

**Simplifying Federal Student Aid:  
Toward a More Effective Federal Grant Program for Students**

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Committee on Education and the Workforce

Keeping College Within Reach:  
Simplifying Federal Student Aid

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Note: The views expressed are those of the author and should not be attributed either to George Washington University or to the Urban Institute, its trustees, or its funders.

Chairman Kline, Representative Miller, and Members:

My name is Sandy Baum. I am an economist and senior fellow at the Urban Institute, as well as research professor at the George Washington University Graduate School of Education and Human Development. The views expressed in my testimony are mine alone, not those of either of the organizations with which I am affiliated.

Thank you for the honor of providing testimony today on the vital issue of simplifying the federal student aid system. I have been doing research and policy analysis relating to student financial aid for many years. I share your concerns for using taxpayer funds as effectively as possible to increase the opportunities Americans have to improve their lives and to assure the economic and social strength of our nation.

The federal Pell Grant program is the bedrock of the student aid system. In 2012-13 it provided almost 9 million undergraduate students with average funding of about \$3,700 each, making college a realistic possibility for them. Our \$32 billion was well-spent, increasing our ability to educate Americans, to prepare a skilled and flexible workforce for the coming years, and to work toward the strengthening of a society that promises its members an opportunity to live up to their own potential.

But we can do better. Effective student aid requires more than dollars. The aid program must be designed so that that the students who have the most potential to benefit from the program know about it, understand it, can predict and count on its benefits, and can access it without undue difficulty. Moreover, federal student aid should not just be about access. It is not enough to put postsecondary enrollment in financial reach. We must ensure that aid programs provide the appropriate incentives and supports for both students and institutions to succeed in meeting the educational goals of our nation and its students.

I would like to focus today on a few core ideas for simplifying federal grant aid. These ideas are based on the principles that the program should be simple, predictable and well-targeted and should use taxpayer funds as efficiently as possible to meet the nation's goals.

I propose:

- Simplify the aid application process by relying on data available from the IRS, eliminating the requirement that students provide financial information already available through either the tax system or other means-

tested government support programs.

- Determine Pell eligibility once, before students begin their studies, making annual reapplication unnecessary.
- Simplify the formula determining individual awards, creating a look-up table that will allow most students and families to determine well in advance how much Pell Grant funding they can expect to receive.
- Simplify the way aid is linked to enrollment intensity, allowing students to progress at their own speed without concern for definitions of academic years or full-time status.
- Strengthen standards for academic progress so that students use their funds efficiently and complete their programs in a timely manner.
- Consolidate federal aid programs so that the Pell Grant is the single federal grant received by most students, with the possible exception of some specialized aid (including veterans' aid). Use the funding now devoted to Campus-Based aid to provide subsidies directly to institutions in a way that provides strong incentives for them to support low-income students in completing credentials in a timely manner.

Before providing more details about these proposals, a little background about the Pell Program is in order.

### *Background*

#### The Pell Grant Program: 2002-03 to 2012-13

	Pell Expenditures (in millions of 2012 dollars)	Number of Recipients (in millions)	Average Grant (in 2012 dollars)
<b>2002-03</b>	\$14,809	4.8	\$3,099
<b>2003-04</b>	\$15,832	5.1	\$3,080
<b>2004-05</b>	\$15,907	5.3	\$2,996
<b>2005-06</b>	\$14,883	5.2	\$2,880
<b>2006-07</b>	\$14,430	5.2	\$2,794
<b>2007-08</b>	\$16,142	5.5	\$2,912
<b>2008-09</b>	\$19,051	6.2	\$3,095
<b>2009-10</b>	\$31,908	8.1	\$3,942
<b>2010-11</b>	\$37,492	9.3	\$4,028
<b>2011-12</b>	\$34,048	9.4	\$3,605
<b>2012-13</b>	\$32,269	8.8	\$3,650

Source: The College Board, *Trends in Student Aid*

Members of the Subcommittee are well aware of the recent increase in expenditures on Pell Grants. Federal spending more than doubled, after adjusting for inflation, between 2007-08 and 2010-11. Less attention has been paid to the

reality that the number of recipients increased from 5.5 million to 9.3 million over these years, and to the fact that 2010-11 was a peak, both in terms of dollars and in terms of recipients. The program cost about \$5 billion less in 2012-13 than it had two years earlier, and the number of recipients also declined. So it's not that 2010-11 represented a new trajectory. In addition to some policy modifications designed to contain spending, a recovering economy has meant fewer people seeking new training and fewer families unable to help their children.

In thinking about reforming the Pell Grant program, it is also important to keep in mind the multiple functions the program serves. Most people think of Pell recipients as young people from low-income families who have recently completed high school and whose parents are not in a position to support their education. This is an important group of recipients, and about 90% of them come from families with incomes below \$50,000 a year. But 60% of Pell recipients are independent students. Their eligibility is based not on the financial circumstances of their parents, but on their own situations. Half of all Pell Grant recipients in 2011-12 were age 24 or older and one-quarter were over the age of 30.

Age Distribution of Pell Grant Recipients, 2011-12

Age	Percentage of Recipients
20 or younger	30%
21 to 23	21%
24 to 26	13%
27 to 30	11%
31 to 40	15%
41 or older	9%
Source: U.S. Department of Education, <i>Pell Grant End-of-Year Report</i>	

The Pell Grant program is now the single most important source of federal funding for adults seeking education and training for the workforce. Many workers without bachelor's degrees who lost their jobs or saw their earnings plummet during the Great Recession knew they needed more training to assure that they would be productive members of the labor force. Without Pell Grants they would not have been able to get that necessary training. Most of these older students are not working towards bachelor's degrees. They are enrolled in programs directed towards specific occupations and it is vital that they have sufficient support to allow them to develop new skills as quickly as possible.

The important role of Pell Grants in preparing people for the labor market should not interfere with our understanding of the role of college in providing the broad education necessary to transform people's lives, to prepare them to be well-informed and active participants in our democracy, to communicate effectively,

and to think critically and creatively about their lives and about the future of our nation.

We can have a postsecondary education system that accomplishes all of these goals and a federal student aid system that effectively supports our students in meeting these goals.

*Proposals:*

Our understanding of how people make decisions is improving, with contributions from the fields of behavioral economics and cognitive psychology. When faced with complexity, people tend to take the path of least resistance. For students from middle- and upper-income families, the path of least resistance is going to college right after high school. For young people from less privileged backgrounds, the path of least resistance is looking for a job. Without the expectation that college is affordable and facing the daunting task of filling out complicated paperwork, too many promising students are likely to put off indefinitely applying to college. A recent set of papers from the George Washington University Graduate School of Education and Human Development on insights from behavioral economics into policies supporting enrollment and success in postsecondary education summarizes much of the evidence and draws policy implications.<sup>1</sup> The proposals that follow are consistent with insights and evidence developed in this work.

*Simplify the aid application process by relying on data available from the IRS, eliminating the requirement that students provide financial information already available through either the tax system or other means-tested government support programs.*

There is growing evidence about the importance of simplicity in the design of student aid programs. Particularly important studies include an experiment with filling out the FAFSA for H&R Block clients, which yielded impressive increases

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<sup>1</sup> “Understanding Student Behaviors: A Prerequisite to Supporting College Enrollment and Success”; <http://gsehd.gwu.edu/faculty/sandy-baum>. See in particular, Sandy Baum and Saul Schwartz, “Student Aid, Student Behavior, and Student Attainment.” [http://gsehd.gwu.edu/files/downloads/publications/2013/PUBLISHED\\_Baum\\_Schwartz.pdf](http://gsehd.gwu.edu/files/downloads/publications/2013/PUBLISHED_Baum_Schwartz.pdf)

in college enrollment and persistence.<sup>2</sup>

The IRS has data about the finances of taxpayers. People with incomes too low to be required to file taxes should automatically be eligible for maximum Pell awards. The new system that allows aid applicants to download tax information to fill in the FAFSA suggests that it would be possible to implement a system that would eliminate the need for most people to provide financial data separately on aid applications.

Relying on IRS data has the additional advantage of eliminating the need for the expensive and difficult process of verifying the information applicants provide on their FAFSA forms.

*Determine Pell eligibility once, before students begin their studies, making annual reapplication unnecessary.*

We could calculate Pell eligibility automatically for high school juniors, based on their parents' recent tax forms. Students would be notified of this eligibility in time to apply for college and could activate their awards if and when they enroll. Eligibility could last until they turn 24 and become independent students, at which time they would have to reapply if they wanted to go to college.

This system would let low-income students know that the money is there, just as students from families with more resources know this. Knowing that the money is there makes not using it a loss, and we know that people respond more strongly to the prospect of losing money than they do to the prospect of gaining a similar amount of money. The system would also eliminate considerable paperwork for students and families, for college and universities, and for the federal government.

*Simplify the formula determining individual awards, creating a look-up table that will allow most students and families to determine well in advance how much Pell Grant funding they can expect to receive.*

For most applicants, Pell Grant eligibility could be based on AGI and family size, as measured by exemptions on tax forms. This would allow the construction of

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<sup>2</sup> Bettinger, Eric, B. T. Long, Philip Oreopoulos, and Lisa Sanbonmatsu. (2012) "The Role of Application Assistance and Information in College Decisions: Results from the H&R Block FAFSA Experiment." *Quarterly Journal of Economics*: 127(3). The authors report that "high school seniors whose parents received the treatment were 8 percentage points more likely to have completed two years of college, going from 28% to 36%, during the first three years following the experiment. Families who received aid information but no assistance with the FAFSA did not experience improved outcomes."

simple look-up tables that students and families could review well in advance of the time they plan to enroll. It would not be difficult to include a caveat, requiring a more detailed calculation for taxpayers with negative AGI or for those who file multiple supplemental forms with their 1040s.

Analyses of the implications of simplifying the formula to involve only a couple of data elements from the IRS instead of the many pieces of information and the complicated calculations now involved indicate that there would be minimal impact on the distribution of Pell Grants. Allocating aid to students from families with higher incomes, such as those with financial need supported by many state and institutional grants, requires more information. However, relatively few families or students with incomes below \$50,000 have assets or other complicated situations that significantly affect current Pell Grant awards.<sup>3</sup>

If the federal government implements this simple formula for determining Pell eligibility, it could at the same time calculate a more detailed eligibility index based on additional IRS information that could be used by states and institutions to award need-based aid higher up the income scale.

This simple formula for Pell eligibility should not depend on whether or not a student has siblings in college and it should break the existing link between the maximum level of Pell funding students with the lowest resources can receive and the maximum income level at which students are eligible for the program.<sup>4</sup>

This simplified approach would allow the federal government to send families annual notification of the Pell Grants for which their children would be eligible if they were of college age. This early information would be a valuable component of efforts to encourage low-income children to prepare academically for college.

*Simplify the way aid is linked to enrollment intensity, allowing students to progress at their own speed without concern for definitions of academic years or full-time status.*

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<sup>3</sup> See, for example, Dynarski, Susan M. and Judith E. Scott-Clayton. "The Cost Of Complexity In Federal Student Aid: Lessons From Optimal Tax Theory And Behavioral Economics," *National Tax Journal*, 2006, v59 (2,Jun), 319-356; Baum, Sandy, Kathleen Little, Jennifer Ma, and Anne Sturtevant. 2012. *Simplifying Student Aid: What It Would Mean for States*. New York: The College Board.

<sup>4</sup> Students with no expected contribution do not benefit from the provision increasing awards for those with siblings in college at the same time. For examples of formulas and look-up tables consistent with this proposal, see The Rethinking Student Aid Study Group (2008), *Fulfilling the Commitment*, The College Board; Baum et al (2013). *Rethinking Pell Grants*. The College Board.

Under the current Pell Grant system, students are considered full-time if they are enrolled in at least 12 credit hours per semester. They receive  $\frac{3}{4}$  of the funding for which they are eligible if they enroll for 9-11 credit hours, and less if they enroll for fewer hours. But they do not receive additional funding if they enroll for the 15 hours necessary if they are to be on track to complete a bachelor's degree in four years or an associate degree in two years. They cannot receive extra funding if they make up the courses they are lacking over the summer.

A simpler system, and one that would do more to support the timely completion of college degrees, would award Pell funds based on the number of credit hours for which students enroll. If instead of thinking of the maximum award as \$5,645 per year, we thought of it as \$235 per credit (based on 24 credits per year) or \$188 per credit (based on 30 credits per year), students could spread their courses out over the year in the way that best fits their personal circumstances.

Under the current system, a student who completes a 120 credit bachelor's degree by taking 24 credits per year for 5 years receives five full Pell Grants. A similar student who completes the same degree by taking 30 credits per year for 4 years receives only four full Pell Grants. At institutions, like many community colleges, that charge tuition by the credit hour, registering for 15 credits is likely to reduce the cash students have on hand to buy books and cover other expenses.

We should design the Pell Grant program to do a better job of supporting student progress.

*Strengthen standards for academic progress so that students use their funds efficiently and complete their programs in a timely manner.*

Students need more guidance in selecting their programs and institutions and in progressing through their studies if they are to succeed at higher rates. In the best of all worlds, the Pell Grant program would be able to provide some of this guidance. But at a minimum, we should strengthen the Satisfactory Academic Progress (SAP) regulations, which require students to meet minimal standards at their institutions in order to remain eligible for Pell Grants. Currently, if a student fails to meet these standards at one institution, he can move to another institution and start over with a Pell Grant.

This system does a disservice to both students and taxpayers. Many of the students who receive Pell Grants but don't make progress towards degrees are also relying on student loans. Devoting their time to studies that lead nowhere and accumulating debt in the process leaves them worse off. We can provide the support at-risk students need, with leeway for students to try again when they don't succeed the first time, without fostering these unproductive outcomes for both students and taxpayers.

*Consolidate federal aid programs so that the Pell Grant is the single federal grant received by most students, with the possible exception of some specialized aid (including veterans' aid). Use the funding now devoted to Campus-Based aid to provide subsidies directly to institutions in a way that provides strong incentives for them to support low-income students in completing credentials in a timely manner.*

Simplifying the Pell Grant program and improving its design so that it more effectively supports student success can make a big difference in the lives of the students it subsidizes. But the entire federal student aid system of which the Pell Grant program is the core should also be simpler. It would be much easier for students to know how much federal grant aid they will receive if there were one federal grant program for the general student population.<sup>5</sup>

The federal government now allocates just over \$700 million a year for the Supplemental Educational Opportunity Grant Program, which distributes funds to institutions based on a complicated and outdated formula. While these funds certainly provide needed assistance to individual students, they are not well targeted or predictable. The campus-based funds should be redirected into a program that would fund institutions based on their success in educating low- and moderate-income students.

The details of this program of institutional subsidies are crucial and successful program design will require rigorous study of possible structures, with consideration of potential unintended consequences. But institutions have a major role to play in meeting our national goals for a well-educated population and we should do our best to assure that federal funding goes to institutions that provide meaningful opportunities for students who would not otherwise have access to these opportunities.

### *Conclusion*

Our country needs a strong federal Pell Grant program more than ever. Pell Grants make it possible for many young people from low- and moderate-income families to get a college education. They make it possible for many adults whose labor market opportunities are limited to access the education and training they need to get jobs that allow them to support themselves and their families and that maximize their contributions to our society and our economy.

Over its forty years, the Pell Grant program has made a major difference in the

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<sup>5</sup> Grant programs targeted at specific populations such as veterans must be thought of separately. However, developing large numbers of grant programs for small specialized populations interferes with the goal of simplification.

lives of many Americans. It will have a bigger impact over the next 40 years if we succeed in simplifying the application process and the allocation of awards. Students should know well in advance how much support they can expect from the federal government. And that support should be designed to help them succeed in their postsecondary studies, not just to pay for those studies. Students need more than the kinds of information that is currently the focus of many efforts to improve educational choices. They need personalized guidance and they need appropriate supports and incentive structures. The Pell Grant program cannot solve all of these issues, at least in the short run, but it can go farther in the right direction.

Thank you again for giving me the opportunity to share my ideas with you. I welcome your questions.