Reprioritizing Our Investment in Pell Grants to Further Reduce Poverty

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Introduction

The Pell Grant program is higher education's most powerful remedy to addressing poverty among people who are bettering themselves though education and training. No other resource is as effective at promoting access to these vital opportunities as Pell Grants. This year it's estimated the program will help 7.1 million students go to school by providing $26.9 billion in awards. These grants are also low-income students' most reliable resource for fighting against skyrocketing college prices, reducing their need to take out student loans, and helping them afford to stay with an educational program to completion.

Our nation's social safety net is meant to provide temporary supports to people at times when they cannot be self-sufficient. In America today, a person's chances of achieving permanent economic security for themselves and their families are slim without a postsecondary credential. People who lack education and training after high school are the population most likely to need—and most likely to be dependent on—the social safety net.[1] One factor explaining this phenomenon is employers' increasing use of postsecondary experience as a selection screen when hiring. Of the 11.6 million jobs created nationwide since the Great Recession, 11.5 million have gone to people with more than a high school diploma.[2] Educational programs can increase a person's earning potential and lead to quality employment in the long-term.

Pell Grants are the foundation upon which all student financial aid is built. Thus, maintaining continued, stable funding for the Pell Grant program should be a central anti-poverty strategy.

The average Pell Grant award has barely increased since 1975, yet the maximum award has actually *decreased* (in inflation-adjusted dollars).[3] Meanwhile, the cost of all consumer items, such as housing, health care, and other necessities has increased at a faster rate, leaving low- and moderate-income people further behind. No cost, however, has risen as fast as college tuition and fees.[4] Students are doubly hit because going to college requires money for tuition and fees, which represent only a portion of the total cost of college attendance, as well as for living expenses.[5] This leaves enormous gaps in low-income Americans' ability to afford the college credentials they so urgently need.

Today, Pell Grants face even greater threats. Recent budget proposals by the Trump Administration and the majority in Congress would cut the program by billions of dollars and limit student access to only students "who need the most help."[6] With grants already insufficient to meet tuition and living cost demands, low-income students are forgoing basic needs in order to reduce the costs of college so they can afford their continued enrollment in school.[7]

This brief is designed to give advocates tools for understanding how the Pell Grant program supports low-income students, who these students are, and the broader anti-poverty implications of underfunding this program. For instance, despite working as much as other students, Pell recipients have greater financial needs from the outset, and Pell Grants have become less and less capable of satisfying those needs. Many Pell recipients work full-time while simultaneously going to school full-time, many have children and receive public benefits, and they are disproportionately students of color. The policy strategies that support these students and the program's continued, stable operation are:

- Protecting Pell now by preserving the program's funding sources and maintaining current student eligibility and grant levels. Congress should both continue providing the program with mandatory funding while leaving its reserve funds untouched and raise the overall appropriations caps to fully fund both Pell and other vital programs that many Pell Grant recipients also rely on. In addition, Congress should again allow the maximum Pell Grant award to rise with inflation.
- Making the program's funding mandatory in future years to reflect its status as an entitlement.

Postsecondary education is crucial for economic stability in today's labor market

In a Federal Reserve study on household economic wellbeing, individuals with some education after high school were more secure on measures including:

- How comfortable their lives are—rating themselves as "doing okay" or "living comfortably" versus "finding it difficult to get by" or "just getting by."
- How their lives have improved in the last year, as determined by rating themselves as better off at significantly higher rates as compared with worse off.[8]

Their economic wellbeing almost certainly reflects actual experiences with finding employment. The current unemployment rate for high school graduates is 4.9 percent.[9] As the economy has continued to improve, the gap between this rate and the rate for those with some college or an associate's degree has shrunk. However, the unemployment rate for those with "some college" is currently 3.7 percent, and better still, the rate for recipients of a bachelor's degree and higher is 2.5 percent. Having some college experience means a greater likelihood of being employed and also earning above-poverty wages: nearly half (46 percent) of minimum-wage workers have no college experience.[10]

Because most Pell Grant recipients had few financial resources before adding tuition as a financial obligation, many work while attending college. When compared with non-Pell recipients who are student-workers, Pell student-workers are much more likely to be employed full-time *and* going to college full-time. Nearly half of Pell recipients who are working full-time are also enrolled full-time.

Table 1: Comparison of Pell and Non-Pell Recipients' Employment and Enrollment Patterns [11]

	Enrolled Full-Time	Enrolled Part-Time	Enrolled a Mix of Full- & Part-Time[12]
Pell Grant Recipients			
Employed Part-Time	60%	20%	20%
Employed Full-Time	48%	32%	20%
Not Employed	61%	19%	20%
Non-Pell Recipients			
Employed Part-Time	51%	30%	19%
Employed Full-Time	28%	60%	12%
Not Employed	55%	29%	16%

Over the past two decades, a greater percentage of students who are employed while going to school have had to rely on Pell Grants to supplement stagnating wages. In the 1999-2000 academic year, only 16 percent of students who were employed full-time received Pell Grants.[13] However, in 2011-2012 that figure was 36 percent. This increase in employment can have a strong, negative effect on a student's prospects of completing a program of study. Research has shown that being employed more than 20 hours per week reduces a student's chances of completing an educational program.[14]

Pell grants help very low-income individuals: Those who are parenting, financially independent, and students of color

Those who receive Pell Grants are a mix of low-income people and young adults from low-income families. Many recipients' incomes are poverty-level or below: 44 percent of recipients have incomes of $15,000 or less, and nearly three-quarters have incomes of $30,000 or less. Among Pell recipients who are financially independent without dependents of their own, those numbers are even more extreme: *77 percent* have incomes of $15,000 or less.

Students of color disproportionately receive Pell Grant awards, largely a result of structural inequalities that have led to lower accumulation of familial wealth, subsequently causing larger unmet financial need (the remaining costs of college after accounting for grant aid and personal resources). The issue of unmet need is discussed in more detail in this 2015 CLASP brief; the table below is excerpted from that report.[15]

Table 2: Unmet Need of Students of Color in Community College

Race/Ethnicity	% Receiving Pell Grants	% with Unmet Need	Average Unmet Need
Total	38%	68%	$4,011
Black or African American	57%	82%	$5,045
Hispanic of Latino	41%	75%	$4,214
Asian	30%	73%	$5,036
American Indian or Alaska Native	45%	75%	$4,180
Native Hawaiian/Other Pacific Islander	36%	81%	$5,436
White	31%	61%	$3,517
More than one race	44%	70%	$4,303

Students who receive Pell Grants are also more likely to be financially independent from their parents and have dependents of their own. Almost 6 in 10 are independent of their parents, and more than one-third have children. This means Pell Grants can have a two-generational impact, providing support to students as well as their child(ren).

Table 3: Student Dependency Status and Receipt of Pell Grants [16]

	Dependent	Independent without dependents	Independent with dependents
All Students (100%)	48.7%	23.8%	27.5%
Did Not Receive a Pell Grant (59%)	54.2%	24.8%	21.0%
Received a Pell Grant (41%)	40.9%	22.3%	36.8%

Students are able to use their Pell Grants and other federal aid at a wide variety of schools and programs. For instance, students can be enrolled in programs ranging from traditional academic degree programs to workforce training to short-term certificate programs. However, student eligibility and the parameters of eligible programs are both circumscribed. One example is that students must have a high school diploma or equivalency to be eligible, unless they qualify under the Ability to Benefit provision.[17]

Pell grants operate like an entitlement, but are grossly inadequate to meet the costs of postsecondary education

To receive a Pell Grant, students must complete the Free Application for Federal Student Aid (FAFSA). Using income, asset, and personal information from this form, the federal government calculates the amounts of Pell Grants and other federal aid for which each student is eligible. The FAFSA does not collect information about parents when students are at least 24 years old, or when they have dependents, or in other [18] selected circumstances. Such students are considered financially *independent*. More than half of college students today are classified as independent.[19]

Every student who applies can receive a Pell Grant award in the amount for which they are eligible, up to the maximum level set by statute. In this regard, the program functions as an entitlement, because awards are not subject to the program's appropriation; if more students apply for Pell Grants, more grants are automatically awarded. As of July 1, 2017, the maximum Pell Grant award will be $5,920, although, only about one-quarter of students received the maximum award according to the most recent data. While Pell Grants can theoretically pay for tuition and fees as well as living costs, in reality Pell Grants on average pay for less than 30 percent of the cost of college for those who receive the maximum amount. [20]

For instance, at community colleges, where low-income students are most likely to be enrolled, tuition and fees represent 20 percent of the total cost of attendance. The remaining costs are those required to meet basic needs for students and their families: transportation, housing, food, child care, and other expenses that have also increased rapidly. Without sufficient financial help, students and their families may go without the basics, or students may work more hours while they pursue education, both of which increase the difficulty of completing college and earning a credential. Many students forgo foundational needs to maintain their enrollment in college. A recent survey found that 60 percent of Pell Grant recipients are housing insecure and 16 percent are homeless. In addition, 25 percent of Pell Grant recipients have low food security and 40 percent have very low food security.[21]

Students may also have to take out student loans to cover costs. Even though federal loans are available without a credit check and offer students protections and flexible repayment options that private loans do not, these loans can rarely be discharged in bankruptcy and borrowers often carry the debt for decades, which can further destabilize financial security.

Consequently, while Pell Grant recipients work about as many hours as non-recipients, they have greater financial need that contributes to their reliance on the safety net. Students are much more likely to receive a Pell Grant when their FAFSA indicates that, in the past two years, they have received one or more of such benefits as the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); Temporary Assistance for Needy Families (TANF); Supplemental Security Income (SSI); Supplemental Nutrition Assistance Program (SNAP); or Free or Reduced Price Student Lunch.

Table 4: Receipt of a Federal Benefit and Pell Grant Recipients [22]

	Receives No Benefits	Receives at Least One Benefit
All Students (100%)	81.4%	18.6%
Did not Receive a Pell Grant (59%)	91.9%	8.1%
Received a Pell Grant (41%)	66.3%	33.7%

Pell grants are now facing dire threats

While the Pell Grant program is already insufficient to meet students' needs, today's policy environment threatens even greater damage to the current program's aid to low-income students. The attacks on Pell are coming from two sides: eliminating the program's mandatory funding, and taking money out of the program's reserves. Either of these changes would severely destabilize the program.

About three-quarters of the budget for Pell Grants comes from the discretionary (annual) appropriations, with the balance coming from the mandatory side of the federal budget. As with other safety net programs, demand for Pell Grants increases greatly in times of economic hardship (such as during the Great Recession when recipients increased by 80 percent from 2006-2007 to 2010-2011).[23] Because every student who applies is guaranteed the full amount of the Pell award for which they qualify, the Pell Grant program is designed to continue providing awards during times of increased demand, leaving Congress to address the shortfall in the next fiscal year after awards have already been distributed.

Its entitlement-like nature led Congress to require that Pell Grants be funded at a discretionary appropriations level sufficient to meet the costs estimated each year by the Congressional Budget Office. This means if, at the end of a given year, the program's actual need was higher than expected, the discretionary appropriation would have been too low to meet the program's costs. In such a "shortfall" situation, Congress is required to erase the program's shortage. This rule was established because Congress did not act for many years when the program ran shortfalls that accumulated year-over-year. Since 2006, Congress has been required to address shortfalls as they arise, typically by adding funding along with deep, permanent cuts to student eligibility (such as reducing the amount of time a person can receive Pell Grants over a lifetime or the elimination of grants to students studying during the summer), or reducing Pell Grant award amounts.

This scoring rule also means that when estimates of the use of Pell Grants exceed actual program participation, the program accrues a reserve. The program is allowed to draw resources from discretionary appropriations, mandatory funding, or the reserves. President Trump's Fiscal Year 2018 Budget Request proposed to take $3.9 billion from the program's reserves. This threat is bipartisan: the final appropriations bill for FY 2017 successfully rescinded $1.3 billion from the program's reserves. The program currently has reserve funding, available only because of permanent, damaging cuts to student eligibility made in 2012, and assisted by decreases in enrollment due to an improved economy.[24]

Taking funds out of the Pell Grant reserves would curtail the program's flexibility in the event of poor future economic conditions, sending it into a shortfall sooner than currently estimated or into an even deeper shortfall. In addition, it would foreclose the possibility of reversing previous harmful cuts (like those from 2012) and of making needed program improvements to address student financial need. Such a cut would lead to a downward spiral like that experienced in previous years. When faced with the need to come up with supplemental funds to address a Pell Grant shortfall, Congress would once again enact harsh restrictions in student eligibility and also might look to cut other programs funded under the appropriations bill for the U.S. Departments of Labor, Health and Human Services, and Education (Labor-HHS-ED) to help defray the cost.

Lawmakers are not only targeting the program's reserve funding. In recent years, Republican budgets have sought to eliminate the mandatory funding entirely. If Congress were to do so, one of two scenarios is likely, either of which would cause great harm:

- At the current award and eligibility levels, an additional $7.5 billion in discretionary appropriations would be needed to fill the gap left by eliminating mandatory funding. This would make Pell Grants even more vulnerable during times of economic distress and to increases in student need, *and would reduce the money available for other programs funded under the Labor-HHS-ED appropriations bill by $7.5 billion*.
- Or, if in eliminating mandatory funding Congress also eliminated the portion of the Pell Grant award provided by that funding, it would set a new, lower annual maximum of $4,860. This would be a reduction of more than $1,000 from the current maximum award. A reminder: the maximum award goes to students with the greatest need, and even at the current award level it is insufficient to meet that need.

Making changes to either funding stream would dramatically reduce the affordability of college tuition and student living costs for 7.1 million Pell recipients at a time when college affordability is at an all-time low, cost of living is at an all-time high, and Pell recipients are being squeezed in the middle. Pell recipients have higher receipt of public benefits, along with higher rates of employment and of raising children. Thus, the harm resulting from cutting Pell Grants is compounded by the cuts that are also being made to job training, career and technical education, child care, nutrition assistance, Medicaid, and other programs on which they rely. Rather than taking needed funds from the program, Congress should invest by indexing the maximum Pell Grant award to rise with inflation. Current law requires an annual increase in the Pell Grant maximum for each year through 2017. After the current maximum award increases to $5,920 on July 1, 2017, it will remain stuck there unless Congress acts. Pell Grants must continue to rise with inflation or risk becoming irrelevant in the face of skyrocketing college and living costs.

Where your voice matters

CLASP urges advocates to speak out to protect the Pell Grant program from any cuts—whether to its sources of funding, or to the eligibility of students. Further, advocates should push for an overall increase to the annual Labor-HHS-ED discretionary spending allocation so that other programs get the additional funding they need this year (including critical anti-poverty programs), and because it would relieve pressure to tap the Pell Grant reserves that will be needed beyond the current fiscal year.

Ultimately, the Pell Grants program's financing is complicated because Congress has chosen not to fund it exclusively through mandatory funding, even though for all practical purposes, it operates as an entitlement.[25] Funding Pell Grants entirely on the mandatory side of the budget would free up approximately $22.5 billion that is currently funded through discretionary appropriations, setting the program on a stable and responsible funding path, and freeing up discretionary funding for other purposes in support of fighting poverty. It also eliminates the need for a reserve fund, and no longer puts recipients' awards in jeopardy. To continue the basic promise of Pell Grants—that anyone who qualifies for Pell gets it—the Trump Administration and Congress should reject irresponsible cuts and fully and permanently establish this crucial program to support educational and economic advancement for low-income Americans.

Endnotes

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[10] Bureau of Labor Statistics, "Characteristics of minimum wage workers, 2016," United States Department of Labor, April 2017. https://www.bls.gov/opub/reports/minimum-wage/2016/home.htm
[11] CLASP analysis of Department of Education's NPSAS:12
[12] Mixed enrollment is attending both full-time and part-time during the same school year.
[13] Institute of Education Sciences, *Trends in Pell Grant Receipt and the Characteristics of Pell Grant Recipients: Selected Years, 1999—2000 to 2011—12*, U.S. Department of Education, September 2015. https://nces.ed.gov/pubs2015/2015601.pdf
[14] Mina Dadgar, *The Academic Consequences of Employment for Students Enrolled in Community College*, Community College Research Center, June 2012. http://ccrc.tc.columbia.edu/media/k2/attachments/academic-consequences-employment.pdf
[15] Katherine Saunders, *Barriers to Success: Unmet Financial Need for Low-Income Students of Color in Community College*, Center for Law and Social Policy, June 2015. http://www.clasp.org/resources-and-publications/publication-1/Barriers-to-Success-Unmet-Financial-Need-for-Low-Income-Students-of-Color.pdf
[16] CLASP analysis of Department of Education's NPSAS:12
[17] Resources on Ability to Benefit, Center for Law and Social Policy. http://www.clasp.org/issues/postsecondary/pages/resources-on-ability-to-benefit
[18] Other reasons for being designated as independent include that the student is married; is a veteran or on active military duty; is an orphan, foster youth, or emancipated minor; or is an unaccompanied youth who is homeless or at risk of becoming homeless.
[19] "Yesterday's Non-Traditional Student is Today's Traditional Student," Center for Law and Social Policy, 2015. http://www.clasp.org/resources-and-publications/publication-1/CPES-Nontraditional-students-pdf.pdf
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[24] H.R. 244, *Consolidated Appropriations Act, 2017*, One Hundred Fifteenth Congress of the United States of America, January 3, 2017. https://www.congress.gov/115/bills/hr244/BILLS-115hr244enr.pdf

[25] The Lumina Foundation has produced a high-level view of the history of the Pell Grant program and its funding that is accessible to audiences not deeply engaged in postsecondary education issues. It briefly discusses why this change hasn't happened in the past.

Appendix: Percent of Pell recipients with specified characteristics, by state

State of Legal Residence	Incomes at or below $30,000	Works Full-Time	Has Dependents	Receives Maximum Award
U.S. Total	**73.9%**	**24.1%**	**36.8%**	**25.6%**
Alabama	77.8	24.0	37.7	25.2
Alaska	74.7	25.4	41.7	27.0
Arizona	74.5	28.0	42.6	25.8
Arkansas	75.9	26.8	52.8	26.5
California	76.2	18.4	28.5	27.7
Colorado	75.5	26.5	39.7	27.3
Connecticut	67.9	28.4	34.1	17.2
Delaware	59.4	33.6	45.5	15.7
Florida	76.5	22.8	33.9	25.9
Georgia	76.6	29.8	40.0	19.4
Hawaii	84.8	24.3	36.1	29.4
Idaho	77.1	25.3	44.8	27.7
Illinois	75.2	25.2	37.3	26.0
Indiana	67.6	26.4	44.7	24.2
Iowa	70.7	25.4	40.9	24.9
Kansas	73.0	26.5	42.3	16.9
Kentucky	71.0	24.7	41.9	30.0
Louisiana	82.7	28.3	45.9	29.6
Maine	71.8	16.8	29.8	25.7
Maryland	64.2	29.4	31.4	23.6
Massachusetts	64.7	19.9	29.5	26.6
Michigan	72.9	22.1	38.4	24.6
Minnesota	76.8	28.2	42.4	19.7
Mississippi	81.2	26.7	47.1	33.0
Missouri	72.1	25.6	38.0	28.6
Montana	68.7	27.8	41.2	25.2
Nebraska	64.0	20.8	30.1	23.3
Nevada	75.4	32.8	38.6	25.3
New Hampshire	59.8	39.2	17.8	25.1
New Jersey	68.2	20.5	28.8	25.6
New Mexico	83.0	23.1	42.3	28.8
New York	69.9	19.4	25.5	32.2
North Carolina	76.7	24.1	39.4	27.0
North Dakota	56.1	31.6	39.6	13.3
Ohio	74.3	22.8	41.7	21.3
Oklahoma	78.5	26.2	44.1	22.2
Oregon	78.1	18.5	27.4	29.8
Pennsylvania	69.4	23.0	34.2	23.4
Rhode Island	64.8	28.3	37.8	17.0
South Carolina	76.2	22.3	42.0	25.0
South Dakota	71.0	10.0	43.9	36.5
Tennessee	78.5	26.8	44.5	30.7
Texas	73.9	25.5	37.9	26.9
Utah	68.1	36.4	42.3	19.0
Vermont	75.4	25.8	5.0	39.2
Virginia	70.9	30.0	38.9	25.1
Washington	74.7	21.9	39.4	19.6
West Virginia	75.7	29.7	40.2	28.8
Wisconsin	69.9	26.5	41.6	21.1
Wyoming	59.8	20.3	63.6	21.7