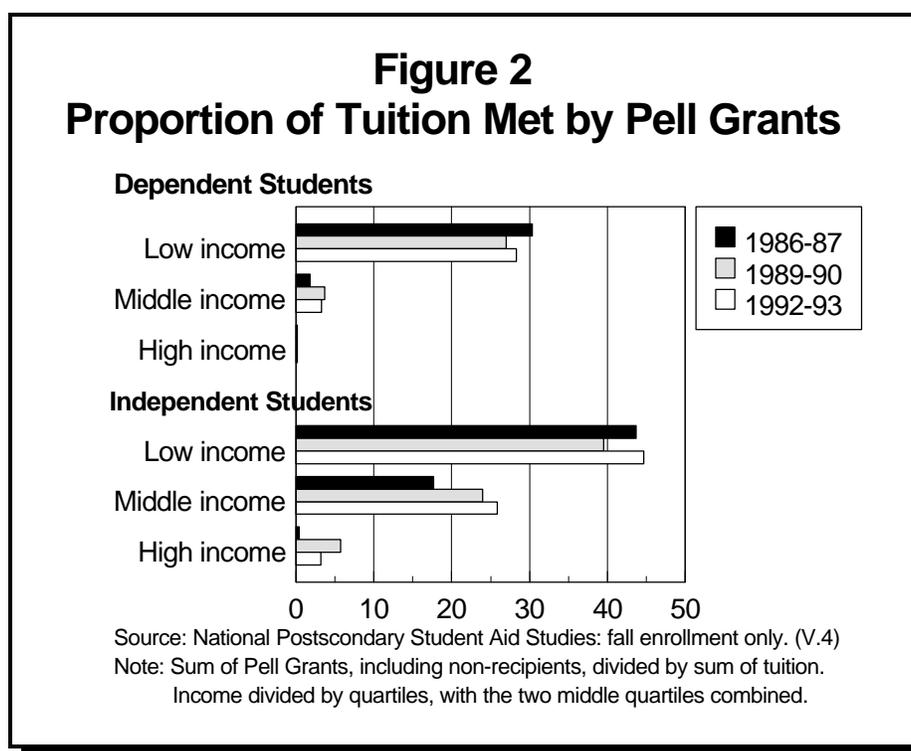
C. Program Performance—Indicators Impact and Effectiveness

Please see also Office-Wide Performance Indicators for the Office of Postsecondary Education displayed in the Overview (OPS) to the postsecondary education programs.

As already stated, a key policy objective of the Federal Pell Grant program is to provide access to postsecondary education for low-income students. Data presented in Table 2 and in the program performance measures indicate that Pell funds are well targeted on low-income students. Another indicator of the effect of the program on access is to assess the ability of Pell Grants to keep college affordable for low-income students. Comparing the maximum Pell Grant award to tuition and fees suggests that the effect of the program on promoting access among low income students has decreased over time. In 1986-87, the maximum Pell Grant award was 63 percent higher than average tuition at public four-year colleges. By 1995-96, the maximum Pell Grant award represented 82 percent of average tuition at public four-year colleges (V.3).

Looking at aggregate trends, however, can fail to capture what is happening to individual students. Figure 2 uses data on the experiences of a sample of students to analyze the purchasing power of the Pell Grant in recent years in terms of the percentage of tuition met by the Pell Grant program. Figure 2 reveals little if any erosion in the extent to which Pell Grants helped low-income students meet tuition between 1986-87 and 1992-93:

- Among low-income dependent students, Pell Grants met 30 percent of tuition charges in 1986-87 and 28 percent in 1992-93.
- Pell Grants met 44 percent of tuition for independent low-income students in 1986-87 and 45 percent in 1992-93 after falling below 40 percent in 1989-90.



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- For independent middle-income students, Pell grants actually met a higher percentage of tuition in 1992-93 (26 percent) than in 1986-87 (18 percent). Figure 2 is somewhat surprising given that, as already described, the maximum Pell Grant award has not kept pace with tuition during this period. The reason that Pell Grants maintained their purchasing power during the period was that the percentage of the population who received awards increased (V.4):
- In 1986-87, 41 percent of dependent low-income students received a Pell Grant; in 1992-93 this figure had increased to 53 percent.
- Among low- and middle-income independent students, the increase in participation was even greater--from 44 percent to 67 percent for low-income students and from 18 percent to 29 percent for middle-income independents.

IV. Planned Studies

A survey of a representative sample of Pell Grant applicants is in progress. The survey is designed to measure customer satisfaction with the federal application process, as well as to identify ways of improving the delivery of federal student aid. Survey findings should be available in the fall of 1997.

In addition, a study (V.5) was recently released analyzing the effects of the changes made to the federal formula for calculating students' financial need in the 1992 Amendments to the Higher Education Act (HEA). The report explores two main issues. First, it assessed changes in students' expected family contribution (EFC) caused by the 1992 HEA Amendments as well as changes in students' circumstances. It used a merged sample of applicants who applied for Title IV aid before (1992-93) and after (1993-94) the HEA amendments took effect. Second, it analyzed behavioral responses to the changes in the analysis of need, using the merged applicant file and a survey of 1992-93 Pell Grant recipients conducted in 1995.

The major findings of the report are as follows:

- The changes made to the need analysis formula in the 1992 HEA affected the majority of students with more students losing eligibility (EFC increases) than gaining eligibility (EFC decreases). Independent students without dependents were the hardest hit; the rules changes increased the EFC for 60 percent of these students.
- The changes in the rules caused much more significant EFC changes than did changes in students' personal circumstances. However, changes in personal circumstances did tend to ameliorate the effect of the changes in the rules, decreasing EFCs for students whose EFCs increased as a result of the rules changes and increasing EFCs for students whose EFCs decreased as a result of the rules change. This offsetting effect was strongest for students who had zero EFC in 1992-93 and who were dependent students or independent students with their own dependents.
- In general, students' probability of reapplying for aid was not related to the rules changes. The only statistically significant result was that among students whose first choice of school was a four-year institution, the probability of reapplication decreased by 1 percent for applicants who experienced an increase in their EFC of more than \$500.
- **In sum, the survey of Pell Grant recipients revealed the changes in the need analysis rules had little, if any, effect on students' educational behavior, such as reenrollment and school**

choice. Analysis of questions regarding students' reenrollment, school choice, degree aspirations, receipt of financial aid, and employment revealed no statistically significant difference between students whose EFC increased by more than \$500 as a result of the rules changes and other students. The one exception was in terms of enrollment status; among students whose EFC increased, only 3 percent increased their intensity of enrollment, whereas 10 percent of other students did so.

One possible explanation for the lack of a significant relationship between EFC increases and changes in students' educational behavior is that postsecondary institutions may have adjusted their financial aid packages to compensate for the changes in the federal need analysis rules. Unfortunately, it was beyond the scope of this study to collect the institutional financial aid data that would be needed to adequately test this hypothesis.

Another study regarding the use of Pell Grants will be released shortly. This study surveyed a representative sample of 1993-94 financially eligible Pell Grant applicants who did not receive awards (eligible nonrecipients) concerning their educational decisions as well as the reasons they did not receive a Pell award. A major finding was that approximately one-half of the 26 percent of eligible nonrecipients enrolled in a postsecondary institution even without the Pell award. Approximately one-third of the enrolled students were told by their financial aid office that they were ineligible to receive a Pell award because they did not meet one of the nonfinancial eligibility requirements. Another one-third of the eligible nonrecipients who attended college did not know why they had not received an award. A few of the eligible nonrecipients who attended college (less than 10 percent) indicated that one of the reasons they had not received an award was that the application and delivery process was too burdensome. The main reasons given for not attending college by the one-half of eligible nonrecipients who did not enroll were a lack of money (31 percent) and a decision to take a job (23 percent).

V. Sources of Information

1. Pell Grant End-of-Year Report, 1983-84 to 1995-96, Policy, Planning, and Innovation, Office of Postsecondary Education, U.S. Department of Education.
2. Institutional Agreement and Authorization Reports, 1983-84 to 1995-96, Accounting and Financial Management Service, Office of Postsecondary Education, U.S. Department of Education.
3. Trends in Student Aid: 1986 to 1996 (The College Board, September 1996).
4. National Postsecondary Student Aid Study, 1987, 1990 and 1993, National Center for Education Statistics, U.S. Department of Education.
5. The Effects of the 1992 Higher Education Amendments: Evidence from Pell Program Data and a Survey of Pell Grant Recipients Westat, Inc., June 1997.

VI. Contacts for Further Information

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