

Pell Grants: Where Does All the Money Go?

Jenna Ashley Robinson
and Duke Cheston



About the Authors

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Pell Grants:

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To the Reader

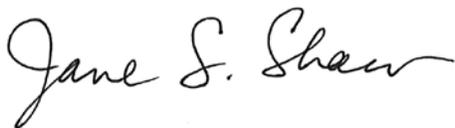
The federal Pell Grant Program provides grants to millions of college students. It is the federal government's largest education expenditure and costs taxpayers over \$35 billion per year.

Although the program started out as a way to provide college access to low-income students, it has grown so vast in recent years that nearly 60 percent of all undergraduates received a Pell grant for the academic year 2009-10. Out of the 16.4 million undergraduate students enrolled in the United States, 9.6 million students received Pell grants.

In spite of the high cost, few people have scrutinized the effectiveness of Pell grants. This report, "Pell Grants: Where Does All the Money Go?" by Jenna Ashley Robinson and Duke Cheston, brings together what is known about Pell grants to determine how well the program serves the students who receive them and the taxpayers who fund them.

I urge you to review these surprising findings and consider whether the program should be modified. Unlike today's program, it could be directed only to low-income students, and it could be reserved for those who have shown a degree of commitment to academic work.

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Jane S. Shaw
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Pell Grants: Where Does All the Money Go?

Jenna Ashley Robinson and Duke Cheston

Pell grants are need-based grants given to millions of undergraduate students every year, in amounts ranging from \$555 to \$5,550 per student.¹

The Pell Grant Program is the federal government's largest education expenditure. In the 2010-2011 academic year, Pell grants cost taxpayers \$35.6 billion.²

Although the program began as a way to provide college access to low-income students, it has grown so vast in recent years that *nearly 60 percent of all undergraduates received a Pell grant in the 2009–2010 academic year.* Of the 16.4 million undergraduate students enrolled in college in the United States in 2010,³ 9.6 million received Pell grants.⁴

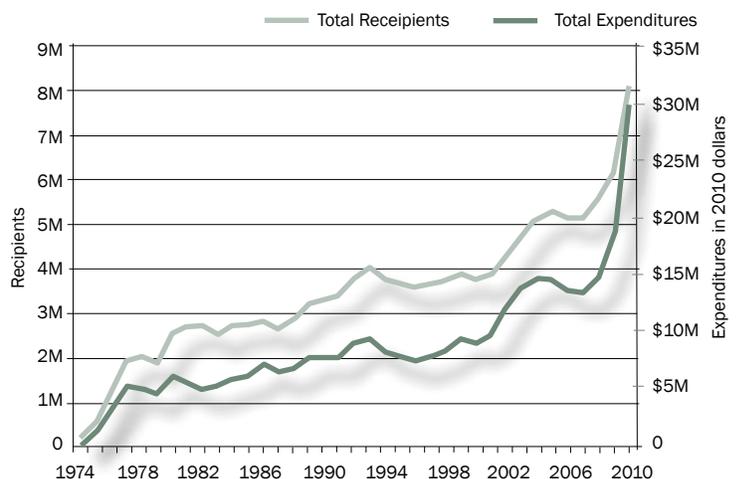
The program's cost roughly doubled between 2008 and 2010, in part because the president and Congress increased its funding and shielded it from budget cuts. The number of grant recipients increased by more than 50 percent over the same period.⁵

Despite its large numbers and high cost, few people question the effectiveness of Pell grants. This report brings together what is known about Pell grants to determine whether the program effectively serves the students who receive them and whether taxpayers are

getting an acceptable return on their investment of billions of dollars per year.

In our view, funding should be evaluated in terms of whether students who receive Pell grants complete college, yet information about graduation is not collected or reported by the DOE. The program's stated goals focus on getting students into but not on getting them through college or, indeed, accomplishing any measurable goal beyond enrollment. The DOE states that the program "helps ensure access to postsecondary education for low- and middle-income undergraduate students."⁶

Total Pell Grant Recipients and Expenditures, 1974-2010



Source: 2009-2010 Federal Pell Grant Program End-of-Year Report, U.S. Department of Education, Office of Postsecondary Education

BACKGROUND

Pell began as a 1972 amendment to the Higher Education Act of 1965. Originally called the Basic Educational Opportunity Grant, it was renamed in 1980 after Senator Claiborne Pell, who initiated the amendment.

Profile of a Pell Recipient

The public perception of Pell grant recipients as eighteen- to twenty-two-year-olds living with low-income parents is erroneous on several counts. For one thing, as the figures above indicate, more than half of all students enrolled in college receive Pell grants, so many recipients are middle-income, not low-income. Typical Pell grantees are also older than the typical college student and are financially independent. They may have families of their own.

The average Pell grant recipient differs from the typical undergraduate in a number of ways, as a 2009 study by Christina Chang Wei and Laura Horn indicates.⁷ These researchers used the latest National Center for Education Statistics (NCES) figures for Pell and non-Pell students

who earned bachelor's degrees. Thus, they included only academically successful students and did not include students who pursued two-year degrees (even though such individuals do receive Pell grants). Wei and Horn included all bachelor's degree recipients, not just lower-income students who earned bachelor's degrees.

Sixty percent of Pell recipients in the NCES data were women, compared with only 56 percent of all undergraduates. Pell students were 63 percent white, 13 percent Hispanic, 12 percent black, and 7 percent Asian. Non-Pell students were 80 percent white, 6 percent Hispanic, 6 percent black, and 5 percent Asian.

Grantees also had a number of risk factors that made them more likely to drop out before obtaining a degree. For instance, many Pell recipients had delayed enrolling in college. This is reflected in the data, which show that 45.7 percent were twenty-five or older when they graduated, compared to only 27.4 percent of non-recipients. Another NCES study conducted by Alexandria Walton Radford et al., reports that Pell grant recipients also have lower SAT scores than non-recipients: 914 as compared to 1010.⁸

The Wei and Horn 2009 study also indicates that Pell grant recipients who earned bachelor's degrees are more likely than non-recipients to be financially independent (60 percent versus 34 percent), to have dependents (24 percent versus 13 percent), and to be a single parent (11 percent versus 4 percent). In addition, nearly twice as many Pell recipients (proportionally) had parents with only a high school diploma or less (41 percent versus 21 percent), and nearly twice as many came from non-English-speaking homes (16 percent versus 8 percent). All of these circumstances are considered risk factors for dropping out.

A typical Pell recipient:

- Female
 - 25 years old
 - White
 - Financially independent
 - Works part-time
 - Enrolled full-time
 - 914 SAT score (out of 1600)
-

Maximum Awards (FY 2011-2012)

Full-time	\$5,500
3/4 time	\$4,163
Half-time	\$2,775
1/4 time	\$1,338
Minimum	\$555

Source: Office of Federal Student Aid. 2010-2011 Federal Student Aid Handbook. <http://ifap.ed.gov/ifap/byAwardYear.jsp?type=fsahandbook&awardyear=2010-2011>

Who Gets Pell Grants?

Pell grant eligibility is based on several, primarily financial, criteria and on whether a student is enrolled in college full-time or part-time.

Eligibility and awards are based on the Expected Family Contribution (EFC), a figure that is the measure of a family's financial strength, including income and assets as well as family size and other characteristics. Low-income students often have an EFC of zero, which guarantees Pell eligibility. (For details on calculating the amount, see the Appendix.)

Even if a family has a middle-class income, it can sometimes qualify for a Pell grant. One reason is that multiple students in the family will be enrolled in college; another is that the Cost of Attendance (COA) of the

school the student wishes to attend may be high. Including a COA to calculate the grant means that some students may qualify for Pell grants if they attend an expensive school, but not if they select one that is more affordable. (See the Appendix for details.)

Most Pell grant recipients come from families making \$20,000 per year or less: the figure was 58.9 percent in 2009–2010.⁹ This is a large number, and the family income is low. However, the image may be misleading. As stated above, the majority of Pell grant recipients, regardless of income, are independent. That is, they no longer live with, or depend upon, their parents. As the 2009-2010 end-of-year report from the NCES indicates, in that year, only 39 percent of all recipients were dependents. The recipients who were not dependents fell into two groups—20 percent of all recipients had no dependents other than a spouse and 39 percent had dependents other than a spouse.¹⁰

Many students do not come from families living in poverty. As the NCES review shows, in 2009–2010, roughly 6 percent of Pell grant recipients had a family income of more than \$50,000.¹¹ (The median household income of the United States was \$49,445 in 2007.)¹² Almost 20 percent of students who receive Pell grants come from families in the top three income quartiles (i.e., earning more than \$36,080 in 2009–2010).¹³ And nearly a quarter of Pell grant students report family income of more than 133 percent of the federal

In 2009–2010, 20.1 percent of Pell recipients whose families made more than \$60,000 attended institutions at which total costs were \$30,000 per year or more instead of choosing a less expensive school.

poverty level (that is, income above \$30,000), a cutoff commonly used for qualification for other federal programs such as Medicaid.¹⁴

Many students from this category choose to attend private schools or expensive public schools. In 2009–2010, 20.1 percent of Pell recipients whose families made more than \$60,000 attended institutions at which total costs were \$30,000 per year or more (like Wake Forest University) instead of choosing a less expensive school (like UNC-Chapel Hill). By comparison, only 13 percent of students whose families made between \$15,001 and \$20,000 attended such institutions.¹⁵

ACADEMIC QUALIFICATIONS

Academic requirements to receive a Pell grant are fairly minimal. To be eligible, a student must have earned a high school diploma or GED (a diploma considered equivalent to a high school degree), or passed a federally approved Ability to Benefit test (however, after July 1, 2012, this test will be eliminated as an option.)¹⁶ In order to keep receiving the grant, a student must make “satisfactory academic progress” toward a college degree, a standard defined by each institution. This standard generally includes maintaining a certain GPA and a certain level of attendance, and passing a certain percentage of courses.

There is no minimum SAT or ACT score; nor is there a high school GPA requirement.

Students receiving Pell grants are generally less academically prepared than other students, as Christina Chang Wei and Laura Horn indicate in a 2002 NCES report on Pell recipients.¹⁷ This study looked at those who received Pell grants, not just those who attained bachelor’s degrees, and found that grantees were twice as likely to score in the bottom quartile for SAT scores (25 percent as compared to 12 percent for non-

recipients). Only 21 percent of Pell recipients scored in the top quartile, compared to 34 percent of non-recipients. Wei and Horn also showed that Pell recipients were significantly less likely to have passed through a rigorous high school curriculum.

While there are highly prepared and poorly prepared students in both categories, the consistent theme of these figures is that Pell grant recipients are less academically prepared than other students to succeed in and graduate from college.

In Wei and Horn’s 2009 study, Pell grant recipients tended to have slightly lower GPAs among students who graduated with a bachelor’s degree (46.2 percent with GPAs over 3.5, as compared to 50.6 of non-recipients). Considering the low SAT scores of recipients, this is quite good, but we can reasonably speculate that GPAs for Pell grantees would be considerably lower if dropouts had been included in the study.

Choice of major among Pell recipients was generally in line with non-recipients, with a few exceptions. Recipients were more likely to major in education (11.4 percent compared to 7.4 percent) and less likely to major in business (16.8 percent compared to 23.5 percent).

PARTICIPATION, RETENTION, AND GRADUATION

To determine whether the goals of the Pell Grant Program are being achieved, we looked at several standard ways to measure academic success. Do Pell grants bring more students to college who otherwise would not attend—that is, do they increase participation (i.e., enrollment)? Do those recipients stay in college (that is, do Pell grants increase retention)? And finally, do grantees graduate in larger numbers than in the past?

Pell grants have been somewhat effective in getting low-income students into college, but not effective in helping them to graduate.

The DOE does not regularly track or publish graduation rates of Pell recipients. However, Pell recipients are included in the federal Beginning Postsecondary Students Longitudinal Study, which publishes graduation rates about once a decade. Together, these studies provide a fairly accurate picture of the academic achievement of Pell grant recipients.

In addition, there are reports on outcomes for low-income students, many of whom receive Pell grants. Researchers do not always agree on the definition of low-income. For the purposes of this report, we consider anyone with an income in the bottom quartile (less than \$36,080 per year in 2009) to be low-income.

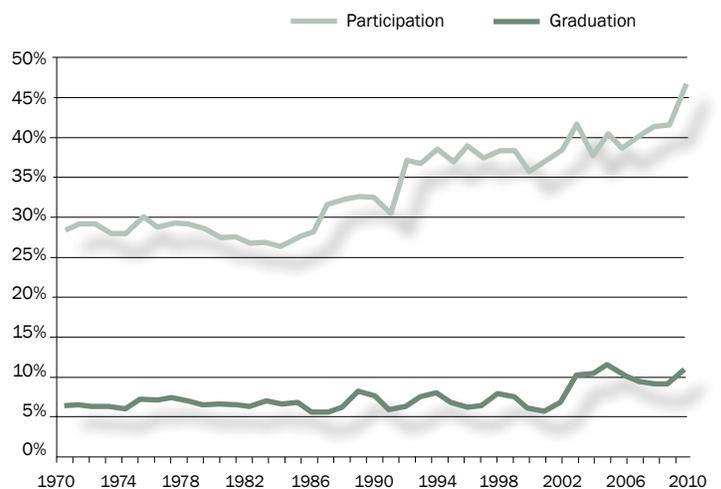
To begin, it appears that the Pell Grant Program has led more low-income high school graduates to enter college. In 1970, 45.8 percent of high school graduates in the bottom-income quartile enrolled in college. In 2009, that figure grew to 58.9 percent—a 28 percent increase in participation.¹⁸

Unfortunately, this large increase in college participation (and in Pell participation) has not led to a large increase in graduation among low-income students. *Postsecondary Education Opportunity*, a research newsletter dedicated to access to higher education, estimates that among high school students with family incomes in the bottom quartile who continue on to college, only 19.9 percent have completed bachelor's degrees by age twenty-four. That is a decline of 2 percent from 21.9 percent in 1970.¹⁹

So, Pell grants have been somewhat effective in getting low-income students into college, but not effective in helping them to graduate. As mentioned above, between 1970 and 2009, the percentage of low-income students who enrolled in college rose from 45.8 to 58.9. It is likely that Pell grants and other funds played a role in this increased participation. However, an increase in high school graduation rates among low-income students—from 61.6 percent in 1970 to 70.3 percent in 2009—was probably also a factor.

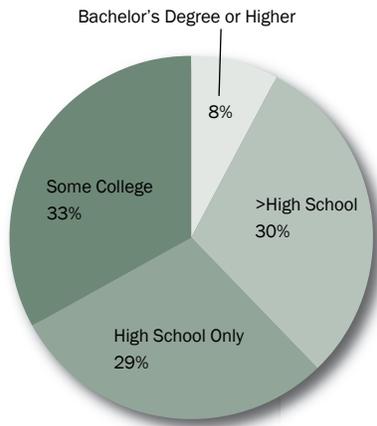
To determine whether Pell grants are a decisive factor in higher student participation and retention in college, we must look to evidence that is broader than studies of Pell grants per se.

Estimated College Participation and Baccalaureate Degree Attainment Rates of Low-Income Students



Source: Census Bureau and National Center for Education Statistics via Postsecondary Education Opportunity

Educational Attainment by Age 24 of Dependent Low-Income Students, 2009



Source: Census Bureau and National Center for Education Statistics via Postsecondary Education Opportunity

The National Bureau of Economic Research (NBER), a private research organization, recently reviewed and published a study on the available literature on financial aid. It concluded that lowering the annual price of higher education by \$1,000 (either through tuition reductions or non-repayable aid) leads to a 3 to 5 percentage point increase in postsecondary attendance.²⁰ In other words, the effect of \$100,000 spent on one hundred students would be that three to five students who would not have chosen to go to college would change their minds because of the availability of increased aid.

The effect of that \$1,000 per student is five times stronger on students whose families earn \$25,000 annually than on students whose families earn \$75,000. This suggests that when Pell grants are targeted toward very low-income students, they can be effective at increasing participation rates. However, Pell grants are no longer targeted toward the very poor.

As mentioned, while the DOE does not regularly release graduation rates for Pell grantees, it often releases retention rates. Various scholars have studied these rates, which reveal two trends: (1) Pell grants have done little to increase retention rates among most students, and (2) high school academic performance is more

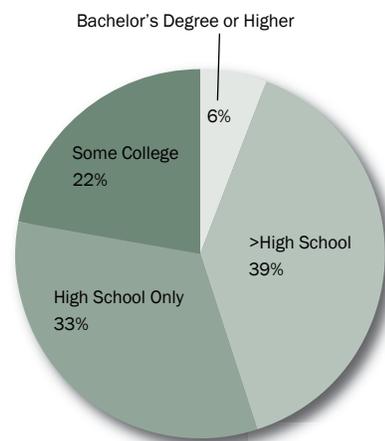
important than financial aid in determining education outcomes.

A 2011 study by the American Enterprise Institute reviewed the existing literature on retention rates in higher education. The author reported that the estimated effect of an additional \$1,000 in any kind of need-based aid (not limited to Pell grants) was a 2 to 4 percentage point increase in retention.²¹ This is approximately the same increase reported in the NBER study.

However, the initial positive effects of receiving a Pell grant do not last throughout a student's college career. A 1990 study published in *Research in Higher Education* revealed that grants and loans have differential results on student retention depending on which years the student is in college when he or she receives them. Grants become less important the longer a student stays in school; loans and money earned from work become more important.²²

According to this study, for example, for a first-year student deciding whether to continue attendance in college, a \$100 increase in grants increased the probability of attendance by .36 percentage points, and a \$100 increase in loans increased this probability

Educational Attainment by Age 24 of Dependent Low-Income Students, 1970



Source: Census Bureau and National Center for Education Statistics via Postsecondary Education Opportunity

by .20 percentage points. For a third-year student deciding whether to continue attendance, however, a \$100 increase in grants did not affect the probability of attendance, and a \$100 increase in loans increased this probability by .23 percentage points. In contrast, a \$100 increase in money earned from work increased the probability of college attendance for third-year students by .41 percentage points.

These findings may explain why graduation rates for Pell recipients remain low. While Pell has a small but significant influence on most students in their first few years of school, its apparent effects don't last until graduation.

Although few data have been released on Pell recipients' graduation rates, the NCES study conducted by Radford et al., does examine graduation rates.²³ The authors found that among all low- and middle-income students at four-year universities in 2003–2004, Pell grant recipients graduated at lower rates than non-recipients: 50.4 percent of recipients graduated, while 53.9 percent of non-recipients graduated.²⁴ While the reasons for this aren't entirely clear, perhaps paying for college out-of-pocket or through loans makes students more reluctant to “waste” their past spending and drop out—a concern that does not apply to those receiving “free” grant money. (This study reported on all students from families earning \$50,000 or less per year.)

Pell *did* raise graduation rates among one population: very low-income students. The graduation rate among very low-income students (AGI ≤ \$25,000) was 51 percent for Pell grants recipients and 44.1 percent for non-recipients.²⁵ Thus, it appears at first that the original intent of the program—to help more low-income students go to college—has, to a limited extent, been achieved.

However, even though Pell grants help low-income students go to college, the role of high school academic

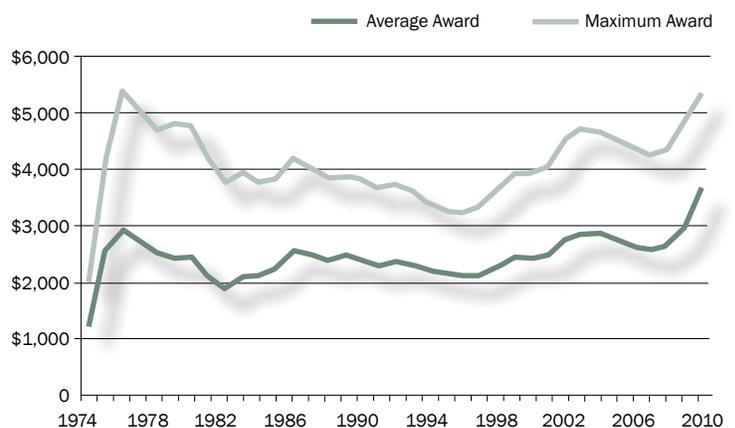
ability and performance dwarf all financial factors in predicting retention rates, according to the 2002 Wei and Horn study. The college retention rate of Pell recipients who took a rigorous curriculum in high school was 87 percent—compared to just 57.6 percent for grantees who took a basic curriculum or lower in high school.²⁶

Data from the study by Radford et al., strengthen those findings. Using 2009 NCES data, the authors found that Pell recipients with SAT scores between 400 and 840 graduated at a rate of 34.2 percent. Those with SAT scores between 1140 and 1600 graduated at a rate of 73.7 percent.²⁷ Grantees with high school GPAs of 3.5 or higher graduated at a rate of 72.7 percent. Those with a GPA of 2.0 to 2.4 graduated at a rate of 29.7 percent.²⁸

WHY SUCH GROWTH IN THE PELL PROGRAM?

Since its inception in 1973, the federal Pell Grant Program has grown significantly, measured in terms of participation and expenditures. In the first year of the program, 176,000 students received Pell grants. In 2010–2011, 9.6 million students received Pell grants—an astounding increase of nearly 4500 percent.²⁹ Out of the 16.4 million undergraduate students enrolled in

Pell Grant Award Amounts, 1974-2010, in 2010 Dollars



Source: 2009-2010 Federal Pell Grant Program End-of-Year Report, U.S. Department of Education, Office of Postsecondary Education

17 percent of Pell grant money contributes to colleges' bottom lines without making college more affordable for recipients, the students.

college in the United States in 2010–2011,³⁰ 58 percent received Pell grants.³¹

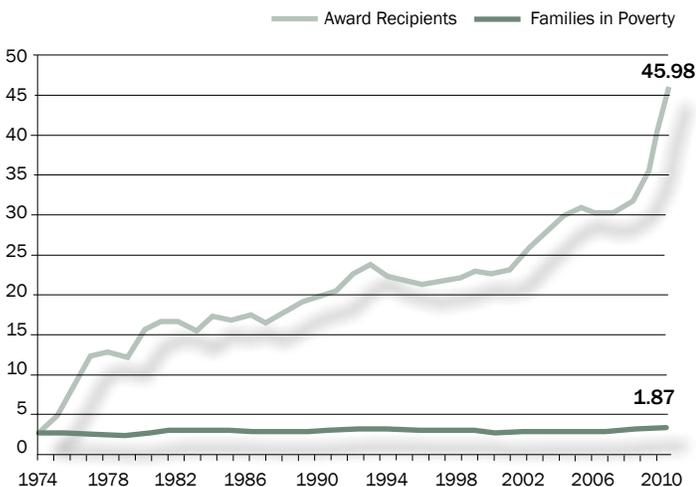
Thus, almost all the growth in Pell Grant Program expenditures can be traced to the skyrocketing number of participants. Award amounts have not been increasing; since 1973, the average and maximum award amounts for Pell recipients have remained relatively flat in real terms (see figure 5). During that same time period, tuition has increased at more than 6 percent per year, perhaps fueled in part by Pell grants.

Some of the early growth in Pell Grant Program participation can be attributed to changes in eligibility requirements. In 1973–1974 only full-time freshmen with demonstrated financial need were eligible to participate. In 1974–1975, the program grew to include full-time

sophomores. In 1975–1976, the rules were changed to include freshmen and sophomores regardless of enrollment status. And in 1976–1977, the program was opened to all undergraduate students with demonstrated financial need. But those early changes in eligibility contributed to just 17 percent of the growth in the program's expenditures. The rest of the growth in Pell grant expenditures occurred after 1977. Participation in the Pell program grew 400 percent even after modifications in eligibility had been instituted.

Another small proportion of the growth in Pell grants since 1974 can be attributed to growth in the percentage of Americans living in poverty. From 1974 to 2010, the number of families living in poverty nearly doubled.³² But that cannot explain the 4500 percent increase in the number of Pell recipients.

Growth in Pell Grant Recipients and Families in Poverty, Relative to 1973-74 Level



Source: Census Bureau, Current Population Survey, Annual Social and Economic Supplements and 2009-2010 Federal Pell Grant Program End-of-Year Report, U.S. Department of Education, Office of Postsecondary Education

The vast increase in the number of Pell grant recipients over nearly four decades appears to be the result of changing popular attitudes about high school graduation and college attendance. A larger portion of students graduate from high school, and high school graduates are now routinely expected to attend college. Pell grants have made it easier for them to enroll. With minimal requirements in terms of academic standards, and with requirements for financial eligibility having remained the same or even loosening, many more students have sought and obtained grants.

Since FY 1995–1996, the Pell Grant Program has been administered as a *de facto* entitlement: Congress approves full funding of the program without regard to budgetary constraints or number of applicants. All

students meeting certain criteria are guaranteed aid. But Congress has begun to address the problem of unchecked growth in Pell expenditures. In order to maintain the maximum Pell grant at its current level of \$5,550, Congress has somewhat narrowed eligibility. It changed the EFC formula (as explained in the Appendix) and ended the opportunity for low-income students to obtain two grants in a single year.

PELL GRANTS AND THE COST OF COLLEGE

In addition to being expensive and inefficient in its effort to target low-income students, the Pell Grant Program contributes at the margin to rising college costs—defeating, in part, its purpose. In 1987, then Secretary of Education William J. Bennett stated that in the long run federal financial aid programs lead to higher tuition. Colleges raise tuition in order to maximize how much money they can “capture” from federal aid to students.

Numerous researchers have tried to document the “Bennett hypothesis.” Although some have disagreed about the hypothesis, most studies show at least *some* effect of aid on tuition. For example, Columbia economics professor Lesley Turner recently concluded that colleges capture 17 percent of Pell grant aid. That is, 17 percent of Pell grant money contributes to colleges’ bottom lines without making college more affordable for recipients, the students.³³

Another study, released in February 2012 by Stephanie Riegg Cellini of George Washington University and Claudia Goldin of Harvard, used for-profit schools to test the Bennett hypothesis.³⁴ They discovered many for-profit institutions—offering education in fields ranging from agriculture to religion—that had not been included in previous official tallies since they do not receive federal subsidies. These schools provided a control group that could be compared to schools that do receive subsidies. Cellini and Goldin found that for-profit colleges whose

students receive federal aid charge 75 percent higher tuition than for-profit colleges whose students don’t receive aid, a result “lending credence to the ‘Bennett Hypothesis.’”³⁵

Some of the literature differs on the extent of the effect, but *Introducing Bennett Hypothesis 2.0*, a recent report by Andrew Gillen, research director of the Center for College Affordability and Productivity, sorts the factors out rather convincingly.³⁶ Gillen concludes that the Bennett hypothesis is real, but the degree of the effect differs depending on the type of aid. “Financial aid that is restricted to low-income students is much less likely to be captured by colleges,” Gillen writes. Financial aid that is available to everyone (or nearly everyone), on the other hand, is likely to “simply fuel more tuition increases and therefore more likely to fail to make college more affordable.”³⁷

While Pell began as a financial aid program of the first variety—relatively small in scope, targeted to poor students, not leading to college cost increases—it is increasingly falling into the second category. Whereas recipients used to comprise a small fraction of all college undergraduates, they now constitute the majority, and Pell grants have increasingly been awarded to middle-class students.

Reflecting on this development, Gillen noted in an interview with the Pope Center that the federal government “did make the income qualifications less stringent” before the recession, opening the door to middle-class students. He speculates that those changes “could lead to more of an effect on tuition.”³⁸ Recent efforts to return income qualifications to pre-recession levels may mute this effect.

In other words, when Pell grants are directed at very low-income students—who could not afford any amount of higher education without federal aid—those grants do

not contribute to higher tuition.³⁹ But with Pell funding now available for students whose families earn up to \$60,000 per year (families that may include just one person—the student), a good deal of Pell funding may contribute to the rapid rise in college tuition. (And even when lower-income students choose to attend affordable schools, Pell grants can contribute to a rise in tuition if, in the absence of the availability of grant money, those students would have paid tuition via work or savings.)

RECOMMENDATIONS

In order to make the Pell Grant Program effective and fiscally sustainable, we recommend the following changes:

- Eligibility requirements should be tightened so that only very low-income students receive Pell grants. Only students whose family income is in the bottom quartile should be eligible. Very low-income students benefit most from Pell grants.
- Students should only be eligible to receive Pell grants if they have SAT scores of at least 850 (verbal and math) and a high school GPA of

at least 2.5. Not only would this save taxpayer money, it would provide a positive incentive for students to do better in school. Students with very low high school academic performance are unlikely to graduate from college regardless of financial aid.

- Students should only be able to receive Pell grants for four years of full-time attendance. Students in their first few years of higher education benefit most from grants.
- The federal government should regularly track and publicly report participation, retention, and graduation rates for Pell grant recipients so that the department of education and education reform groups can evaluate the program's success.

These changes in the Pell Grant Program will save taxpayers billions of dollars by limiting the amount spent per year and halting Pell's contribution to college tuition increases. These changes will also maximize the effectiveness of the program by ensuring that grants go to the students who are best-prepared and most in need of financial aid.

Resources

¹ Office of Federal Student Aid. *2010-2011 Federal Student Aid Handbook*.

<http://ifap.ed.gov/ifap/byAwardYear.jsp?type=fsahandbook&awardyear=2010-2011>.

² Federal Student Aid, Data Center, Title IV Program Volume Reports by School, 2010–2011,

<http://federalstudentaid.ed.gov/datacenter/programmatic.html>.

³ U.S. Census Bureau, 2010 Current Population Survey, table 5, “Type of College and Year Enrolled for College Students 15 Years Old and Over, by Age, Sex, Race, Attendance Status, Control of School, and Enrollment Status: October 2010,” http://www.census.gov/hhes/school/data/cps/2010/tab05_10.xls.

⁴ Federal Student Aid, Data Center, Title IV Program Volume Reports by School, 2010–2011,

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⁵ U.S. Department of Education, *2009–2010 Federal Pell Grant Program End-of-Year Report* (Washington, DC:

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⁶ U.S. Department of Education, FY 2011 Department of Education Justifications of Appropriation Estimates to the Congress, “Federal Pell Grants: Fiscal Year 2011 Budget Request,” <http://www2.ed.gov/about/overview/budget/budget11/justifications/p-pell.pdf>.

⁷ Christina Chang Wei and Laura Horn, *A Profile of Successful Pell Grant Recipients: Time to Bachelor’s Degree and Early Graduate School Enrollment*, NCES 2009-156 (Washington, DC: National Center for Education Statistics, Institute of Education Sciences, U.S. Department of Education, 2009), <http://nces.ed.gov/pubs2009/2009156.pdf>.

⁸ Alexandria Walton Radford, Lutz Berkner, Sara C. Wheelless, and Bryan Shepherd, *Persistence and Attainment of 2003–04 Beginning Postsecondary Students: After 6 Years*, NCES 2011-151 (Washington, DC: National Center for Education Statistics, Institute of Education Sciences, U.S. Department of Education, 2010), <http://nces.ed.gov/pubs2011/2011151.pdf>.

⁹ U.S. Department of Education, *2009–2010 Federal Pell Grant Program End-of-Year Report* (Washington, DC: Office of Postsecondary Education, 2011), <http://www2.ed.gov/finaid/prof/resources/data/pell-2009-10/pell-eoy-09-10.pdf>.

¹⁰ Ibid.

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Appendix

Calculating Pell Grant Eligibility

Pell grant eligibility is based on several criteria, primarily financial, and on whether a student is enrolled full-time or part-time.

The **Expected Family Contribution (EFC)** is a measure of a family's financial strength. It is calculated according to a formula established by Congress in the Higher Education Amendments of 1965 (as amended). A family's taxed and untaxed income, assets (including accumulated savings), and benefits (such as unemployment or Social Security) are all considered in the formula. Also considered are family size, parents' age, and the number of family members who will attend college or career school during the year. A formula using this information (which students or their families provide on the FAFSA form), determines the EFC.

The EFC formula has changed over the years. Over the past 13 years, it has become easier for students from low-income families to automatically have an EFC of zero—guaranteeing Pell grant eligibility. From 1998 to 2011, the family maximum income for students to automatically qualify for an EFC of zero rose by 81 percent after accounting for inflation. However, the Consolidated Appropriations Act of 2012 will decrease the maximum family income going forward (from \$31,000 in 2012 to \$23,000 in 2013) for automatic qualification.

Some exceptions to the standard formula exist. For example: the maximum award amount is given for any Pell Grant-eligible student whose parent or guardian died as a result of military service in Iraq or Afghanistan after Sept. 11, 2001. There are other limitations on how much money students may receive. Students cannot receive Pell Grant funding more than once in any one academic year, nor can students receive Pell Grant funding from more than one school during one academic year.

The **Cost of Attendance (COA)**, also calculated according to a formula established by law, is the estimated full and reasonable cost of completing a full year as a full-time student. The COA is published by each educational institution and typically includes tuition and fees payable to the institution, books and supplies, room and board, personal costs, and transportation. For example, tuition and fees at UNC-Chapel Hill are \$7,694 but the total "cost of attendance" for the 2012-13 school year is \$22,340.

Including a Cost of Attendance to calculate the grant means that some students may qualify for Pell grants if they attend an expensive school, but not one that is more affordable. That "tends to reduce price consciousness for students and lessens the incentives for colleges to keep tuition low," writes Andrew Gillen in a report for the Center for College Accountability and Productivity. He recommended that the Cost of Attendance be replaced by Median Cost of College (MCoC) in determining eligibility for Pell grants. That would eliminate incentives for students to attend more expensive schools in order to receive more Pell grant funding.



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The John William Pope Center for Higher Education Policy is a nonprofit institute dedicated to improving higher education in North Carolina and the nation. Located in Raleigh, North Carolina, it is named for the late John William Pope, who served on the Board of Trustees of the University of North Carolina at Chapel Hill.

The center aims to increase the diversity of ideas discussed on campus, encourage respect for freedom, improve student learning, and lower the cost of education to both students and taxpayers.

To accomplish these goals, we inform parents, students, trustees, alumni, and administrators about actual learning on campus and how it can be improved. We inform taxpayers and policymakers about the use and impact of government funds, and we seek ways to help students become acquainted with ideas that are dismissed or marginalized on campuses today.

Jane S. Shaw is the president of the Pope Center. She can be reached at shaw@popecenter.org. More information about the Pope Center, as well as most of our studies and articles, can be found on our website at popecenter.org. Donations to the center, a 501(c)(3) organization, are tax-deductible.

Pell Grants:

Where Does All the Money Go?

Jenna Ashley Robinson and Duke Cheston

The federal Pell Grant Program, which provides need-based grants to millions of college students, is the federal government's largest education expenditure. Does this program use taxpayer money wisely? Are more low-income students able to graduate from college as a result of these grants?

Until now, few such questions have been asked about this program. But they are addressed in this paper, "Pell Grants: Where Does All the Money Go?" Written by Jenna Ashley Robinson and Duke Cheston, this Pope Center research report analyzes what is known about Pell grants.

Jenna Ashley Robinson is outreach coordinator for the John W. Pope Center for Higher Education Policy. Dr. Robinson graduated from North Carolina State University in 2003 and received her Ph.D. in political science from UNC-Chapel Hill in May 2012.

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