Order Code RL34084

CRS Report for Congress

Reconfiguring the Federal Pell Grant Program: Effect of Selected Changes on Program Costs and on Students in Different Income Groups

July 9, 2007

Charmaine Mercer
Analyst in Social Legislation
Domestic Social Policy Division

Prepared for Members and
Committees of Congress

Reconfiguring the Federal Pell Grant Program: Effect of Selected Changes on Program Costs and on Students in Different Income Groups

Summary

Every year Congress, institutions of higher education (IHEs), and relevant higher education associations debate what changes, if any, should be made to the Pell Grant program to increase its purchasing power and make college more affordable, especially for low-income students. The most commonly discussed option — increasing the maximum appropriated award per student — is also the most expensive option. It is estimated that a $100 increase in the maximum appropriated grant award would increase program costs by approximately $400 million. In light of this, it is unusual for Congress to act to increase the maximum appropriated grant award.

This report models selected changes in the Pell Grant program's award rules and the need analysis formula to examine what impact, if any, the changes would have on program costs as well as on the recipient population. Specifically, the report examines the effect of the following changes: increasing the maximum appropriated award; increasing the amount of the minimum award and dropping "the bump;" eliminating the tuition sensitivity provision; and increasing the income eligibility threshold for the automatic-zero expected family contribution provision. In addition to analyzing each of these provisions separately, a final analysis combines some of the provisions to examine the combined effect of changing groups of award rules simultaneously.

This report will be updated as warranted by major legislation or other relevant developments.

Contents

List of Tables

Reconfiguring the Federal Pell Grant Program: Effect of Selected Changes on Program Costs and on Students in Different Income Groups

Introduction

Every year Congress, institutions of higher education (IHEs), and relevant higher education associations debate what changes, if any, should be made to the Pell Grant program to increase its purchasing power and make college more affordable, especially for low-income students. The most commonly discussed option — increasing the maximum appropriated award per student[1] — is also the most expensive option. It is estimated that a $100 increase in the maximum appropriated grant award would increase program costs by approximately $400 million.[2] In light of this, it is unusual for Congress to act to increase the maximum appropriated grant award. While several proposals are introduced each year,[3] the passage of the FY2007 appropriations[4] marks the first time that an increase in the maximum award has been made since FY2002, when it was increased from $4,000 to $4,050.

In addition to increasing the maximum award, alternate ways of using the Pell Grant to help make college more affordable for low-income students have also been considered. For example, the President's FY2008 budget request and H.R. 990 both propose that the tuition sensitivity provision be eliminated. This provision, as implemented by the U.S. Department of Education (ED), disparately affects low-income students who also attend low-cost IHEs by capping the amount of their Pell Grant award (discussed later in this report). Thus, removal of this provision would

---

[1] The maximum appropriated Pell Grant award is specified in the annual appropriations legislation for the U.S. Department of Education. That legislation appropriates funding for the Pell Grant program and sets the maximum award that can be made during the award year.

[2] This estimate is limited to increases that occur during the 2008-2009 Pell award year. For additional information, see Department of Education, *Fiscal Year 2008 Justifications of Appropriation Estimates to the Congress*, Volume II, p. O-26.

[3] During the 110th Congress, S. 899, S. 7, H.Res. 81, and H.R. 722, among other bills, each propose to increase the maximum Pell Grant award by various amounts. S. 3528, S. 2573, H.R. 2960, and H.R. 168, among others, were introduced during the 109th Congress to increase the maximum grant award.

[4] The maximum appropriated award was increased to $4,310 from $4,050 by the House Revised Continuing Appropriations Resolution, 2007, H.J.Res. 20 (P.L. 110-5). The increase becomes effective July 1, 2007.

provide these students with an increased Pell Grant award. Further, congressional interest has been expressed in expanding eligibility for the automatic-zero expected family contribution (hereinafter "auto-zero EFC"). Auto-zero EFC sets the expected family contribution (EFC) — the amount that a family is expected to contribute to his or her education — to $0 for individuals with an adjusted gross income (AGI) at or below a specified income level, currently set at $20,000. If the income threshold were raised, additional low-income students would potentially qualify for the maximum Pell Grant award (discussed later in this report). Although elimination of the tuition sensitivity provision would increase the grant's coverage of college costs, and expanding eligibility for auto-zero EFC would enable the grant to reach additional low-income students, both of these changes would increase the program's cost. So the question remains: Is it possible to increase the grant's coverage of college tuition and fees and extend the grant to more low-income students while also controlling for significant cost increases and changes in the recipient composition?

It should be noted that any change to the program's award rules or to the need analysis formula (discussed later in this report) would affect the program's cost and the recipient composition. There are, however, provisions that can be altered that would reduce program costs and would not increase the number of participants. For example, increasing the minimum grant award and eliminating "the bump" (discussed later in this report) both work together to reduce program costs, and possibly the number of recipients, depending on how much the minimum award is increased. In addition, if selected program changes are made in tandem, such as increasing the maximum grant award and eliminating the tuition sensitivity provision, it is possible to increase the grant's coverage of tuition and fees, eliminate provisions that disparately affect needy students, and extend the grant to additional low-income students without significantly increasing program costs or changing the number of recipients.

This report models selected changes in the Pell Grant program's award rules and the need analysis formula to examine what impact, if any, the changes would have on program costs as well as the recipient population. Specifically, the report examines the effect of the following changes:

- increasing the maximum appropriated award;
- increasing the amount of the minimum award and dropping "the bump;"
- eliminating the tuition sensitivity provision; and
- increasing the income eligibility threshold for the automatic-zero expected family contribution provision.

In addition to analyzing each of these provisions separately, a final analysis combines some of the provisions to examine the combined effect of changing groups of award rules simultaneously.

The report begins with a brief description of the federal need analysis system to illustrate how the formula interacts with the Pell Grant award. This is followed by a review of the Pell Grant program's structure, including a brief discussion of the eligibility criteria, funding process, and program award rules for determining an

individual's grants. Finally, the report concludes with a discussion of the results for each of the aforementioned analyses.

This report is designed to complement a detailed discussion of the Pell Grant program and the federal student aid need analysis formula included in CRS Report RL31668, *Federal Pell Grant Program of the Higher Education Act: Background and Reauthorization*, and CRS Report RL33266, *Federal Student Aid Need Analysis System: Background, Description and Legislative Action*, both by Charmaine Mercer. These two reports collectively provide greater context about the Pell Grant program and the need analysis formula than what is provided in this report.

Overview

This section provides an overview of the federal student aid need analysis formula, including the different dependency classifications for applicants, and its relationship to the Pell Grant program. It also describes the eligibility criteria, the authorized and appropriated maximum awards, and the award rules for the Pell Grant program.

Federal Need Analysis Formula

The federal student aid need analysis formula (Title IV, Part F of the Higher Education Act (HEA), as amended) is a complex system used to allocate billions of dollars (approximately $80 billion in FY2007) of federal student aid through an array of student aid programs authorized by Title IV of the HEA. The need analysis formula entails the collection of financial data, which are provided by students via the Free Application for Federal Student Aid (FAFSA). These data are then used to calculate an individual student's expected family contribution (EFC).

The EFC is the amount the need analysis formula determines that the student, and his or her parents, when applicable, has available to contribute toward postsecondary education expenses. In calculating the EFC, total income (a combination of taxable and untaxed income and benefits), is considered, and, for some families, assets are also considered. In addition, allowances such as living expenses, retirement needs, and federal and state tax liability are considered. The income contribution is calculated by subtracting a series of allowances, such as those previously mentioned, from total income, and then considering a percentage of that available income as an income contribution toward postsecondary education costs. A contribution from assets is similarly calculated. The combination of the available income and asset contribution, divided by the number of individuals in the family enrolled in college, constitutes the EFC.

Expected Family Contribution (EFC) and Dependency Status. The calculation of the EFC varies depending upon the applicant's dependency status. There are three separate dependency classifications for individual applicants: dependent student, independent student with dependents, and independent student without dependents. These distinctions are important because parental financial information is *not* considered if the applicant meets the statutory definition of an

independent student. To be classified as an independent student (Title IV, Section 480(d)), an applicant must meet at least *one* of the following conditions:

- be 24 years of age or older;
- be married;
- be enrolled in a graduate or professional program;
- have a dependent other than a spouse;
- be an orphan or ward of the court (or have been one until age 18); or
- be a military veteran or active duty service member.

Students who do *not* meet any of the aforementioned conditions are considered to be dependent for the purposes of Title IV federal student aid.

EFC and Cost of Attendance. The financial aid administrator determines the student's need for federal aid and other sources of aid, based primarily upon the EFC and cost of attendance (COA).[5] This is true for all federal student aid programs except for the Pell Grant program (to be discussed). The final outcome is the financial aid award or package, which consists of the specific sources and amounts of student aid each applicant will receive to help pay for his or her education-related expenses.[6]

Special EFC Conditions. In calculating the EFC, special consideration is given to individuals with family incomes at or below a specified threshold. There are two special EFC conditions, a simplified needs test (SNT) and auto-zero EFC. Under the SNT, the EFC calculation does not consider assets for applicants if their AGI is less than $50,000.[7] The automatic-zero EFC sets the EFC to $0 for individuals who have an AGI that is not greater than $20,000.[8] In addition to having the EFC calculated exclusively based on their income, recipients who qualify for SNT and auto-zero EFC are entitled to provide less income and asset data on the FAFSA.

---

[5] According to HEA, Title IV, Section 472, cost of attendance (COA) is determined by each IHE. COA is a measure of student's educational expenses at a specific IHE. In general, it is the sum of tuition and fees; an allowance for books, supplies, transportation, and miscellaneous personal expenses; and a room and board allowance. COA can also include an allowance for dependent care expenses (for students with dependents); costs associated with study abroad programs for students engaged in such programs; expenses associated with a disability for students with disabilities; and the costs associated with employment under a cooperative education program.

[6] For a more detailed description of the federal student aid need analysis system, see CRS Report RL33266, *Federal Student Aid Need Analysis System: Background, Description and Legislative Action*, by Charmaine Mercer.

[7] Additionally, to be eligible for SNT, the student and his/her parents must not have to file an income tax return, or must file or be eligible to file federal tax form 1040A or 1040EZ. Individuals who complete federal tax form 1040 solely to claim the Hope or Lifetime Learning tax credit are eligible as well. Further, eligibility for SNT can be satisfied if any family member, including the applicant, received a federal means-tested benefit.

[8] The same income tax filing requirements and receipt of a federal means-tested benefit that apply to SNT applicants also apply to auto-zero applicants. Auto-zero EFC is not provided to independent students without dependents.

Pell Grant Program

Pell Grants (Pell) are the largest single source of federal grant aid to postsecondary students. Pell Grants are need-based, portable aid, and are primarily received by low-income, undergraduate students. Pell Grants are considered to be the foundation of student aid because all other federal aid (e.g., federal work study, student loans) is calculated after the amount of the Pell award has been determined. The FY2007 appropriation for the Pell Grant program is $13.6 billion; it is projected to provide grants to 5.3 million undergraduate students.[9]

Eligibility

In addition to the general eligibility criteria for all federal student aid programs,[10] for a recipient to receive a Pell Grant award, the individual must be enrolled at an eligible IHE for the purpose of earning a degree or certificate.[11] Generally, the recipient must also be enrolled in an undergraduate program.[12] Recipients who attend less than full-time are eligible for a Pell Grant; however, the grant amount is adjusted in accordance with the recipient's enrollment status.

Authorized Maximums and Appropriated Maximums

Although the authorizing statute (HEA, Title IV, Section 401(b)(2)) sets the authorized maximum Pell award for each year, this authorized maximum is overridden by the appropriations process, which sets the appropriated maximum award. This latter amount is the one applied in awarding funds to recipients. The FY2003 authorized maximum grant is $5,800 (most recent authorized amount), but the FY2007 appropriated maximum grant is $4,310. The appropriated maximum award is often used as a gauge of the program's support for low-income students because this is the amount that the neediest students (those with an EFC of $0) are likely to receive.

---

[9] For additional information about these criteria, see CRS Report RL31668, *Federal Pell Grant Program of the Higher Education Act: Background and Reauthorization*, by Charmaine Mercer.

[10] For information about the basic federal student aid eligibility criteria and the specific criteria for the Pell program, see CRS Report RL31668.

[11] For additional information about institutional eligibility, see CRS Report RL33909, *Institutional Eligibility for Participation in Title IV Student Aid Programs Under the Higher Education Act: Background and Reauthorization Issues*, by Rebecca R. Skinner.

[12] Students enrolled on at least a half-time basis in a postbaccalaureate program required by a state for K-12 teacher certification or licensure are also eligible. Such a program cannot lead to a graduate degree, and the enrolling IHE must not offer baccalaureate degrees in education.

Award Rules

The primary Pell Grant award rule is that a recipient's award amount is the lowest of three amounts:

- the maximum appropriated Pell Grant award minus the EFC;
- the COA minus EFC; or
- the tuition sensitivity amount.[13]

For nearly all Pell recipients, the Pell Grant award is calculated by subtracting the EFC from the maximum appropriated Pell Grant for the year (i.e., without regard to COA). This is because the maximum Pell Grant minus the recipient's EFC is almost always lower than the COA minus the EFC.

In addition, by statute, the tuition sensitivity provision can apply only when the appropriated maximum Pell Grant exceeds $2,700. It should be noted that the tuition sensitivity provision affects a very small group of low-income students. The tuition sensitivity award amount is calculated as follows:

- $2,700 + one-half of the difference between the appropriated maximum and $2,700 + the *lesser* of (a) the remaining one-half difference or (b) tuition.[14]

For example, at a $4,310 Pell Grant maximum and a tuition level of $500, the tuition sensitivity amount of $4,005 is determined as follows:

- $2,700 + $805 (one-half of the difference between $4,310 (maximum award) and $2,700) + $500 (tuition amount) (the lesser of $805 and tuition of $500) = $4,005.

Further, by law, a Pell Grant award cannot be less than $400 (HEA, Title IV, Section 401(B)(5)). For those recipients whose Pell Grant award would be between $200 and $399, the law provides a $400 grant, otherwise known as "the bump." A student who qualifies for less than a $200 grant will not receive a Pell Grant.

---

[13] As implemented by ED, tuition sensitivity reduces the Pell Grant received by a small number of very low-income students attending institutions with very low tuition charges. For FY2007, the only students whose Pell Grant may possibly be reduced under tuition sensitivity are those students whose tuition charges (and any allowances for dependent care or disability-related expenses) are less than $805; whose EFCs are $800 or less; and whose total COA is $3,500 or higher. These conditions are delineated in the 2007-2008 Pell Grant payment and disbursement tables, which are available on the Web at [http://www.ifap.ed.gov/dpcletters/attachments/2007paysched.pdf].

[14] Specific allowances are added to tuition for students with dependent care expenses or expenses related to a disability.

Data and Methodology

This analysis uses estimates derived by CRS from the Pell Grant estimation model, which was developed and is maintained by the U.S. Department of Education's Budget Service. The Department of Education's annual budget requests for Pell Grant appropriations are based on the results from the Pell estimation model. The model's latest version (U2008) was utilized for this analysis. All estimates presented in this report are for the 2008-2009 Pell award year.[15] For additional information about the Pell Grant estimation model see the **Appendix**.

It is important to note that CRS does not make official congressional cost estimates of federal programs or legislative proposals. That is the responsibility of the Congressional Budget Office. Any estimates of costs and the number and characteristics of recipients included in this report are provided to suggest the relative magnitude and nature of the impact of possible changes in the Pell Grant program.

Most of the results from the analyses are presented by family income. It is important to note that "family income" for the purpose of these analyses is identical to "total income," which is produced by the need analysis formula and defined in Section 480(c) of Title IV of the HEA. Total income consists of the following: AGI, income earned from employment, untaxed income and benefits (e.g., welfare and child support payments), other sources of income such as federal education income tax credits (e.g., Hope and Lifetime credits), and certain student grant and scholarship aid (e.g., AmeriCorps benefits). However, AGI, not total income, is the data element that is used to determine an individual's eligibility for auto-zero EFC and SNT. AGI generally equals the amount of income earned from work, dividends, and taxable income and pensions, minus specified deductions such as IRA contribution or student loan interest, among other things.[16] In most cases, AGI is either less than or equal to family income.

For the analysis of the Pell Grant's coverage of college costs, only two measures were used: (1) the average amount of tuition and fees at public IHEs, and (2) tuition, fees, room, and board (TFRB) at public IHEs. These two measures were inflated to produce a projected estimated amount for the 2008-2009 academic year. To generate these estimates, a 10-year average (academic years 1994-1995 through 2004-2005) percentage increase was produced for both four-year and two-year public IHEs. The estimated 10-year average percentage increases for public, four-year IHEs are 6.6% for tuition and fees only and 5.6% for TFRB. For two-year, public IHEs, the

---

[15] Data for the 2008-2009 award year were utilized because it is the earliest possible award year that any changes Congress might make to the Pell Grant program could be implemented. The 2008-2009 Pell Grant award year begins July 1, 2008, and runs through June 30, 2009.

[16] For the 2006 tax year, AGI can be located on the specified line for the following tax forms: line 37 of form 1040; line 21 of form 1040A; and line 4 of form 1040EZ. For additional information about how AGI is calculated, see CRS Report, CRS Report RL30110, *Federal Individual Income Tax Terms: An Explanation*, by Pamela Jackson.

estimated 10-year average percentages are 4.6% for tuition and fees only, and 4.4% for TFRB.[17]

It should be noted that this analysis *does not* address the Pell Grant's coverage of tuition and fees and TFRB at private IHEs. In general, the average tuition and fees and TFRB at private IHEs are substantially higher than at public IHEs. In the last two decades, the Pell Grant has never covered more than 30% of the average tuition and fees at private, four-year IHEs. Moreover, at its peak (1975), the most the grant covered was about 62% of the average tuition and fees at a four-year, private IHE.

Finally, it is important to note that there has been a considerable amount of research conducted regarding increases in the amount of federal grant aid,[18] and institutions' response to these increases, particularly with respect to increases in tuition and fees. The research and findings on this subject are both limited and inconclusive, with some researchers concluding that no relationship exists between the increase in federal student aid and increases in tuition and fees, while others have found a correlation may exist, but, the relationship depends on the type of institution. For example, Judith Li's research, entitled, *Estimating the Effect of Federal Financial Aid on College Tuitions: A Study of Pell Grants* (1999), concludes that public and private four-year IHEs increased tuition by more than the increase in the amount of the Pell Grant, whereas, two-year public IHEs decreased tuition for every $1 increase in the Pell Grant award.[19] Conversely, in a report commissioned by the Department of Education, National Center for Education Statistics, entitled, *Study of College Costs and Prices, 1988-89 to 1997-98: Volume I* (2001), by Alisa Cunningham, et al., they note that other researchers, such as McPherson and Schapiro (1998) and Coopers and Lybrand (1997) maintain that the relationship between increases in federal grant aid and tuition increases, particularly at four-year public and private IHEs, is either weak, or no longer holds.[20] Although this report does not address the relationship between federal grant aid, or the Pell Grant specifically, and increases in tuition and fees, it is important to note that in the last decade the maximum Pell Grant award has never increased by more than $450 in a given award year, thereby making it unlikely that the increased amount would serve as an

---

[17] The analysis uses data from the U.S. Department of Education's, *Digest of Education Statistics*, 2005 (Digest), Table 312.

[18] Other research has examined the relationship between tax credits and tuition and fee increases and state student aid and tuition and fee increases. For additional information see, *The Impact of Federal Tax Credits on Higher Education Expenses*, by Bridgete Terry Long, and *Do State Financial Aid Programs Cause Colleges to Raise Prices? Who Should We Help? (2002)*, by Heller, Donald and Patricia Marin, eds. Both articles are available at:[http://gseacademic.harvard.edu/~longbr/publications_page.htm].

[19] Li's article is available online at [http://www.nber.org/~confer/99/higeds99/li.pdf]). ED's commissioned study is available at [http://nces.ed.gov/pubs2002/2002157.pdf].

[20] In earlier research by McPherson and Schapiro, *Keeping College Affordable: Government and Educational Opportunity* (1991), they found that only public institutions, particularly four-year IHEs, would have tuition levels that were sufficiently low enough for the institution to have an incentive to increase tuition to capture additional student aid.

incentive for IHEs to respond by raising their tuition and fees.[21] It is beyond the scope of this report to consider how, if at all, IHEs would change tuition and fees in response to changes in the Pell Grant award. However, some analyses presented in this report examine the percentage of tuition and fees covered by the Pell Grant under changed award rules. These analyses assume tuition and fees levels for 2008-2009 would increase in a manner that is consistent with recent annual increases, and that there would be no extra increase in tuition and fees as a result of the increased Pell Grant award.

Analysis of Selected Changes

This section provides a discussion and analysis of selected changes in the program award rules and the need analysis formula, and how these changes might affect recipients and costs.[22] The changes examined are those which have received considerable legislative attention during the last few Congresses. The section is organized according to the following proposed changes:

- increase the amount of the maximum appropriated Pell Grant award, including examining its coverage of tuition and fees;
- increase the minimum Pell Grant award amount and eliminate "the bump";
- eliminate the tuition sensitivity provision and increase the maximum award amount; and
- increase the auto-zero EFC income threshold.

The section concludes with an analysis that combines some of the provisions according to their ability to increase the Pell Grant's coverage of tuition and fees and TFRB, eliminate provisions that disparately affect low-income students, extend the grant to more low-income students, and control for significant recipient changes and cost increases. All of the results are presented by family income status.[23]

Increasing the Maximum Appropriated Pell Grant Award

As previously mentioned, increasing the maximum appropriated Pell Grant award would provide low-income students with additional aid and strengthen the grant's coverage of tuition and fees and TFRB, but would also increase the program's

---

[21] For additional information regarding this subject, see *For Whom the Pell Tolls: Market Power, Tuition Discrimination, and the Bennet Hypothesis (2003)*, by Singell, Larry and Joe Stone. Available at:[http://darkwing.uoregon.edu/~lsingell/Pell_Bennett.pdf]; *The Student Aid Game: Meeting Need and Rewarding Talent in American Higher Education* (1998), by McPherson, Michael and Morton Owen Schapiro. and, *The Impact of Federal Student Assistance on College Tuition Levels* (1997), by Coopers and Lybrand, L.L.P.

[22] All of the cost estimates included in this report also include the $5 administrative fee that participating IHEs receive for each enrolled Pell Grant recipient.

[23] The format of the family income groups generated by the Pell model are pre-established, and as a result constrain the possible income groupings.

costs. However, raising the maximum award is one of the few ways to enhance the grant's coverage of tuition and fees and TFRB.

To demonstrate the impact of increasing the maximum award, this section provides an analysis of the estimated impact of raising the maximum award from $4,310 to $4,600, $5,100, and $5,800.[24] In addition to providing estimates for the changes in costs and recipients by family income, changes to the grant's coverage of tuition and fees and TFRB are also considered.

Recipients. As previously noted, the Pell Grant award is generally determined by subtracting a recipient's EFC from the appropriated maximum award. As the amount of the maximum award increases, recipients with larger EFCs (those with more available income and assets) become newly eligible for the program. For example, under current law, if a recipient has an EFC of $4,400, he or she would not be eligible for a Pell Grant award ($4,310-$4,400=-$90). However, if the maximum award were increased to $4,600, this same recipient would qualify for the minimum grant award of $400 ($4,600-$4,400=$200, bumped up to $400).

The change in the recipient composition under selected award increases is illustrated in **Table 1**. The table shows that as the maximum award increases, the percentage of recipients with higher family incomes would also slightly increase over current law estimates. Conversely, the percentage of recipients with lower family incomes would slightly decrease under each increase in the maximum award. Specifically, under each of the selected increases in the maximum Pell Grant award, the percentage of recipients with family incomes of $40,000 or less would likely decrease by a small percentage, whereas, recipients with family incomes over $40,000 would experience a slight increase.

However, as also shown in **Table 1**, the actual change in the number of recipients in each of the income groups would be relatively small. This is particularly true for recipients with family incomes of less than $30,000. The change in the composition that is illustrated in **Table 1** for this group, is primarily due to the fact that more individuals with larger incomes are brought into the program, thereby changing the overall composition of the recipient population. As the maximum award increases, more recipients with higher family incomes would likely become newly eligible, and assume a greater percentage of the recipient population than they would have under current law. Although, under each increase in the maximum award, recipients with family incomes above $40,000 would not comprise more than 15% of the total Pell Grant recipient population. It should be noted that generally, increasing the maximum award does not significantly expand the number of eligible recipients in the lowest income groups. However, it usually provides these recipients with larger Pell Grant awards, which increases the grant's coverage of tuition and fees and TFRB for recipients in these groups.

---

[24] These amounts were selected in light of recent legislative proposals to increase the maximum award to the specified amounts. Specifically, the President's FY2008 Budget requests that the maximum award be increased to $4,600, and H.Res. 81, proposes $5,100. The third amount, $5,800, was selected because it is the most recent authorized maximum grant award.

Table 1. Estimated Impact of Selected Increases in the Maximum Pell Grant Award on Pell Grant Recipients by Family Income: Award Year 2008-2009

(numbers in thousands)

Increased Maximum Award								
	$4,310		$4,600		$5,100		$5,800	
Family Income	Recip-ients	% of All Recipients	Recip-ients	% of All Recipients	Recip-ients	% of All Recipients	Recip-ients	% of All Recipients
10,000 or less	1,520	28.2%	1,521	27.8%	1,523	27.5%	1,523	27.4%
10,001 to 20,000	1,255	23.3%	1,272	23.2%	1,281	23.2%	1,282	23.1%
20,001 to 30,000	1,046	19.4%	1,052	19.2%	1,057	19.1%	1,059	19.1%
30,001 to 40,000	850	15.8%	859	15.7%	865	15.6%	866	15.6%
40,001 to 50,000	465	8.6%	484	8.8%	496	8.9%	499	9.0%
50,001 to 60,000	183	3.4%	199	3.6%	214	3.9%	218	3.9%
60,001 to 70,000	59	1.1%	68	1.2%	75	1.4%	78	1.4%
over 70,000	16	0.3%	19	0.4%	23	0.4%	23	0.4%
Total	5,394	100%	5,474	100%	5,534	100%	5,548	100%

Source: CRS estimates using the Pell Grant estimation model from the U.S. Department of Education's Budget Service.

Program Costs. It should be noted that increasing the maximum Pell Grant award by various amounts would produce minimal change in the total recipient composition. Although increasing the maximum award would increase program costs, which could be substantial, depending upon the amount of the maximum award. For example, increasing the maximum award by $290 to $4,600, would increase program costs for award year 2008-2009 by an estimated $1.17 billion over the current law estimates. Moreover, if the maximum award were increased to the most recent authorized maximum of $5,800, the program costs would increase to an estimated $20.0 billion, a $6.0 billion increase over current law. As previously mentioned, a $100 increase in the maximum appropriated Pell Grant award, in general, would increase program costs by approximately $400 million.

Similar to what would occur for the recipient composition under selected increases in the maximum award, the percentage share of aid for recipients with lower family incomes would slightly decline under each increase in the maximum award. For example, as illustrated in **Table 2**, the percentage of aid available for recipients with a family income of $10,000 or less would decline from a little more than 33% under current law (33.4%) to just above 31% (31.3%) if the maximum

award were increased to $5,800. Similar patterns are illustrated for recipients with family incomes between $10,001 and $30,000. However, the percentage share of aid for individuals with family incomes above $30,000 would slightly increase under each change in the maximum award. As illustrated by **Table 2**, recipients with family incomes between $40,001 and $50,000 would experience the largest percentage change in the amount of aid available under each individual increase and between current law and a maximum award of $5,800. It is important to note that although the percentage of aid available to recipients with family incomes above $30,000 would increase rather than decrease as it would for individuals with a family income of less than $30,000, individuals with lower family incomes would continue to receive the largest amount of aid awarded under each increase in the maximum award.

The percentage growth in the amount of aid available for individuals with higher family incomes versus the decline for individuals with lower family incomes is directly related to increasing the maximum award without changing other provisions of the program, such as increasing the minimum award. As previously noted, if the maximum award were increased, individuals with higher family incomes would either become newly eligible for the program or they would receive an increased award, both of which increase the amount of aid available for higher income groups. Whereas if the maximum award were increased, the number of recipients with lower incomes would not substantially change, they would generally receive larger amounts of aid.

Table 2 demonstrates that increasing the maximum grant would provide additional aid for recipients across all income groups, however, recipients with family incomes above $30,000 would experience a small increase in the percentage of total aid available under each increase.

Table 2. Estimated Amount of Pell Grant Aid to Recipients by Family Income and Selected Increases in the Maximum Appropriated Pell Award: Award Year 2008-2009

(dollars in thousands)

	Increased Maximum Award							
	$4,310		$4,600		$5,100		$5,800	
Family Income	Costs	% of Aid Available	Costs	% of Aid Available	Costs	% of Aid Available	Costs	% of Aid Available
10,000 or less	4,676,000	33.4%	4,991,000	32.8%	5,529,000	32.1%	6,269,000	31.3%
10,001 to 20,000	3,406,000	24.3%	3,674,000	24.2%	4,135,000	24.0%	4,771,000	23.8%
20,001 to 30,000	2,994,000	21.4%	3,220,000	21.2%	3,608,000	20.9%	4,145,000	20.7%
30,001 to 40,000	1,901,000	13.6%	2,091,000	13.8%	2,419,000	14.0%	2,874,000	14.3%
40,001 to 50,000	727,000	5.2%	838,000	5.5%	1,031,000	6.0%	1,300,000	6.5%
50,001 to 60,000	233,000	1.7%	281,000	1.8%	366,000	2.1%	488,000	2.4%
60,001 to 70,000	63,000	0.5%	80,000	0.5%	110,000	0.6%	155,000	0.8%
over 70,000	18,000	0.1%	23,000	0.1%	32,000	0.2%	46,000	0.2%
Total	14,018,000	100.0%	15,198,000	100.0%	17,230,000	100.0%	20,048,000	100.0%

Source: CRS estimates using the Pell Grant estimation model from the U.S. Department of Education's Budget Service.

Increasing the Pell Grant's Coverage of Tuition and Fees

The purchasing power of the Pell Grant at public IHEs has diminished over the last few decades, with a notable decline at four-year institutions during the last 15 years. Combining the rapid increase in college prices with the intermittent and relatively low increases in the amount of the maximum Pell Grant award, the percentage of tuition and fees and TFRB covered by the Pell Grant has eroded from a high of 244% at four-year public IHEs and 507% two-year public IHEs in FY1979, to a low of 69% and 178%, respectively, in FY2006. However, as previously mentioned, increasing the amount of the maximum Pell Grant award is the best way to increase Pell's coverage of tuition and fees and TFRB. This section analyzes Pell's coverage of college costs using only the estimated average tuition and fees and the estimated average tuition, fees, room and board,[25] with the current maximum

[25] For information regarding how the tuition and fees and TFRB estimates were produced for award year 2008-2009, refer to the Data and Methodology section.

award of $4,310 and the selected maximum award amounts used in the preceding analysis for award year 2008-2009.[26]

Four-Year Institutions. The analysis shown in **Table 3** examines the relationship of the maximum appropriated Pell Grant award to in-state tuition and fees, and TFRB for students at public IHEs. As illustrated, the current appropriated maximum award would cover approximately 66% of the estimated average tuition and fees at public four-year institutions, and slightly more than 30% of TFRB for award year 2008-2009. Increasing the maximum award to $4,600 would increase its coverage to nearly 71% of tuition and fees and 32% of TFRB. If the amount of the maximum award were increased by approximately $800, to $5,100, the maximum award's coverage of the average tuition and fees would increase to nearly 79%, and its coverage of TFRB would increase to about 36%. **Table 3** also illustrates that the grant would need to be increased to the amount of the most recent authorized grant award of $5,800 in order for it to cover 40% of TFRB. For the grant to cover 50% of TFRB, the maximum award would need to be increased to approximately $7,100.

Two-Year Institutions. The Pell Grant's coverage at two-year public institutions is considerably more substantial than at four-year public institutions. As shown in **Table 3**, the current appropriated maximum award would cover nearly 200% of the estimated average tuition and fees at two-year IHEs during award year 2008-2009. Furthermore, as illustrated, that same maximum award would cover nearly 60% of the average TFRB at two-year IHEs. If the maximum award were increased to $5,100, it would cover more than 230% of the average tuition and fees and nearly 70% of TFRB.

Table 3. Estimated Coverage of In-State Tuition and Fees, and Tuition, Fees, Room, and Board Covered by Selected Maximum Appropriated Pell Grant Awards: Award Year 2008-2009

Maximum Pell Grant Award	Four-Year Public				Two-Year Public			
	Tuition and Fees	% of Tuition and Fees Covered by Max. Pell Grant Award	Tuition, Fees, Room, and Board (TFRB)	% of TFRB Covered by Max. Pell Grant Award	Tuition and Fees	% of Tuition and Fees Covered by Max. Pell Grant Award	Tuition, Fees, Room, and Board (TFRB)	% of TFRB Covered by Max. Pell Grant Award
4,310	6,494	66.4%	14,203	30.3%	2,207	195.3%	7,518	57.3%
4,600	6,494	70.8%	14,203	32.4%	2,207	208.4%	7,518	61.2%
5,100	6,494	78.5%	14,203	35.9%	2,207	231.1%	7,518	67.8%
5,800	6,494	89.3%	14,203	40.8%	2,207	262.8%	7,518	77.1%

Source: CRS calculation based on data from the U.S. Department of Education, National Center for Education Statistics (NCES), *Digest of Education Statistics*, 2005, Table 312.

[26] This analysis holds tuition and fees and TFRB at a constant, only adjusting for the average inflation in each amount. The estimated amount of coverage presented would be lower if IHEs raised their tuition and fees (or TFRB) to capture increases in grant aid, see earlier section titled "Data and Methodology," for more information.

Increasing the Minimum Pell Grant Award

As mentioned previously, current statute specifies that the minimum Pell Grant award a person can receive is $400, even if the individual qualifies for an award between $200 and $399; also known as "the bump." Currently, the bump enables individuals who have EFCs between $3,911 and $4,110 to receive the same award as a recipient with an EFC of $3,910, which increases the number of award recipients and adds to the program costs. If the $400 minimum Pell Grant award were set as a "true" minimum award, meaning a recipient had to qualify for a $400 Pell Grant award to receive this amount, the number of recipients would be reduced, which in turn would reduce program costs. Furthermore, if the amount of the minimum award were increased to a higher amount, and the bump were eliminated, this would also serve to further reduce program costs and the number of Pell Grant recipients because those recipients whose current Pell Grant award falls below the new minimum would lose eligibility. This section of the report analyzes the impact of eliminating the bump and increasing the minimum award to $500, $750, and $1,850.[27]

Recipients. **Table 4** illustrates that a change in the minimum Pell Grant award would likely alter the distribution of recipients by family income. Unlike the outcome when the maximum award is increased, individuals in the lowest income groups would comprise a greater share, rather than a smaller share of all recipients when the amount of the minimum award is increased. For example, as demonstrated in **Table 4**, recipients in the lowest income group ($10,000 or less) represent just over 28% of all recipients under current law, but they would comprise approximately 30% if the minimum award were increased to $750, and exactly 1/3rd of all recipients if the minimum were increased to $1,850. However, a reverse pattern would result for recipients with higher family incomes. Recipients in the highest-income group (over $70,000) would decrease from approximately 0.3% of all recipients under current law to 0.1% if the minimum award were increased to $1,850.

It should be noted that in addition to changing the distribution of Pell Grant recipients by family income, the overall number of recipients would be reduced as well. For example, if the $400 minimum Pell Grant award were set as a "true" minimum award, approximately 76,000 students would lose eligibility for a Pell Grant award. If the amount of the minimum grant award were increased to $500, approximately 2%, or 122,500 of those recipients who are eligible under current law would lose eligibility. Furthermore, if the minimum award were increased to $1,850, the amount of the average in-state tuition and fees at a two-year, public IHE, the

---

[27] Both $750 and $1,850 were selected for this analysis because these amounts are closest to the lowest in-state tuition and fees and the average in-state tuition and fees for two-year, public IHEs reported in the *Digest of Education Statistics, 2005* (Table 313) (most recent data available). Specifically, $750 represents the amount closest to the lowest in-state tuition and fee amount reported ($721; California), and $1,850 is closest to the amount of the average tuition and fees ($1,847) at all two-year public IHEs for the 2004-2005 academic year, reported in the *Digest*. The amount of $500 was chosen because it is a $100 increase over the current minimum. It should be noted that the in-state tuition and fee data are for 2004-2005. Unlike the other tuition and fee data used in this report, these data were not inflated to provide a projected estimate for 2008-2009.

number of recipients would be reduced by nearly 17%, for an estimated total loss of 895,000 recipients.

Generally, any increase in the minimum Pell Grant award will reduce the number of recipients. However, as mentioned, an increase in the minimum award would only affect those current recipients with the smallest grants — those recipients whose current Pell Grant award falls below the new minimum lose eligibility, while those with larger grants are unaffected. Further, as shown in **Table 4**, raising the minimum grant by more substantial amounts would lead to greater reductions in the number of recipients. Again, it should be noted that the loss of eligibility would disproportionately affect higher-income recipients rather than recipients in the lowest income group.

Finally, it is important to note that the number of recipients in the lower income groups would also not increase, but they would comprise a larger share of all recipients as a result of the attrition of recipients in higher income groups. This approach, combined with an increase in the maximum award, enables more Pell Grant aid to be targeted to low-income recipients without significantly increasing the program costs.

Table 4. Percentage Distribution of Pell Grant Recipients by Family Income, Under Selected Increases in the Minimum Grant Award: Award Year 2008-2009

(numbers in thousands)

	Increased Minimum Award									
	$400 Minimum, with Bump		$400 and No Bump		$500 and No Bump		$750 and No Bump		$1,850 and No Bump	
Family Income	# of Recip-ients	% of All Recipients	# of Recip-ients	% of All Recipients	# of Recip-ients	% of All Recipients	# of Recip-ients	% of All Recipients	# of Recip-ients	% of All Recipients
10,000 or less	1,520	28.2%	1,520	28.6%	1,520	28.8%	1,520	29.5%	1,496	33.3%
10,001 to 20,000	1,255	23.3%	1,238	23.3%	1,228	23.3%	1,203	23.3%	1,073	23.8%
20,001 to 30,000	1,046	19.4%	1,040	19.6%	1,037	19.7%	1,028	19.9%	961	21.4%
30,001 to 40,000	850	15.8%	842	15.8%	837	15.9%	819	15.9%	674	15.0%
40,001 to 50,000	465	8.6%	444	8.3%	430	8.2%	396	7.7%	222	4.9%
50,001 to 60,000	183	3.4%	168	3.2%	159	3.0%	138	2.7%	59	1.3%
60,001 to 70,000	59	1.1%	52	1.0%	48	0.9%	39	0.8%	11	0.2%
over 70,000	16	0.3%	13	0.2%	12	0.2%	9	0.2%	3	0.1%
Total	5,394	100.0%	5,317	100.0%	5,271	100.0%	5,152	100.0%	4,499	100.0%

Source: CRS estimates using the Pell Grant estimation model from the U.S. Department of Education's Budget Service.

Program Costs. In addition to reducing the number of recipients, increasing the minimum award amount and eliminating the bump would also reduce program costs. Specifically, as shown in **Table 5**, simply setting $400 as the minimum grant amount would reduce program costs by approximately $25.2 million annually, to $14.0 billion. However, as also illustrated by **Table 5**, the minimum award would need to be increased to either $750 or $1,850 to produce a substantial reduction in program costs. Increasing the minimum award to $750 or $1,850 would decrease program costs by approximately $104 million and $797 million, respectively.

As demonstrated, selected increases in the minimum Pell Grant award have a greater impact in percentage terms on the number of recipients than on the total costs of the program. This general pattern is not surprising, because increasing the minimum award eliminates all of the students who currently receive the minimum award. For example, establishing a true $400 minimum (no bump) decreases program costs by at most $400 per recipient losing eligibility. However, raising the minimum grant by more substantial amounts would lead to proportionately greater reductions in program costs because more recipients' whose awards fall below the raised minimum would lose eligibility, although more recipients would be affected and would lose larger grants.

Table 5. Estimated Change in Pell Grant Program Costs Under Selected Changes in the Minimum Grant Award: Award Year 2008-2009

(dollars in thousands)

Minimum Pell Grant Award									
Current Law		$400		$500		$750		$1,850	
Family Income	Program Costs	Program Costs	% Change Between Current Law	Program Costs	% Change Between Current Law	Program Costs	% Change Between Current Law	Program Costs	% Change Between Current Law
10,000 or less	4,676,000	4,676,000	0.0%	4,676,000	0.0%	4,676,000	0.0%	4,652,000	-0.5%
10,001 to 20,000	3,406,000	3,401,000	-0.1%	3,397,000	-0.3%	3,385,000	-0.6%	3,258,000	-4.4%
20,001 to 30,000	2,994,000	2,992,000	-0.1%	2,991,000	-0.1%	2,986,000	-0.3%	2,916,000	-2.6%
30,001 to 40,000	1,901,000	1,898,000	-0.2%	1,896,000	-0.2%	1,887,000	-0.7%	1,722,000	-9.4%
40,001 to 50,000	727,000	720,000	-1.0%	715,000	-1.7%	697,000	-4.2%	512,000	-29.6%
50,001 to 60,000	234,000	229,000	-2.1%	225,000	-3.7%	214,000	-8.3%	129,000	-44.6%
60,001 to 70,000	63,000	61,000	-3.2%	59,000	-6.3%	55,000	-13.5%	25,000	-59.6%
over 70,000	18,000	17,000	-5.6%	16,000	-8.5%	15,000	-16.3%	8,000	-54.1%
Total	14,019,000	13,994,000	-0.2%	13,975,000	-0.3%	13,915,000	-0.7%	13,222,000	-5.7%

Source: CRS estimates using the Pell Grant estimation model from the U.S. Department of Education's Budget Service.

Tuition Sensitivity

This section analyzes the estimated impact of eliminating the tuition sensitivity provision from the program award rules and increasing the maximum award to $4,600, $5,100 and $5,800. Tuition sensitivity reduces the amount of the Pell Grant award for low-income students who also attend low-cost IHEs. The tuition sensitivity rule was intended to protect a base amount of the Pell Grant maximum award and make a portion of increases above that base ($2,700) sensitive to tuition. As implemented by ED, tuition sensitivity reduces the Pell Grant award received by a small number of low-income students attending institutions with very low tuition and fee charges.

Recipients. If the tuition sensitivity provision were eliminated there would be no change in the number of recipients over the estimated number of recipients eligible for the current appropriated maximum award. Eliminating this provision simply removes one of the ways awards are calculated; it would not affect a recipient's eligibility for a Pell Grant award. That is, the number of recipients would not be affected by the elimination of the tuition sensitivity provision, even if the amount of the maximum appropriated grant award were increased.[28]

Program Costs. Eliminating the tuition sensitivity provision would slightly increase the program's costs because the students who attend low-cost IHEs would no longer have their award capped as a result of their expected family contribution (EFC) and the cost of attendance (COA) of the institution they attend. Removing the tuition sensitivity provision would enable these students to receive higher grant amounts that could be used for other qualified education expenses such as room and board or books and supplies. If the tuition sensitivity provision were eliminated and the maximum award were increased, program costs would increase by a small amount over the cost of increasing the maximum award alone, regardless of the amount of the maximum award. For example, under current law, if the provision were dropped, it would add an additional $10.3 million to the program costs, for a total program cost of $14.02 billion. Increasing the maximum grant award by $290, to $4,600, and dropping the tuition sensitivity provision would add an additional $1.19 billion to the current law estimates, for a total program costs of $15.2 billion. The estimated costs associated with eliminating the tuition sensitivity provision and increasing the maximum award to $5,100 are $17.2 million. If the maximum award were increased to $5,800 and the tuition sensitivity provision were eliminated, program costs would be approximately $20.1 billion, approximately $94 million more than solely increasing the maximum award to $5,800. It is important to note that in each of these scenarios the increase in program costs are primarily attributable to also increasing the maximum Pell Grant award.

The impact of the tuition sensitivity rule in FY2007 may be felt by an estimated 96,000 students, whose Pell Grant awards are estimated to be reduced by an

---

[28] See **Table 1** for the estimated number of grant recipients at each maximum grant award level.

aggregate amount of slightly more than $10.4 million. The estimated average loss per student in Pell assistance may be about $108.[29]

Increasing the Auto-Zero EFC Income Threshold

As previously mentioned, the automatic-zero expected family contribution (auto-zero EFC) provision automatically sets a recipient's EFC to $0, which generally means that an individual would qualify for the maximum Pell Grant award.[30] To qualify for auto-zero EFC, a recipient must have an adjusted gross income of $20,000 or less, and satisfy other conditions previously discussed. This section analyzes the estimated impact on the recipients and program costs if the income eligibility threshold for auto-zero EFC were increased to $25,000 and $30,000,[31], thereby allowing additional low-income recipients to possibly qualify for a larger Pell Grant award automatically.[32]

Recipients. The analysis suggests that if the auto-zero EFC income threshold were raised from $20,000 to $25,000, and the maximum appropriated Pell Grant award remained at $4,310, the overall number of recipients would increase slightly by approximately 3,400 recipients, for an estimated total of 5.4 million recipients. The analysis indicates that more than 60% (2,100 out of 3,400) of the overall recipient growth would occur for individuals with family incomes between $20,001 to $30,000. The results would be similar if the income threshold were increased to $30,000. However, the estimated number of recipients would increase by approximately 7,400 over the current law estimates. In addition, an estimated 3,200 of these recipients would have family incomes between $20,001 and $30,000 (43.2%).

Overall, increasing the income eligibility threshold for auto-zero EFC from $20,000 to either $25,000 or $30,000 would have a minimal effect on the estimated number of new Pell Grant recipients. However, it is important to note that in both cases, if the income threshold were increased to $25,000 or $30,000, all eligible

---

[29] For additional information about the tuition sensitivity provision see CRS Report RL31668, *Federal Pell Grant Program of the Higher Education Act: Background and Reauthorization*, by Charmaine Mercer.

[30] A student would also have to be enrolled full-time in an eligible program to receive the maximum Pell Grant award, otherwise, the amount of the award is reduced according to the recipient's attendance status (i.e., half-time, less than half-time, etc.).

[31] These amounts were selected because they represent, approximately, 125% and 150% of the Federal Poverty Guidelines for a family of four ($20,650) for 2007. For additional information about the Federal Poverty Guidelines, see [http://aspe.hhs.gov/poverty/07poverty.shtml].

[32] It should be noted that there are numerous changes that could be made to the need analysis formula, including increasing the income eligibility threshold for auto-zero EFC, that could alter a recipient's EFC, and possibly his/her Pell Grant award as well. This particular adjustment is examined because it is commonly proposed. For additional information about the other elements of the need analysis formula, see CRS Report RL33266, *Federal Student Aid Need Analysis System: Background, Description and Legislative Action*, by Charmaine Mercer.

recipients with an AGI at or below the specified auto-zero income threshold would receive the maximum appropriated Pell Grant award.[33]

Program Costs. If the income threshold for auto-zero EFC were increased, thereby allowing more students to receive the maximum appropriated award, it follows that the program costs would increase as well. Specifically, if the income threshold were changed to $25,000 and the maximum award remained at $4,310, it would add approximately $142 million to the program costs, for an estimated total program cost of $14.1 billion. If the income threshold were changed to $25,000 and the maximum award were increased to $4,600, the program costs would grow to an estimated $15.3 billion, a 9.4% increase over the current law estimates. Furthermore, if the income threshold were increased to $25,000 and the maximum award were increased to $5,100, program costs would increase by nearly 24%, to $17.3 billion.

Increasing the income eligibility threshold to $30,000 would further increase program costs. Specifically, if the income threshold were increased to $30,000 and the maximum award remained $4,310, program costs would increase by $349 million, for a total of $14.4 billion. If the maximum award were increased to $4,600 and the auto-zero income threshold were increased to $30,000, program costs would increase by nearly 11%, to an estimated $15.5 billion. Program costs would increase by an estimated $3.5 billion, or a 25% increase over the estimated current law program costs, if the auto-zero EFC income threshold were raised to $30,000 and the maximum award were increased to $5,100.

Thus, increasing the income threshold for auto-zero EFC to $25,000 or $30,000 would increase the amount of the Pell Grant award for a small group of lower income recipients and, the cost of changing the eligibility threshold would be relatively minimal as well. If Congress were to increase the maximum Pell Grant award simultaneously, a significant amount of the cost increase would be due to increasing the amount of the maximum Pell Grant award.

Estimated Impact of Selected Combined Changes

This section combines selected provisions from each of the previously discussed analyses to determine if it is possible to increase the Pell Grant's coverage of tuition and fees and TFRB; increase the minimum award amount and eliminate the bump; remove the tuition sensitivity provision, which disparately affects low-income students; and increase the auto-zero EFC income threshold to extend the maximum award to more low-income students, while also not significantly changing the recipient composition or program costs.[34] Two packages have been constructed to

---

[33] As previously discussed, the results are presented by family income, not *AGI*, — which is usually less than or equal to family income. Thus, it is possible for recipients with higher family incomes to also have an AGI of $25,000 or less, and as a result, benefit from auto-zero EFC.

[34] The analysis does not include the estimated effects of a $5,800 maximum Pell Grant award because the estimated program costs for solely increasing the maximum award

(continued...)

produce different estimates for recipients and costs based on changes to selected provisions, and increases in the maximum award.

The packages are provided to illustrate the estimated effects of combining selected provisions and in light of recent legislative proposals such as H.R. 2669, the College Cost Reduction Act of 2007, and S. 1642, Higher Education Amendments of 2007, both of which combine several award rule and need analysis changes. It is important to note that the estimated recipient and program cost increases for each option presented are largely driven by the increase in the maximum appropriated Pell Grant award. As demonstrated in the analysis shown earlier, increasing the maximum award significantly increases program costs and slightly alters the recipient composition, depending on the amount of the increase. The other changes (eliminating the tuition sensitivity provision and increasing income eligibility for auto-zero EFC) are a lot more limited in their scope, meaning they would affect relatively few recipients and, would not substantially increase the program costs. Increasing the minimum grant award and eliminating the bump would actually reduce the number of recipients and program costs. The elements of each of the two packages are described in the following sections.

Package One. Package One maintains the current appropriated maximum of $4,310, and changes other less costly provisions. Specifically, Package One presents two options; Option A, which is most similar to current law, increases the income eligibility threshold for auto-zero EFC from $20,000 to $30,000 and eliminates the tuition sensitivity provision; Option B includes these two changes as well but, also increases the minimum award amount from $400 to $500 and removes the bump. As demonstrated earlier, implementing these changes would have a minimal impact upon program costs and the recipient composition. More specifically, increasing the income eligibility for auto-zero EFC and removing the tuition sensitivity provision would add fewer than 10,000 new recipients and increase program cost by approximately $360 million, less than the amount to increase the maximum award by $100 (approximately $400 million for award year 2008-2009). Furthermore, increasing the minimum award to $500 and eliminating the bump would reduce the number of recipients by approximately 122,000 recipients and, reduce program costs by $42 million, thereby offsetting some of the cost associated with the other two provisions.

As illustrated in **Table 6**, the changes included in Option A and Option B would have a minimal impact upon the recipient composition or program costs. Specifically, Option A would add an estimated 7,000 new recipients to the program and increase program costs by slightly less than $350 million over the current law estimates. Further, Option B would reduce the number of recipients by approximately 110,000, and increase program costs by about $309 million over current law estimates. The results shown in **Table 6** also illustrate that under both scenarios, the distribution of recipients by family income would not substantially change from current law. In fact, recipients in the lowest family income groups (less

---

[34] (...continued)
(approximately $6.1 billion) do not permit the other provisions to be changed, while also not significantly increasing the number of recipients or the program costs.

than $50,000) would either retain the same percentage share as they do under current law or, experience a slight increase. The changes in the percentage of aid available under both Option A and B, would slightly differ from current law, although the amount of aid available for each income group would remain about the same. As previously mentioned, these results are largely attributable to the fact that the selected changes — increasing income eligibility for auto-zero EFC, eliminating tuition sensitivity, and increasing the minimum grant award and eliminating the bump — are relatively inexpensive to implement and are primarily targeted to individuals with the greatest need.

Table 6. Estimated Impact of Program and Award Rule Changes in Package One on Pell Grant Recipients and the Amount of Aid Available: Award Year 2008-2009

(numbers and dollars in thousands)

Family Income	Current Law		Option A		Option B	
	$4,310 Max., $400 Min., with Bump	% of All Recipients	$4,310 Max., No Tuition Sensitivity, $30,000 Auto-Zero, and $400 Min. With Bump	% of All Recipients	$4,310 Max., No Tuition Sensitivity, $30,000 Auto-Zero, and $500 Min. with No Bump	% of All Recipients
Recipients						
10,000 or less	1,520	28.2%	1,520	28.1%	1,520	28.8%
10,001 to 20,000	1,255	23.3%	1,255	23.2%	1,228	23.2%
20,001 to 30,000	1,046	19.4%	1,049	19.4%	1,043	19.7%
30,001 to 40,000	850	15.8%	851	15.8%	840	15.9%
40,001 to 50,000	465	8.6%	467	8.6%	434	8.2%
50,001 to 60,000	183	3.4%	183	3.4%	159	3.0%
60,001 to 70,000	59	1.1%	59	1.1%	48	0.9%
over 70,000	16	0.3%	16	0.3%	12	0.2%
Total	5,394	100.0%	5,401	100.0%	5,284	100.0%
Program Costs						
10,000 or less	4,676,000	33.4%	4,675,000	32.5%	4,676,000	32.6%
10,001 to 20,000	3,406,000	24.3%	3,406,000	23.7%	3,397,000	23.7%
20,001 to 30,000	2,994,000	21.4%	3,169,000	22.1%	3,167,000	22.1%
30,001 to 40,000	1,901,000	13.6%	2,043,000	14.2%	2,039,000	14.2%
40,001 to 50,000	727,000	5.2%	755,200	5.3%	743,000	5.2%
50,001 to 60,000	233,000	1.7%	237,000	1.6%	229,000	1.6%
60,001 to 70,000	63,000	0.4%	63,000	0.4%	60,000	0.4%
over 70,000	18,000	0.1%	18,000	0.1%	16,000	0.1%
Total	14,019,000	100.0%	14,368,000	100.0%	14,328,000	100.0%

Source: CRS estimates using the Pell Grant estimation model from the U.S. Department of Education's Budget Service.

Package Two. Package Two includes four options, Options A, B, C, and D. Options A and B of Package 2 are identical to Option A of Package 1 except that the maximum award amounts are $4,600 and $5,100 respectively. Similarly, Options C and D are the same as Option B of Package 1, except that the maximum award amounts are $4,600 and $5,100 respectively. As previously mentioned, increasing the amount of the maximum award significantly increases program cost, thus the changes presented in Package 2 will be largely driven by the change in the maximum award.

As illustrated in **Table 7**, the selected provisions of Options A, B, and D would each add new recipients to the estimated number of recipients under current law. Options B and D would both increase the number of Pell Grant recipients to approximately 5.5 million recipients. Conversely, Option C would slightly reduce the number of Pell Grant recipients from the estimated number under current law. Overall, under each of the options, the distribution of recipients by family income would not substantially change from current law. Recipients with higher family incomes would experience a small percentage increase under most of the options. Program costs would increase over current law estimates under each option as well. Options B and D are the most expensive of all of the options, both would cost an estimated $17.6 billion, which is primarily due to the large increase in the maximum Pell Grant award, which also increases the number of new recipients. Option C is the least expensive of the four options, with a price tag of $15.5 billion, it would increase program costs by nearly $1.5 billion over current law, however, because of the increased minimum award and elimination of the bump, it would also eliminate an estimated 6,000 recipients from the program. Similarly, Option A would also increase program costs by approximately $1.5 billion, but it would add 84,000 new recipients to the program.

Table 7. Estimated Impact of Program and Award Rule Changes in Package Two on Pell Grant Recipients and the Amount of Aid Available: Award Year 2008-2009

(numbers and dollars in thousands)

Family Income	Current Law		Option A		Option B		Option C		Option D	
	$4,310 Max., $400 Min., With Bump	% of All Recipients	$4,600 Max., No Tuition Sensitivity, $30,000 Auto-Zero, and $400 Min. With Bump	% of All Recipients	$5,100 Max., No Tuition Sensitivity, $30,000 Auto-Zero, and $400 Min. With Bump	% of All Recipients	$4,600 Max., No Tuition Sensitivity, $30,000 Auto-Zero, and $500 Min. And No Bump	% of All Recipients	$5,100 Max., No Tuition Sensitivity, $30,000 Auto-Zero, and $500 Min. And No Bump	% of All Recipients
Recipients										
10,000 or less	1,520	28.2%	1,521	27.8%	1,520	27.5%	1,521	28.2%	1,520	27.6%
10,001 to 20,000	1,255	23.3%	1,272	23.2%	1,279	23.1%	1,252	23.2%	1,275	23.2%
20,001 to 30,000	1,046	19.4%	1,054	19.2%	1,056	19.1%	1,049	19.5%	1,055	19.2%
30,001 to 40,000	850	15.8%	859	15.7%	864	15.6%	850	15.8%	862	15.7%
40,001 to 50,000	465	8.6%	485	8.9%	496	9.0%	462	8.6%	490	8.9%
50,001 to 60,000	183	3.4%	199	3.6%	214	3.9%	180	3.3%	206	3.7%
60,001 to 70,000	59	1.1%	68	1.2%	75	1.4%	58	1.1%	71	1.3%
over 70,000	16	0.3%	19	0.3%	23	0.4%	16	0.3%	21	0.4%
Total	5,394	100.0%	5,478	100.0%	5,526	100.0%	5,388	100.0%	5,499	100.0%
Program Costs										
10,000 or less	4,676,000	33.4%	4,999,000	32.1%	5,543,000	31.5%	4,999,000	32.2%	5,543,000	31.5%
10,001 to 20,000	3,406,000	24.3%	3,680,000	23.6%	4,144,000	23.5%	3,674,000	23.6%	4,142,000	23.5%
20,001 to 30,000	2,994,000	21.4%	3,400,000	21.8%	3,791,000	21.5%	3,399,000	21.9%	3,790,000	21.5%
30,001 to 40,000	1,901,000	13.6%	2,236,000	14.4%	2,563,000	14.6%	2,232,000	14.4%	2,562,000	14.6%
40,001 to 50,000	727,000	5.2%	866,000	5.6%	1,059,000	6.0%	858,000	5.5%	1,056,000	6.0%
50,001 to 60,000	233,000	1.7%	284,000	1.8%	370,000	2.1%	278,000	1.8%	367,000	2.1%
60,001 to 70,000	63,000	0.4%	80,000	0.5%	111,000	0.6%	77,000	0.5%	110,000	0.6%
over 70,000	18,000	0.1%	23,000	0.1%	32,000	0.2%	21,000	0.1%	32,000	0.2%
Total	14,019,000	100.0%	15,570,000	100.0%	17,613,000	100.0%	15,539,000	100.0%	17,603,000	100.0%

Source: CRS estimates using the Pell Grant estimation model from the U.S. Department of Education's Budget Service.

Conclusion

There are several basic tenets that are relevant to consideration of changes to the Pell Grant program's award rules and/or the need analysis formula.

Maximum Grant Award. Increasing the maximum Pell Grant award is the primary way to increase the amount of aid received by all recipients. Increases in the maximum award provide additional aid for existing recipients and, brings in newly eligible recipients with higher family incomes; thus providing increased aid amounts for everyone. However, increases in the maximum award are also generally very costly. Every $100 increase in the maximum grant award would increase the program costs by approximately $400 million.

Minimum Grant Award. Increasing the minimum award (and eliminating the bump) allows for greater targeting of Pell Grants to lower income recipients. As mentioned, raising the minimum grant amount and eliminating the bump, generally reduces the number of recipients who have less need (more available income and assets). An increase of the minimum award can also serve to reduce program costs, or if combined with an increase in the maximum award it can help offset the costs associated with the increase in the maximum. However, the minimum award would need to be increased to at least $750, and eliminate the bump, to realize a substantive savings.

Tuition Sensitivity. Eliminating the tuition sensitivity provision is a very inexpensive provision to implement and would affect a small number of very low-income recipients. As mentioned, less than 100,000 recipients would be affected by the removal of this provision, and they would have their awards increased by approximately $100.

Auto-Zero EFC. Increasing the income eligibility threshold for auto-zero EFC to either $25,000 or $30,000 would only affect a small group of low-income recipients. As the analyses demonstrated, increasing the income threshold to $25,000 would add 3,400 new recipients and increasing it to $30,000 would add approximately 7,400 new recipients. More importantly, increasing the income threshold would enable these recipients to receive the maximum Pell Grant award of $4,310, depending upon their enrollment status.

In addition to these basic tenets, the findings presented in this report suggest it is possible to increase the Pell Grant's coverage to at least 70% of the average tuition and fees at a four-year, public institution of higher education; eliminate the tuition sensitivity provision; and extend the maximum Pell Grant award to additional low-income students by increasing the auto-zero income threshold, while also not significantly shifting the recipient composition or increasing program costs. However, as demonstrated, to achieve these outcomes, some changes would need to be made to the program award rules and/or the need analysis formula. Under some scenarios, current recipients could lose eligibility, while in others, new recipients would be ushered into the program, and in all cases, program costs would increase. As the Congress prepares to reauthorize the Higher Education Act, including the Pell

Grant program, it is likely that questions pertaining to the possible trade-offs that accompany selected changes will be discussed. Among some of the trade-offs:

- To what extent should federal grant aid be primarily, if not exclusively, provided to help make college affordable for low-income students?
- Should the Pell Grant award, both the maximum and the minimum awards, be of a sufficient size to cover the average tuition and fee amount at a two-year or four-year public IHE? What about private IHEs?
- Should the grant award be expected to cover tuition, fees, room and board or even the cost of attendance?
- Would it be better to provide smaller grants to a greater number of students, or provide fewer students with larger awards?

Appendix: Pell Grant Estimation Model

This analysis uses estimates derived by CRS from the Pell Grant estimation model, which was developed and maintained by the U.S. Department of Education's Budget Service. The Department of Education's annual budget requests for Pell Grant appropriations are based on the results from the Pell estimation model. The model's latest version (U2008, December 2006) was utilized for this analysis. All estimates presented in this report are for the 2008-2009 Pell award year.

The Pell model is a SAS-based model that is capable of simulating changes in the Pell Grant program's rules and producing estimated changes in recipients, program costs, and average awards among other things. In addition, the model provides the distribution of student awards by income level and dependency status. The model produces simulated Pell Grant awards based on enacted or proposed policies. To produce these estimates, a sample of applicants and recipients from a recent award year are used; sample data for award year 2005-2006 were used for the U2008 version of the model. Economic variables, such as personal income levels and CPI-U inflators, which are provided by the Office of Management and Budget, are used to specify simulated changes to students' financial situations and other facets of the need analysis formula. Further, the sample is "aged" to project future behavior and current FAFSA applicant and Pell Grant recipient data are used to calibrate the model. The model is generally updated twice per year (December and June).

The model contains sample data for approximately 500,000 applicants. These data are representative of the overall Pell Grant population and are weighted by income and dependency status.