

## Redesigning the Pell Grant Program for the Twenty-First Century

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## MISSION STATEMENT

The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth.

We believe that today's increasingly competitive global economy demands public policy ideas commensurate with the challenges of the 21st Century. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by fostering economic growth and broad participation in that growth, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments.

Our strategy calls for combining public investment, a secure social safety net, and fiscal discipline. In that framework, the Project puts forward innovative proposals from leading economic thinkers — based on credible evidence and experience, not ideology or doctrine — to introduce new and effective policy options into the national debate.

The Project is named after Alexander Hamilton, the nation's first Treasury Secretary, who laid the foundation for the modern American economy. Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that “prudent aids and encouragements on the part of government” are necessary to enhance and guide market forces. The guiding principles of the Project remain consistent with these views.





# Redesigning the Pell Grant Program for the Twenty-First Century

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This discussion paper is a proposal from the authors. As emphasized in The Hamilton Project's original strategy paper, the Project was designed in part to provide a forum for leading thinkers across the nation to put forward innovative and potentially important economic policy ideas that share the Project's broad goals of promoting economic growth, broad-based participation in growth, and economic security. The authors are invited to express their own ideas in discussion papers, whether or not the Project's staff or advisory council agrees with the specific proposals. This discussion paper is offered in that spirit.

**BROOKINGS**

# Abstract

Since its inception in 1972, the Pell Grant program has expanded dramatically in size and scope. With 9.4 million individuals receiving \$35 billion in funds in 2011–12 for programs ranging from short-term certificates in automotive technology to four-year degrees in art history, the program is the federal government’s flagship effort to develop both general human capital and specific workforce skills. Yet the structure of the program—a one-size-fits-all voucher originally designed for recent high school graduates from poor families—has remained fundamentally unchanged. In the face of growing concerns about the sustainability of current funding, as well as increasing frustration with low rates of degree completion, we argue that the time has come to comprehensively redesign the Pell program to fit the needs of a twenty-first-century economy and student population.

To accomplish this, we propose three major structural reforms. First, we propose to augment the Pell program’s financial support with tailored guidance and support services that have been shown to improve academic and/or labor-market success, including separately tailored services for the distinctive circumstances of dependent and independent recipients. Second, we propose to dramatically simplify the eligibility and application process to ensure that the program reaches those who need it most, again tailoring the simplification to the distinctive circumstances of dependent and independent students. Finally, we propose several modifications to strengthen incentives for student effort and timely completion, without leading the program away from its core need-based (not merit-based) mission.

Taken together, the reforms that we propose would for the first time make Pell a true program, and not just a grant, thus inducing its beneficiaries to become full participants, and not just recipients. Although our proposed reforms are substantial, the existing structures for processing and delivering Pell Grants would continue to be relevant, and the goals of Pell supporters and beneficiaries would be furthered. Finally, while significant congressional action would be required in order to implement our proposal, these reforms would not substantially increase the cost of the program, and we believe they are structurally and politically feasible.

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# Chapter 1: Introduction

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The Pell Grant program aims to make college possible for all who can benefit from postsecondary education; it has been the cornerstone of college financial aid since its inception in 1972 as the Basic Educational Opportunity Grant. The program's voucher design—in which grant eligibility is assigned to the student, who can then use it at any one of thousands of accredited public or private institutions with few strings attached—reflects a distinctively American approach, appropriate for a diverse and decentralized system of higher education. In theory, this market-based approach allows students to use financial aid to select the institution appropriate for their needs and circumstances, thus allowing them to invest in their educations on the basis of their own reasonably well-informed decisions. By giving students a relatively unrestricted aid voucher, the program helps overcome the problem of low-income students underinvesting in higher education.

Over the forty years since this federal grant program was introduced for low- and moderate-income students, it has expanded dramatically in both size and scope, and now serves a much more diverse set of individuals in a much more diverse mix of programs and institutions. Initially serving just a small fraction of undergraduates, the Pell program now serves over 9.4 million individuals at a cost of \$35 billion annually, assisting more than one out of every three undergraduates enrolled.<sup>1</sup>

Furthermore, though originally conceived as a program primarily for recent high school graduates entering traditional four-year degree programs, the Pell program today also serves as the federal government's primary workforce investment effort, increasing the role of Pell in serving independent students.<sup>2</sup> Overall, 60 percent of Pell Grant recipients are independent, with 44 percent of Pell recipients age twenty-five or older and roughly 25 percent age thirty or older. More than one in five Pell recipients are enrolled at for-profit institutions, and roughly half

are pursuing a sub-baccalaureate credential: either a certificate or an associate degree.

The stakes around program efficacy are also higher today than they were in 1972: a college credential is now essentially a prerequisite to earning a decent salary, with median income for full-time male workers with bachelor's degrees (but not advanced degrees) about 84 percent higher than median income for male high school graduates, compared to a gap of 38 percent forty years ago. For women, the 60 percent difference forty years ago has grown to 106 percent today (U.S. Census Bureau 2012a, Tables P-16, P-17).

Over the forty years since this federal grant program was introduced for low- and moderate-income students, it has expanded dramatically in both size and scope, and now serves a much more diverse set of individuals in a much more diverse mix of programs and institutions.

Finally, with Pell expenditures more than doubling over the past five years, critics are increasingly raising questions about whether the program's results justify its cost. Unfortunately, credential completion rates for Pell recipients, measured six years after entry, are frustratingly low, as shown in table 1. Fewer than 50 percent of Pell recipients have completed any degree or credential six years after entry; this falls to 36 percent among students who first enrolled as independent students.<sup>3</sup> About 30 percent of dependent students and only 4 percent of independent students had earned bachelor's degrees after six years. While these statistics are certainly worrisome, noncompletion is not a problem unique to Pell recipients, as seen in the bottom panel of the table.

Students who leave school without a credential may gain something from the coursework they do complete, even without

TABLE 1.

## Degree Completion Outcomes Six Years after Entry, for Beginning Undergraduates by Dependency Status and Pell Grant Receipt (percent)

	Total	Dependent students	Independent students
<b>Beginning Pell recipients</b>			
Bachelor's degree	19.5	30.1	4.2
Associate degree	9.4	9.7	8.9
Certificate	15.9	10.7	23.3
No credential	55.3	49.5	63.7
<b>All beginning undergraduates</b>			
Bachelor's degree	30.7	40.8	5.6
Associate degree	9.3	9.3	9.5
Certificate	9.4	6.0	18.0
No credential	50.5	43.9	66.9

Source: NCES 2009.

acquiring a degree. Indeed, for older students, leaving school before finishing a credential may be the result of improved labor-market opportunities as students are lured into the job market before finishing their degrees (Dadgar and Weiss 2012). Still, wage patterns suggest significant returns for completers, particularly bachelor's degree recipients, compared to those with "some college, no degree" (U.S. Census Bureau 2012b, PINC-03).

Simply comparing completion rates among recipients, or completion rates between recipients and nonrecipients, cannot tell us the impact of the Pell program. Some students may enter college because of Pell who would not have otherwise; completion rates for Pell recipients, who are by definition financially disadvantaged, might be lower in the absence of this assistance. Simple economic theory would suggest that lowering the cost of college should increase both enrollment and persistence; indeed, the best evidence on other grant programs has found that an additional \$1,000 of grant aid per student may increase college enrollment by 4 percentage points.<sup>4</sup>

Currently, however, there is little definitive evidence that the Pell Grant program increases college enrollment among low-income students, or that it is associated with higher persistence rates. While numerous studies have been conducted regarding the causal impact of Pell, the results have been relatively inconclusive. The broadest studies of the Pell Grant program, including an early study by Hansen (1983) and a more-rigorous subsequent study by Kane (1996), find no detectable effect of the introduction of Pell Grants on college enrollments for eligible

(low-income) populations. A study by Seftor and Turner (2002) found that expansions of the Pell program during the late 1980s increased college enrollments among older individuals (they could not examine persistence or completion). A study by Bettinger (2004) found some evidence that larger Pell awards were associated with higher persistence rates for younger students, but the results were sensitive to exactly how the effect was estimated.

Even if we did have convincing evidence of program impacts, it still might not be enough to defuse efforts to cut spending, considering the discouraging outcomes reported in table 1. Even if Pell Grants do have some positive impacts on enrollment and completion, there is clearly significant room for improvement. We would advocate strongly against efforts to cut the program; now is hardly the time to reduce our investments in education, as the United States falls behind other countries on measures of educational attainment and social mobility and leaps ahead on measures of inequality (Brandolini and Smeeding 2007; Economic Mobility Project 2011; Organisation for Economic Co-operation and Development [OECD] 2012).

We propose reevaluating the structure of the program with an eye to making every dollar of funding work better. Ultimately, reforming the Pell program is more than just a matter of taxpayer accountability—it is a matter of better serving the students themselves and ensuring that students' postsecondary experiences provide a stepping stone to a better life, and not just a temporary diversion. Reforms are needed that will effectively guide students to programs in which they are more likely to



succeed and that will lead quickly to stable employment and satisfactory earnings; this is particularly important for older students.

## OVERVIEW OF OUR PROPOSED REFORMS

The time has come to comprehensively redesign the Pell program to fit the needs of a twenty-first-century economy and student population. It is also essential to move the conversation beyond just the maximum size of the Pell Grant: half of Pell Grant recipients already have their tuition and fees fully covered by Pell and other sources of grant aid. This statistic rises to 67 percent at public four-year institutions and nearly 85 percent at public two-year institutions (NCES 2008).<sup>5</sup> As research suggests and as we will argue below, we need more than just money to significantly improve program outcomes. As important as the financial subsidy is, handing students money and expecting them to steer their own courses through the maze of available options is an insufficient strategy for supporting their success. Given dramatic increases in both the diversity of the student population and the possible programs and institutions they may attend, students are in desperate need of timely guidance and support; it is essential that these additional services be tailored to the distinctive needs of both younger and older students. We propose three major structural reforms:

First, we propose to augment the Pell program's financial support with tailored guidance and support services that have been shown to improve academic and/or labor-market success. Dependent students would receive light-touch, technology-facilitated guidance from the point of submitting a financial aid application through initial enrollment and academic coaching services through the first year. Independent students would participate in one-on-one information and guidance sessions once per year, with the pre-enrollment counseling provided by a disinterested third party (e.g., through local One-Stop Career Centers [hereafter One-Stops] or other facilities funded and equipped to provide individual assessment and guidance about postsecondary options).

Second, we propose to dramatically simplify the eligibility and application process to ensure that the program reaches

those who need it most, again tailoring the simplification to the distinctive circumstances of dependent and independent students. The program would determine eligibility once (as long as students remain continuously enrolled), eliminating the need for students to reapply each year; the program would automatically draw all financial data required from the Internal Revenue Service (IRS) through a system similar to the IRS data retrieval tool in current use. (Non-filers would submit a very simple form to document income and family size.)

Finally, we propose several modifications to strengthen incentives for student effort and timely completion, without leading the program away from its core need-based (not merit-based) mission. These include limiting Pell disbursements to 125 percent of the credit hours (hereafter credits) required for the program in which a student is enrolled; disbursing Pell according to credits attempted (so students could enroll year-round or take more than twelve credits per term); and providing small bonuses for on-time completion of associate or bachelor's degrees.

Some of our proposed reforms could be implemented independently and would constitute important steps on the road to increasing the equity and effectiveness of the Pell Grant program. Others require more thought, along with carefully designed experimentation and evaluation, to ensure optimal design. Together, the reforms would for the first time make Pell a program, and not just a grant, thus inducing its beneficiaries to become full participants, and not just recipients. Moreover, the program would be tailored to the different needs of older and younger students and would better achieve the array of goals Pell has grown to serve, including the promotion of general baccalaureate education as well as workforce development. Although the reforms we propose are substantial, the existing structures for processing and delivering Pell Grants would continue to be relevant, and, most important, the Pell recipients themselves would be closer to reaching their educational and career goals. Finally, while significant congressional action would be required to implement our proposed reforms, they need not substantially increase the cost of the program, and we believe they are structurally and politically feasible.

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## Chapter 2: The Rationale for Reform: Lessons from Theory and Evidence

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**T**heory and evidence from economics and the behavioral sciences provide four key insights into problems in the current Pell program and guide our proposed reforms.

1. Individuals are not always able to make the best choices for themselves, especially in the face of complex financial decisions and in the absence of appropriate information.
2. Program design should align with the needs and goals of the students it is intended to serve, including both independent and dependent students.
3. The complexity and bureaucracy of the Pell application process can impose significant barriers to participation, and can undermine program effectiveness by filtering out the very students in greatest need.
4. Incentives matter for the decisions students make, so the Pell program should be carefully designed to generate incentives that align with program goals, including credential completion.

We next discuss each of these insights in detail.

### ***1. Individuals are not always able to make the best choices for themselves, especially in the face of complex financial decisions and in the absence of appropriate information.***

Classical economic theory implies that an abundance of choice can never be a bad thing, and, when it comes to educational choice, “[n]o nation in the world offers as much choice to potential undergraduates” as does the United States (Goldin and Katz 2008, 254). But determining which particular institution and program offers the best fit and best economic return can be overwhelming for a student. Indeed, recent work in psychology, marketing, and behavioral economics presents compelling evidence that there can be a “dark side of choice” that can lead to decision mistakes, procrastination, and regret (Botti and Iyengar 2006, 24). Moreover, the likelihood of error in decision making appears to increase when individuals have limited personal experience in the face of complex options (Beshears et al. 2008).

In the context of higher education, students’ choices are not always well informed. For example, qualitative evidence suggests that the marginal college students likely to attend

community colleges and for-profit colleges often make their institutional selection haphazardly and fail to investigate more than one option (Rosenbaum, Deil-Amen, and Person 2006). Students also make mistakes after enrollment, taking courses without understanding whether they meet program requirements (Goldrick-Rab 2010).

Studies have also found worrisome evidence of undermatching (in which high school students from low- and middle-income families often do not even apply to the most-selective institutions for which they academically qualify) and summer melt (in which high school seniors graduate on time, are accepted to college, apply for financial aid, and then fail to matriculate in the fall) (Avery and Turner 2009; Bowen, Chingos, and McPherson 2009; Hoxby and Avery 2012; Hoxby and Turner 2013; Roderick et al. 2009). This evidence has implications for degree completion because college selectivity is associated with graduation rates, time to degree, and post-college earnings, even after controlling for incoming student characteristics (Bound, Lovenheim, and Turner 2010; Bowen et al. 2009; Thomas and Zhang 2005).

Moreover, as increasing amounts of information about individual institutions and programs become available online, it is becoming clear that students need more than just better information: they need guidance in choosing appropriate paths given their goals, academic preparation, and circumstances. But many institutions, particularly public institutions, are insufficiently staffed to provide such support, with student-to-counselor ratios as high as 1,500 to 1 (Bettinger, Boatman, and Long 2013).

Evidence is mounting that simple, low-to-modest-cost coaching interventions that reach out to students during the summer after high school and throughout the first year of college can have substantial effects on enrollment and persistence. For example, in a series of randomized experiments, Castleman, Page, and Schooley (2013) found that text messaging, peer mentoring, and proactive outreach were all successful at reducing summer melt, with costs of no more than \$200 per student served.<sup>6</sup>

A randomized study of a student coaching service provided by InsideTrack (a for-profit company that contracts with individual institutions) found significant impacts on persistence for a cost of approximately \$500 per student per semester (Bettinger and Baker 2011). For example, InsideTrack’s coaches

contacted their students via phone, email, text message, and social media to engage them in conversations about how to “prioritize their studies, plan how they can be successful, and identify and overcome barriers to students’ academic success. ...[T]he coaches focus significant time assessing the student’s life outside of school” (Bettinger and Baker 2011, 2).

In addition to their modest cost, because these interventions are largely based on phone calls and/or text messages rather than relying on in-person meetings with a counselor, they are more accessible for students and potentially easier to scale up. Even the pricier interventions reviewed here are significantly cheaper than more-intensive programs with similar goals, such as Upward Bound, which has an estimated cost of \$4,700 per participant (Bos et al. 2012).

For independent students, the challenges are distinctive. The pressure to identify a specific postsecondary program—not just an institution—is greater, as older students are more likely to pursue specific occupational credentials. Young students have the luxury of time to explore different paths, but older students have limited time and flexibility because they might already be in the labor force, and/or might have families of their own.

The choice of programs of study is of particular importance for students seeking specific occupational education (Carnevale, Smith, et al. 2011). Over 40 percent of workers with some college but no degree earn more than the median earnings of those with an associate degree, in part because of large variation in earnings by field of study, not just level of attainment (Carnevale, Rose, and Cheah 2011). For example, individuals earning associate degrees in high-return fields earn about 50 percent more than those with associate degrees in low-return fields (Jacobson 2011).

Workforce development programs are most successful when they are closely connected to local labor-market needs and when participants receive not only money, but also guidance about their choices and support for managing the combination of their responsibilities. Combining funding for training with intensive occupational counseling assistance and job search has been shown to be cost-effective (Heinrich, Mueser, and Troske 2009; Insight 2010; Roder and Elliott 2011). For older, displaced workers in particular, the returns to community college attendance can be considerable when they pursue courses of study that prepare them for employment in high-demand fields (Insight 2010; Jacobson 2011; Jacobson, LaLonde, and Sullivan 2003).

The current Pell Grant program does not in any way encourage or facilitate the development of effective courses of study or help guide students into the programs from which they are likely to benefit most. Pell Grants should not and cannot be used to fix every problem in higher education, but we believe that the program can leverage its reach to do more.

## *2. Program design should align with the needs and goals of the students it is intended to serve, including independent and dependent students.*

The goal of the Pell program broadly stated is to improve educational attainment. But the specific economic rationale for subsidizing recent high school graduates, for whom the program was originally designed, differs in subtle but important ways from the rationale for subsidizing the older individuals who now make up a large fraction of recipients. The primary goal of the Pell program for younger students is to promote access

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and opportunity for students from disadvantaged families, diminishing the gap between them and those who grew up in more-privileged circumstances. Both equity and efficiency considerations dictate diminishing the financial barriers these young people face in continuing their education beyond high school. The economic rationale for a public subsidy for older students has less to do with equalizing opportunity and more to do with providing a type of social insurance—a means for individuals who have had limited success in the labor market for whatever reason to improve their skills and reenter the workforce, hopefully as quickly as possible, and in a stronger position.

The Pell Grant program serves as an integral component of the social safety net, providing individuals who have not completed bachelor’s degrees with the opportunity to gain the education and training they need to succeed in the workforce. Adult students have more compelling reasons to complete their programs quickly and to see immediate returns in the form of well-paying jobs. For older students with personal and family responsibilities, time is limited and goals tend to be more specific. Many younger students, on the other hand, are likely to benefit from a broad education that provides opportunities for

TABLE 2.

## Enrollment in Degree and Certificate Programs by Dependency Status at First Enrollment, Beginning Undergraduate Students, 2003–04 (percent)

	Not in a degree program	Certificate	Associate degree	Bachelor's degree
<b>Pell Grant recipients</b>				
Dependent	3.1	14.0	37.3	45.6
Independent	5.8	36.8	47.1	10.3
<b>All undergraduates</b>				
Dependent	7.1	5.8	36.6	50.5
Independent	12.0	25.0	52.8	10.3

Source: NCES 2009; Quick Stats analysis by authors.

exploration and changes of course, accumulating experiences and building a variety of personal qualities along the way.

Recent high school graduates face different economic opportunities and constraints from those faced by thirty-year-olds with families and previous job experience; students' observed educational choices and outcomes reflect these different circumstances.<sup>7</sup> As table 2 indicates, half of all dependent undergraduates (46 percent of dependent Pell recipients) who began their studies in 2003–04 enrolled in bachelor's degree programs. However, only 10 percent of independent undergraduates took this path.<sup>8</sup> Older students in associate degree programs are more likely than younger students to be pursuing occupational or technical degrees.<sup>9</sup>

Despite the obvious differences between these two broad types of students, the only way the current Pell program distinguishes between the groups is in terms of whose income the U.S. Department of Education (ED) considers in the aid eligibility calculation. Conversations around Pell reform have not consistently engaged the Department of Labor or workforce development experts; many taxpayers and perhaps even some policymakers may fail to realize the extent to which Pell Grants serve a workforce development role. In 2011, federal spending on employment and training was \$9 billion compared to \$17 billion in Pell Grant funds provided to adults over the age of twenty-four (Office of Management and Budget [OMB] 2012, Table 3.2; ED 2012). Some Pell advocates have argued that it is better not to draw any program distinctions between older and younger students out of concern that programs for older students elicit less political support than those for younger students. While we acknowledge this concern, we argue that a one-size-fits-all program cannot maximize success for either group; in fact, older students may have the most to gain if a

greater awareness of Pell's essential workforce development goal helps stimulate new ideas on how to better serve those students through the program.

The distinction between dependent and independent students already exists in the system for determining eligibility for Pell Grants, with all students aged twenty-four and older considered independent. Note that while students aged twenty-three and younger can be classified as independent, age is the primary determinant of independent status in practice. The average age of an independent Pell recipient is thirty, and the average age of a dependent Pell recipient is twenty.<sup>10</sup>

### *3. The complexity and bureaucracy of the Pell application process can impose significant barriers to participation, and can undermine program effectiveness by filtering out the students in greatest need.*

The Pell program's burdensome eligibility and application process urgently needs reform. The current system requires all students to provide considerable detail about their and their families' financial circumstances on the Free Application for Federal Student Aid (FAFSA). A complex formula (the Federal Methodology) then determines their Pell Grant eligibility. This complexity makes it difficult for students and families to determine in advance how much assistance they can expect.

There is near consensus among researchers and policymakers that the current complexity creates a barrier to student access (Baum et al. 2013; Bettinger et al. 2012; Dynarski and Scott-Clayton 2006, 2007; Rethinking Student Aid Study Group 2008). A recent experimental study by Bettinger and colleagues (2012) provides dramatic supporting evidence. In the experiment, low-income families who visited a tax-preparation center were randomly assigned to one of three groups: a full

treatment group who received both personalized information about eligibility for financial aid and personal assistance with completing and submitting the FAFSA; an information-only group that received personalized information about financial aid eligibility but no application assistance; and a control group that received a brochure with general information about college costs, financial aid, and the value of going to college.

The full treatment cost less than \$100 per participant; this treatment increased immediate college entry rates by 8 percentage points (a 24 percent increase) for high school seniors and 1.5 percentage points (a 16 percent increase) for independent participants with no prior college experience. After three years, participants in the full treatment group had accumulated significantly more time in college than the control group. Impacts on actual financial aid receipt were even larger.

While the ED has made progress in recent years in reducing the number of questions on the FAFSA and enabling some students to automatically import tax information from the IRS, these improvements have had an arguably limited impact on the application experience overall. In particular, they do not allow students to predict aid amounts in advance. Moreover, there has been no concerted effort to reevaluate the logic of need analysis for older individuals paying for their own schooling.

Our proposal incorporates a streamlined eligibility and application process that is tailored to the circumstances of dependent and independent students. For both groups, eligibility would be based on a limited number of data elements measured over three years prior to beginning a program, and ensuring a sufficient amount of time to complete the application process well in advance of enrollment. This eligibility would then be fixed for a specified period, eliminating the need for annual reapplication. For dependent students, award size would be determined using a simple look-up table based on income and family size. For independent students, award determination would be even simpler.

***4. Incentives matter for the decisions students make, so the Pell program should be carefully designed to generate incentives that align with program goals, including credential completion.***

The Pell Grant program was designed with the assumption that giving money to students from low-income families would overcome the main hurdle they faced in meeting their educational goals. There was more concern about whether they could afford to enroll than about whether students were prepared to complete the programs they started. While eventual degree completion rates have hovered around 50 percent for decades, time to completion has increased substantially. Fewer than 40 percent of bachelor's degree recipients finish their degrees by age twenty-two, compared with more than 60 percent in the 1970s (Turner 2004, based on analysis of Current Population

Survey data). Similarly, among those who earn so-called two-year degrees today, more than half take more than two years to do so.<sup>11</sup>

Research suggests that linking financial aid renewal to specific GPA or credit-completion requirements may improve persistence and completion relative to grants with no strings attached (Patel and Richburg-Hayes 2012; Richburg-Hayes et al. 2009; Scott-Clayton 2011; for a review, see Dynarski and Scott-Clayton 2013). As just one example, Scott-Clayton's (2011) study of West Virginia's PROMISE scholarship—that at the time provided free tuition and fees for up to four years to academically eligible students as long as they maintained a minimum GPA and completed at least thirty credits per year—found that five-year bachelor's degree completion rates rose by 4 percentage points (an 8 percent increase relative to baseline) and on-time graduation rates rose by 7 percentage points (more than a 25 percent improvement). Tellingly, the scholarship significantly increased annual GPAs and credits completed in each of the first three years of college, but in the fourth and final year of scholarship receipt, while students were still receiving the money but no longer faced the achievement incentives, the program's effect on student behavior nearly disappeared.

These findings do not support turning Pell into a merit-based program like the West Virginia PROMISE scholarship. In fact, the success of some merit-based programs relies in part on the existence of a wholly need-based program like Pell that serves as the foundation of financial support. The fundamental mission of Pell Grants has been and should remain to provide financial access to higher education for disadvantaged students, not to reward achievement.

Nevertheless, the Pell Grant program should not—and cannot—avoid incorporating incentives in its design and these incentives should be structured to align with program goals. The current design actually provides disincentives for timely completion by providing more assistance for the same number of credits to students who take longer to finish, essentially penalizing those who would prefer to finish faster. This occurs because students are considered full-time, qualifying for a full Pell Grant, if they enroll for at least twelve credits a semester. Those who enroll for fifteen credits—the average number necessary to complete an associate degree in two years or a bachelor's degree in four years—do not receive additional funding. A student who takes an average of twelve credits a semester over five years of full-time study to complete 120 credits receives five full Pell Grants. A similar student who graduates in four years by taking fifteen credits per semester receives only four full Pell Grants.

It is also worth noting that Pell Grants already require students to meet basic satisfactory academic progress (SAP) requirements in order to continue receiving aid. While institutions have some flexibility in how they define these requirements, they typically involve maintaining a C average (2.0 GPA) and completing

a certain proportion of credits attempted (e.g., 75 percent). In theory, then, at least minimal achievement incentives are embodied in current program rules. In practice, however, it is unclear the extent to which these rules are binding, particularly because they do not follow students who transfer across institutions, which more than a third of Pell Grant recipients will do.

Our proposal will strengthen existing SAP requirements to follow students across institutions, but our primary reform to enhance completion incentives is simply to allow Pell to be disbursed according to students' actual course loads, so that students who want to finish faster by taking fifteen credits per term and/or enrolling in the summer can do so without lowering their total Pell benefit. This approach would eliminate

the concept of the annual maximum Pell Grant, currently the main focus of many policy discussions, and would instead award grant aid according to the enrollment patterns of individual students.

We also propose stricter limitations on the total number of credits covered for programs of a given length, and give students a bonus for completing their programs on time, so that students share in the savings. With 37 percent of undergraduates currently receiving Pell Grants, we expect these incentives not only to influence student behavior, but also to place pressure on institutions to provide the courses and the advising that students need to finish on time (College Board 2012b, Fig. 14a). There is no doubt that both student and institutional behaviors must be modified to improve the outcomes of Pell Grant students.

# Chapter 3: Our Proposal: An Augmented Pell Designed to Maximize Student Success

We propose to augment the financial component of the Pell Grant program with guidance and support services that are specifically tailored for both categories of students: dependent and independent. We also propose additional tailored simplifications of the eligibility

and application process. Finally, we propose strengthening incentives for student effort and completion for all Pell participants. An overview of the major design elements is provided in table 3.

TABLE 3.  
Overview of Proposed Pell Reform

	Current policy	Proposed reform for dependent students	Proposed reform for independent students
<b>Support services</b>	<ul style="list-style-type: none"> <li>• None.</li> </ul>	<ul style="list-style-type: none"> <li>• Summer through first-year academic coaching service (initiated on a pilot basis; expanded if randomized evaluation suggests it is cost-effective).</li> </ul>	<ul style="list-style-type: none"> <li>• Career counseling requirements for students (before and during enrollment) and for institutions, with pre-enrollment counseling provided by a disinterested third party (initiated on a pilot basis; expanded if randomized evaluation suggests it is cost-effective). Less-intensive personal guidance services provided by the institution at least once a year until program completion.</li> <li>• Improved connection to income support programs to cover student and family living costs during enrollment periods.</li> </ul>
<b>Eligibility and application</b>	<ul style="list-style-type: none"> <li>• Maximum award of \$5,645 for 2013–14 based on complex need analysis with six separate formulas for three distinct groups of students.</li> <li>• Requires filing a FAFSA with prior year’s tax information as well as additional information on nontaxable income and assets.</li> <li>• Renewal application required every year.</li> </ul>	<ul style="list-style-type: none"> <li>• Simple look-up table based on family size and average family income over prior 3 years.</li> <li>• Eligibility automatically and universally determined for tax filers in year dependent turns 17 (or earlier if requested).</li> <li>• Eligibility fixed at age 17 unless or until a student becomes independent.</li> </ul>	<ul style="list-style-type: none"> <li>• No detailed need analysis. Eligibility for full awards based on 3 years of prior household income; half-size awards for marginally eligible group.</li> <li>• Eligibility automatically determined using IRS data upon request. Also covering dislocated workers (e.g., those with 3 years of job tenure).</li> <li>• Financial eligibility fixed for specified time related to program length with no reapplication required.</li> </ul>
<b>Completion incentives</b>	<ul style="list-style-type: none"> <li>• Maximum awards pegged to enrollment in 24 credits per year; students cannot receive funds in excess of the maximum award to complete degree faster.</li> <li>• Students may receive 6 maximum awards over their lifetimes, regardless of program length.</li> <li>• SAP requirements are unevenly enforced.</li> </ul>	<ul style="list-style-type: none"> <li>• Disbursement based on credits enrolled up to 45 credits per year.</li> <li>• Aid limited to 125 percent of credits required for credential, for a maximum of 150 credits.</li> <li>• SAP determinations will track students across institutions.</li> <li>• Students who complete an associate degree within 2 calendar years of entry will receive a \$250 completion bonus; those who complete a bachelor’s degree within 4 years will receive a \$500 completion bonus.</li> </ul>	

## COMPONENT 1: TAILORED GUIDANCE AND SUPPORT SERVICES

A portion of the funding for the Pell Grant program should be used to fund guidance and support services for Pell Grant recipients. All students need better information and guidance about the educational programs and institutions in which they have a reasonable chance of succeeding, about the employment and graduate study options likely to be available when they complete their initial studies, and about the costs they will incur, which for many will involve accumulating student debt. Independent students, most of whom have work and/or family responsibilities, face different barriers to success from the barriers faced by most recent high school graduates, who are likely to be dependent students. The guidance and supports built into the Pell program should thus be distinctive.

Because of these differences, we propose a structured support system to accompany the Pell Grant funding for both groups of recipients. These structures must be well-designed and adequately funded to ensure that they improve student outcomes rather than adding ineffective mandates and bureaucratic hurdles. We suggest that an investment on the order of 5–10 percent of current Pell funding (\$2 billion–\$4 billion) could support meaningful and effective additional services for new recipients. We outline options next, but recommend that the federal government support the evaluation of test programs and sites before implementing detailed program provisions.

### *Dependent Pell Grant recipients should be provided with a basic college coaching service from the time of initial application through the first year of enrollment.*

As discussed above in Chapter 2, several studies using rigorous random assignment designs have found that relatively low-cost coaching services, ranging from \$200 to \$1,000 per student, can have substantial impacts on the actual enrollment of students who apply to college, as well as on their persistence through the first year. Prior to enrollment, coaching services may help students interpret aid award letters and prioritize tasks and paperwork required to complete the enrollment process. After enrollment, coaching services may help identify barriers to persistence and provide students with links to relevant, institution-specific resources.

While several of the interventions that have shown success have involved at least one in-person meeting, all took advantage of text messaging, email, and phone calls in order to communicate with students. At a bare minimum, the ED could use the phone numbers and email addresses provided on the simplified Pell application form to send automatic messages with timely information and links to additional sources of support. The simplified Pell form could include an opt-out box for individuals who decline these communications.

Since eligibility would be determined automatically at age seventeen and fixed until age twenty-four, the ED could proactively reach out by mail to individuals who do not enroll initially to remind them of their eligibility, much as the Social Security Administration periodically mails estimates of Social Security eligibility. This would likely require collaboration between the ED and the Department of the Treasury, which would have the needed information on eligibility and address. These mailings would add additional costs, but even \$10 per mailing to 10 million households per year would be a trivial fraction of overall Pell spending (\$34.5 billion in 2011–12).

Services that are more sophisticated and personalized could be contracted out by the ED. A number of private organizations, both nonprofit and for-profit, have emerged nationwide to provide similar services either directly to students or through contracts with institutions.<sup>12</sup> While personalized services would be more expensive, existing research suggests the impact may justify the cost, and may exceed the impact of additional increases in financial aid, on a per dollar basis. For example, the Bettinger and Baker (2011) study of InsideTrack’s service found that it increased persistence over the first year of enrollment by 5 percentage points (at a cost of \$1,000 each for students who participated for two semesters), a larger effect on persistence than has been found for need-based aid (see Dynarski and Scott-Clayton 2013 for a review of financial aid research).

At this point, the precise format and intensity of the coaching service should be subject to discussion, and we think it is crucial that whatever service is ultimately proposed should be subjected to a randomized evaluation prior to a full-scale rollout. But we want to emphasize that the evidence strongly suggests the impact of additional guidance may be greater at this point than the impact of further increases in the generosity of Pell. Even if no additional funding was made available, it may be cost-effective to redirect a small portion of Pell funds—perhaps 5 to 10 percent—from student grants to specific evidence-based student support services.

### *Independent Pell Grant recipients should be required to meet with a third-party career counselor before enrolling in a program. These counselors would be made available via One-Stops or other structures designed to facilitate linkage between postsecondary education and local workforce needs.*

These services should be designed to help students formulate their goals and make informed choices about programs most likely to lead them to those goals. All independent Pell recipients should have access to some level of continued, personalized guidance throughout their studies.

While evaluations of the effectiveness of existing structures created under the Workforce Investment Act vary, the associated One-Stops could form the basis for the counseling that adult students entering postsecondary study require. Services would



have to be tailored more toward assessment of appropriate education and training and less toward immediate job placement than is now the case.<sup>13</sup> Counseling must be based on up-to-date information on job availability and earnings potential at the local level, as well as on what kinds of education and training are needed to achieve competency in particular occupations and assessment of whether individual students are likely to be able and willing to attain such education and training.

It is critical that these services be provided conveniently and efficiently, independent of the institutions offering the relevant programs of study. Funding these Centers (or similar facilities) to assess and counsel independent Pell Grant recipients could significantly improve postsecondary success rates, more than recouping the cost.

An earlier Hamilton Project discussion paper by Jacobson (2009) describes the critical role that One-Stops can play and outlines several reforms—including more-accurately measuring the costs and benefits of training, staff-intensive counseling, job placement through public labor exchanges, and other forms of low-cost job search assistance—that would help ensure their effectiveness. Strong (2013) proposes shifting One-Stops from their current focus on job matching to helping individuals develop the competencies and credentials necessary for landing and succeeding in jobs that have career potential. Steigleder and Soares (2012) propose restructuring the workforce development system to increase the postsecondary training provided. Workers would enroll in education and training programs based on assessment of their skills and their need for support services.

Developing the optimal design for these counseling services will require careful experimentation and evaluation of alternative models. There is a growing body of research on the effectiveness of occupational training programs and support services, and a number of researchers and organizations have proposed innovative programs for improving the success rates of adults seeking to improve their marketable skills (Edelman et al. 2011; Jacobson, LaLonde, and Sullivan 2011; Soares 2010; Strong 2013). This evidence should provide the basis for both the initial basic design of the program for independent students and for pilot programs around the country to develop effective local strategies.

The counseling provided to independent students should not end when they choose their course of study. The enrollment patterns of independent students, who frequently attend part-time and have breaks in their studies, make continuing formal guidance throughout the period of their studies critical. Our proposal would mandate that Pell recipients meet with a guidance counselor, career counselor, or other designated student-success advocates at their institutions at least once annually while they are enrolled. These services should be an integral part of institutional programs and should not require additional federal funding.

*The federal government should encourage and/or provide incentives for states to allow students to use income support programs to improve their chances of succeeding in college. It should also review its own income support programs to ensure that they do not discourage recipients from acquiring the necessary education and training.*

The Pell Grant program is not and cannot feasibly be generous enough to cover the living costs of adult students and their families. Too often, income support programs (e.g., the Earned Income Tax Credit, Medicaid, the Supplemental Nutrition Assistance Program, Temporary Assistance for Needy Families), with rules and regulations generally set at the state level, exclude students. In an attempt to encourage immediate self-sufficiency, many programs have strict limits on the extent to which postsecondary enrollment can substitute for work as an eligibility criterion. This shortsighted approach makes earning valuable labor-market credentials much more difficult for many who could benefit from these programs.

Barr and Turner (2012) provide evidence of the importance of supplementary income support for postsecondary students. They find that states in which unemployment compensation regulations favor postsecondary access for displaced workers, as well as states with longer benefit duration, saw significantly larger enrollment increases during the 2007–09 recession.

The Benefits Access for Completion program, funded by several foundations and administered by the Center for Law and Social Policy and the American Association of Community Colleges, is currently developing systems at several community colleges to improve student access to income support programs. A similar effort by Single Stop USA and the Association of Community College Trustees shows promising results (Goldrick-Rab, Broton, and Gates 2013). Results of these programs and findings from other rigorous experiments should provide the basis for designing federal strategies to ensure greater access to the funding that independent Pell Grant recipients need to supplement their student aid.

## COMPONENT 2: TAILORED SIMPLIFICATION OF ELIGIBILITY AND APPLICATION

The proposed reforms to the Pell Grant system will simplify the application and eligibility processes, allowing easier access to a more predictable Pell Grant system.

*Pell eligibility should be determined once, and should rely on data from the IRS, eliminating both the complex application form and the need to reapply multiple times over a course of study.*

When young people reach the age of seventeen, the Pell program would automatically calculate their Pell Grant eligibility based on their parents' tax returns for the prior three years.<sup>14</sup> As suggested in Dynarski and Scott-Clayton's (2007) simplification proposal, set forth in a Hamilton Project discussion paper, this

automatic calculation and notification could be authorized by including a check-off box on income tax return forms that would give the IRS permission to forward the relevant tax information to the ED. This would enable families to be informed of Pell Grant eligibility approximately a year before students graduate from high school.

Those not required to file taxes would provide simple income information to the ED on a one-page form to show eligibility. When students are ready to apply to a postsecondary institution, they would complete a simple one-page Pell Grant claim form to trigger the award that has already been automatically calculated.

The Pell eligibility set at age seventeen would be valid until the student automatically becomes an independent student at the age of twenty-four. An appeals process would allow the program to adjust awards based on unusual changes in family circumstances. Young independents under the current system—those who are twenty-three or younger but classified as independent, most commonly because they have children or are married—would under our proposal automatically retain any eligibility they would have as dependent students until age twenty-four, but could choose to apply instead as independent students.<sup>15</sup>

Students enrolling at age twenty-four or older would submit a brief application allowing the IRS to forward data to determine eligibility. Students would be eligible if their average income over the past three years was lower than an amount set in relation to the poverty level. If eligible, they would receive adequate funding to complete their degrees for five years or until they left school and/or completed the program in which they enrolled, whichever comes first.

Fixing eligibility for multiple years greatly reduces the financial uncertainty students face when beginning a postsecondary program. It also eliminates the problem of many students simply failing to reapply for aid each year.

***Pell awards for most dependent students should be based on two data elements that are available from the IRS: (1) parents' adjusted gross income and (2) family size. The Pell program would use those data to create a simple look-up table.***

In order to make it easier for families and individuals to determine their aid eligibility far in advance of need, award sizes should be based on a simple formula, with look-up tables based on income and family size widely available. For most students, Pell awards should be based only on adjusted gross income and family size, as measured by number of federal income tax exemptions. For students whose tax forms indicate that their low adjusted gross income may not be representative of their true financial capacity, the ED may require more information or students could be deemed ineligible.

In addition to allowing the Pell program to adjust eligibility for families whose low reported incomes are not representative

of their actual financial circumstances, the more-detailed financial information available from the IRS would allow the program to automatically calculate aid eligibility indices. These indices could then be used by states and institutions to award grant aid to students whose incomes are too high to qualify for the Pell program.

The Pell program would base eligibility for dependent students only on parents' financial circumstances. Neither students' income and assets nor the timing of siblings' enrollment in college would affect the amount of aid awarded.

The system could take advantage of IRS data by basing eligibility on three years of income data rather than on just one year. Using average income over a three-year period serves several purposes: First, incomes can fluctuate arbitrarily from year to year, so a multiyear average provides a more-reliable estimate of a household's financial strength. Second, it limits the scope for gaming. The incentive to shift income from one year to another will be minimized, and it may be more difficult for applicants to shift income completely out of the three-year window. Finally, while an even longer window may be theoretically preferable in terms of accurately capturing long-term financial strength, a three-year window acknowledges the relevance of the recent past and could be implemented using IRS records.

The professional judgment system should remain in place for dependent students whose parents' financial circumstances have deteriorated significantly since the time the award level was determined and for those whose parents are unavailable. Orphans, foster children, and those who are wards of the court would automatically be eligible for the maximum grant. This would also be the case for students whose parents receive means-tested benefits from programs such as Temporary Assistance for Needy Families, Medicaid, Section 8 public housing benefits, or Supplemental Security Income.

***Pell awards for independent students should be a flat amount for those who qualify based on past income or displaced worker status, and should allow smaller awards for those who just miss the cut-off.***

For independent students, Pell award determination can be made even simpler, with only two levels of awards: full awards for students with household income up to, for example, 200 percent of the poverty line, and half awards for students with incomes between 200 percent and 250 percent of the poverty line. Attempting to make finer distinctions among these aid applicants is both unnecessary—currently about 80 percent of independent students with dependents and about 60 percent of those without dependents are eligible for the maximum Pell Grant—and problematic (ED 2012). To the extent that income of independent students varies, it is difficult to separate those who have the capacity for only low earnings from those who have low earnings simply because they are choosing to work less while continuing to pursue their education.

Professional judgment could also be used to extend eligibility to additional groups of independent students. For example, individuals who qualify as dislocated workers according to standardized criteria and who have at least three years of job tenure could qualify for an award even if their average income exceeds the threshold.

***The Pell program should communicate annually with families and individuals about their potential Pell Grant eligibility and about other resources available to help pay for college.***

Families of middle school and high school students—and possibly elementary school students—should receive notification from the federal government about the Pell Grants for which students would be eligible if they were of college age. Logistically, either the IRS could send this notification as part of the tax system, or it could provide the ED with Pell eligibility information for individuals, but not with tax data. The technical and privacy issues involved should be manageable, as has turned out to be the case with the new system of allowing federal financial aid applicants to pre-fill their FAFSA forms with IRS data. Older individuals with persistently low earnings may similarly benefit from increased awareness. Because eligibility is based on information the IRS already has, those who are flagged as eligible could be proactively notified (either directly or via modules in tax preparation software) rather than only after they make an inquiry.

There is considerable evidence that early awareness of funding available to pay for college can have a positive impact on academic preparation and planning for college (Destin and Oysterman 2009; Elliott et al. 2011). Children growing up in low-income families who think they will not be able to pay for college may disengage from high school and fail to take steps, such as taking the ACT or SAT, that may be required for college application. Knowing well in advance about federal aid eligibility should help mitigate this situation.

***Initial award levels should be set to be approximately cost-neutral for both dependent and independent students, and growth in award levels should be linked to changes in the consumer price index (CPI).***

Simplifying the Pell eligibility formula need not affect overall program costs, though simplification necessarily means some students will get more and some students will get less (Dynarski and Scott-Clayton 2006, 2007). We propose setting award levels under the new simplified formula to leave both the overall cost of the program and the division of the funding between dependent and independent students as they would be under the current system.

Linking award levels to the CPI by, for example, legislating that they will increase by CPI +1 percent each year would eliminate the uncertainty and political gamesmanship that characterize the current annual appropriations process.

### COMPONENT 3: ENHANCING COMPLETION INCENTIVES

Reducing the complexity of the Pell Grant program is only the first step in making these subsidies more effective for students. The program must be designed to support student success.

***The prorating of Pell Grants for students attending less than full-time should be extended so that students attending more than full-time receive larger grants, covering up to a maximum of forty-five credits each calendar year, allowing students to progress at their own pace and to be funded for more than two full-time terms over an academic year.***

We propose Pell Grants that for all recipients would be based on the number of credits attempted.<sup>16</sup> This is currently the case for students attending less than full-time (fewer than twelve credits), but not for students attending more than full-time (more than twelve credits).

The Pell Grant program is not currently structured to maximize incentives and support for students to progress through their postsecondary programs in a timely manner. Current funding levels depend on whether students are enrolled less than half-time (fewer than six credits), half-time (six to eight credits), three-quarters-time (nine to eleven credits), or full-time (twelve or more credits). However, this system does not encourage students to enroll with the intensity required to complete a bachelor's degree in four years or an associate degree in two years. Timely completion requires an average of fifteen credits per semester. A system that funds students according to the number of credits for which they are enrolled would provide additional dollars to students whose schedules are designed with this goal in mind. This system would also be much simpler than the current set of categories. Moreover, it would allow students to be funded year-round if they enroll for all available terms of study. In contrast, the current system funds only two full-time terms per year.

Our system would reinstate the benefits of the short-lived summer Pell—which was introduced in 2009 and then discontinued in 2011 due to federal budget constraints and the concern that students were “overloading” on courses and ballooning program costs—with several additional protections against overuse. First, as described next, lifetime Pell awards will be capped at a fixed number of credits so students who accelerate will have fewer credits available in future years, meaning there is no incentive for institutions to simply inflate credits or for students to take more credits than are necessary for the degree. Second, we propose below strengthening the SAP requirements so that students will have incentives to not attempt more credits than they think they can successfully complete.

Note that this system would eliminate the concept of a fixed maximum Pell Grant that has been the focus of most discussion of Pell funding to date. Students who enroll in 2013–14 can

receive no more than \$5,645 for the year, even if they enroll for more than twelve credits per semester. Under the proposed system, the award level per credit would be fixed, but students could receive that amount for up to forty-five credits per year.

*Students would be eligible for Pell Grants to cover up to 125 percent of the credits required for their degree or credential, up to a lifetime maximum of 150 credits. Students enrolled in sub-baccalaureate programs could stack such credentials, but would have to complete at least one credential in order to receive funding for more than seventy-five credits in these programs.*

Some students are required to complete developmental courses or prerequisites that do not count toward their degrees; in addition, there must be some allowance for students not completing all attempted credits. However, funding limits tailored to the length of the program will provide the structure students need to progress in a timely manner and prevent students from exhausting their lifetime Pell eligibility pursuing a single short-term credential.

Our proposal would mean that students in a thirty-credit certificate program would be eligible for thirty-eight credits of Pell funding. If students wanted to stack certificates by subsequently enrolling in a second thirty-credit certificate program, they would get another thirty-eight credits of eligibility. A student who completed a certificate and then enrolled in a sixty-credit associate degree program would be eligible for an additional seventy-five credits of assistance. If the same student then transferred to a bachelor's degree program, she would be eligible for additional Pell funds up to the lifetime maximum of 150 credits. We would place one restriction to ensure that students do not switch programs repeatedly just to activate additional eligibility: students who are not enrolled in a bachelor's degree program would have to complete at least one credential (certificate or associate degree) within the first seventy-five credits funded in order to receive additional funds.

Lifetime Pell eligibility, covering any combination of degrees and certificates, would be capped at 150 credits. This is a change from current rules, which are an incoherent mix of flexibility and restriction. Current rules allow students to attend full-time for up to twelve semesters as long as they never complete a bachelor's degree. Those pursuing a certificate are allowed the same amount of time as those pursuing a bachelor's degree. On the other hand, students who would like to take a heavier load in order to complete their degrees on time do not receive any additional funding compared to those who take only twelve credits per term.

*SAP requirements should be strengthened to follow students from one institution to another.*

Continued eligibility for Pell should depend not only on meeting the minimal academic requirements within an institution,

but also on performance at previous institutions. Under the current system, a student who loses Pell eligibility because of lack of academic progress at one institution can access the program without question at a different institution. We propose to strengthen the rules by tracking SAP centrally, under the same system that tracks Pell disbursements. A student who fails to meet the SAP requirements would lose eligibility for Pell and would not be able to qualify again before demonstrating academic progress at an accredited institution.<sup>17</sup>

*Students should be given on-time completion bonuses of \$250 for completing an associate degree within two calendar years of entry or \$500 for completing a bachelor's degree within four calendar years of entry.*

While students already can reap significant implicit benefits by completing their degrees in a timely manner, students may pay more attention to a nominal financial incentive that is both more concrete and more immediate. The availability of these awards may also place pressure on institutions to remove barriers to on-time completion.

The scope for gaming these awards would be limited in two ways. First, to limit the gratuitous awarding of associate degrees to bachelor's degree students, the total award would be capped at \$500. Students who earn the \$250 associate degree bonus first could then receive another \$250 bonus for completing a bachelor's degree, for a total of \$500. Second, the bonuses would be offered only beginning at the associate degree level. Because certificate programs vary widely both in their course requirements and their apparent labor-market returns, offering completion bonuses at this level may too easily lead to an unproductive proliferation of short certificate programs with uncertain labor-market value (Carnevale, Rose, and Hanson 2012; Lang and Weinstein 2013).

The cost of these incentives would be a trivial fraction of overall Pell spending. Currently, only 20 percent of Pell recipients complete a bachelor's degree within six years and only 10 percent complete an associate degree within six years. If we made a generous assumption that, under the new incentives, every one of these graduates would finish on time, the cost would be only \$125 per Pell recipient (since 20 percent of recipients would receive \$500 and an additional 10 percent would receive \$250). This represents less than 5 percent of the average annual award; given that the average student receives a Pell Grant for 2.6 years, \$125 represents less than 2 percent of the typical recipient's cumulative award. Moreover, if these incentives encourage course taking that is more focused, and if they reduce the prevalence of excess credits (more credits than are required to complete a degree), offering these bonuses could even lead to some cost savings.

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## Chapter 4: Implementation Issues: Logistics, Costs, and Winners and Losers

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Supporting access to and success in postsecondary education has never been more important, either to our society as a whole or to individual students facing barriers to college enrollment and completion.

There will be hurdles to overcome in gaining support for our proposed Pell Grant reform, and logistical problems in implementing the new system. The biggest barrier to acceptance of the proposed approach may be the tailoring of the program to meet the different needs of dependent and independent students. There is a strong history of political support for Pell Grants, which is frequently viewed as a program for young people from low-income families. In contrast, worker-training programs, generally targeted at older adults, have been very poorly funded. See, for instance, Motoko Rich's article in the *New York Times* ("Federal Funds to Train the Jobless are Drying Up," April 8, 2012) for a summary of funding trends. According to the OMB, federal spending on training and employment was \$9.1 billion in 2011, the same amount in inflation-adjusted dollars as in 2001 and 7 percent less than in 1991 (OMB 2012). The federal government spent \$37 billion on Pell Grants in 2010–11 and \$35 billion in 2011–12 (College Board 2012a). Even in harsh economic climates such as today's, with high unemployment and considerable worker displacement, it is difficult to garner support for labor-force development programs.

Our proposals are intended to illuminate the relative ineffectiveness of the program for the approximately half of all recipients who are not recent high school graduates and are not seeking general education. Our economy is in desperate need of improving the skills of workers and ensuring that they are better matched to available jobs; the Pell Grant program can play a major role in addressing those needs.

The proposed reform of the Pell Grant program strengthens the coordination of Pell with other programs adults must rely on if they are to succeed in postsecondary education, and develops strategies for ensuring that these adult students will get the guidance they need to select educational paths with high probabilities of success.

Nonetheless, there is considerable status quo inertia among those who rightly value the accomplishments of the Pell Grant program. Our goal is to initiate a dialogue that will open up possibilities

for reforming the program so that it can be even more successful over its second forty years than it has been to date.

### LOGISTICAL ISSUES

The current system relies on the need-analysis formula incorporated in the Federal Methodology that was legislated in 1992; it was developed from systems designed by the higher education community to determine parental ability to pay for college. The Federal Methodology includes separate formulas for students who are dependent on their parents, for independent students with dependents of their own, and for independent students without dependents. All students ages twenty-four and older are in one of the two independent categories.

Developing the appropriate guidance systems is, of course, a greater challenge. The structure proposed for dependent Pell Grant recipients would not require significant resources, but the structure for older students will. The first step would be better coordination between the Department of Labor and the ED. The One-Stops currently operating under the umbrella of the Workforce Investment Act are a promising starting point, but are of uneven quality and are not currently equipped to provide the proposed services. It is critical that the reformed Pell program integrate these or other institutions with efforts to guide adults into productive postsecondary paths instead of focusing on immediate labor-market outcomes. The goal is not to establish overlapping bureaucracies, but rather to increase the effectiveness of existing structures.

The federal government should provide supplemental funding for career assessment and counseling services for independent students. Evidence indicates that investing in these services greatly improves the effectiveness of programs that provide funding for training for unemployed adults. Benefits resulting from better choices made by students would include increased earnings and tax revenues and reduced unemployment compensation; the benefits would be likely to significantly outweigh the costs (Jacobson 2009). In 2011–12 there were approximately 5.6 million Pell recipients classified as independent, about 2.6 million of whom were new recipients (ED 2012). To provide each of these 2.6 million potential Pell recipients with \$500 in additional counseling services would require about \$1.3 billion—a sum that would have an outsized impact on the efficacy of the tens of billions of dollars in total program expenditures.

During a transitional period of implementation of the proposed changes, current Pell recipients would be unaffected unless they chose to reapply under the new system. Pell eligibility for any dependent student who had already turned seventeen at the time the new system came into effect would be determined based on the existing system. The new eligibility system for independent students would require a shorter transition period. Current recipients could reapply annually under the older system, or immediately transition to the new, one-time application system.

## COST IMPLICATIONS

The proposed changes to the Pell Grant program do not have to change the budget. Keeping the same formula but eliminating all data elements other than income and family size would increase Pell eligibility for those with significant asset levels, though it has been well documented that few students whose incomes are low enough to qualify for Pell fall into this category (Baum et al. 2012; Dynarski and Scott-Clayton 2006, 2007).

We are not suggesting just eliminating items from the existing, complex federal need-analysis formula that determines Pell eligibility. An alternative simple formula proposed by the Rethinking Pell Grants Study Group, based only on income and family size without regard to the number of family members in college, would eliminate all students from families with incomes above the predetermined cut-off level of, for example, 200 percent of the poverty line. In this case, the total cost of the program would depend both on how many additional eligible students who do not now complete the complicated FAFSA activated the awards for which they were eligible, and on the level at which the funding per credit was set. Simulations suggest that at a maximum grant of \$200 per credit (or \$6,000 for thirty credits per year), the total costs would be approximately equal to those under current provisions even if all eligible students participated (Baum et al. 2013).

The proposed system of granting a full Pell to independent students whose incomes over the preceding three years fell below a fixed eligibility level such as 200 percent of the poverty line, and awards of half that amount to those with incomes just above this level, could also be budget-neutral. This would require basing the Pell award level on the current average award for full-time independent students.

Most important, the cost of the program would depend on the level of funding per credit and the separate determination of the income level at which the Pell award declines to zero. Nothing inherent in the proposed allocation system would either increase or decrease the total cost of the program.

If the proposed award size for independent students were set to maintain current average award size, some students who now receive the maximum Pell Grant would instead receive smaller awards, but many of those whose Pell eligibility is currently limited because of their prior labor-market earnings would

receive larger awards. Independent students without dependents would benefit, while some students with dependents would receive smaller subsidies. Family size would be relevant because an income cut-off based on the poverty level would allow higher incomes for students with larger families. Grant sizes would no longer be adjusted to account for the expenditures required to support dependents, but students with dependents would benefit from increased efforts to connect them to other sources of funding to provide support for their families.

The added cost from the proposed program would come from the reforms involving counseling services. The most intensive services, and those requiring federal funding, would be focused on new enrollees. Given that these costs apply only to new recipients, providing every new recipient with \$500 worth of guidance and counseling would cost about \$1.3 billion, about a 4 percent increase over current Pell spending. It would be prudent to pilot new guidance and counseling services on a randomized basis before scaling them up to all new recipients.

As discussed above in Chapter 3, it is our view that these guidance and counseling services are core to the success of the program and are worth funding even if there is a trade-off with the levels of the average and maximum grants. Students who start in programs in which they have a high probability of success are likely to have improved outcomes, decreasing the time and money required for them to achieve their goals. These savings—both to students and to taxpayers—will more than compensate for the investment in better guidance before and during postsecondary studies.

## WINNERS AND LOSERS

The eligibility criteria could be set to approximate current eligibility for dependent students. In 2011, when 200 percent of the poverty level for a family of four was \$47,100, 88 percent of dependent Pell Grant recipients came from families with incomes less than or equal to \$50,000 (ED 2012, Table 6). However, there would certainly be some redistribution of funds. Among dependent students, those who receive Pell Grants only because they have siblings in college at the same time would lose eligibility. The policy reform would target the funding on students from lower-income families.

- Students who enroll for twelve credits per semester over five years now receive five full Pell Grants. Those who enroll for the same 120 credits over four years, averaging fifteen credits per semester, receive only four full Pell Grants. Under the proposed system, these two groups of students would receive equal funding.
- Among independent students, there would be some transfer from students with dependents to adult students with no dependents whose earnings have disqualified them in the current system.
- Low-income adult students would receive more funding from income support programs.

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## Chapter 5: Questions and Concerns

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### *How can we afford to add new guidance and outreach services to the Pell program when many feel the existing costs are already too high?*

Part of the reason some may perceive current costs as too high is because they are dissatisfied with program results. We believe the program should be designed to maximize its impact on both student access and success per dollar of available funding, and that it is possible to separate questions of structure from questions of funding. The proposed support services would add costs, but potentially less than initially meets the eye because the services would be per recipient rather than per recipient per year. The calculated cost of \$1.3 billion for pre-enrollment counseling of independent students, which is less than a 4 percent increase over current Pell spending, is a manageable additional cost; research evidence suggests it, like our proposed light-touch guidance for dependent students, could have a meaningful impact on student outcomes. If no additional funds are available, the additional services could be financed by setting the per credit award size to maintain overall cost neutrality.

### *Why not restrict Pell funds to students attending programs with a demonstrated record of student success, as measured by gainful employment of graduates?*

The Pell Grant reforms proposed here do not depend on the implementation of stricter requirements for institutional eligibility, nor do they substitute for proposals to eliminate funding for programs or institutions not meeting specified standards for employment, earnings, or debt repayment of students who have graduated from or left these programs. Our proposals for improved student information and guidance should reduce the number of students entering programs with poor records of success. Evaluation of the merits of Gainful Employment regulations is beyond the scope of this paper.<sup>18</sup>

### *What if simplifying the application process works so well that it induces many more students to enroll in college and apply for (and receive) Pell Grants?*

This concern has been raised before with respect to the consequences of aid simplification. To quote Dynarski and Scott-Clayton's earlier (2007) Hamilton discussion paper, "Currently, complexity and uncertainty keep program costs down by discouraging the neediest students from applying. This is a cowardly way to ration scarce aid funds. If we need to ration aid, we should do so honestly, by designing a program

**The Pell program should be designed to maximize its impact on both student access and success per dollar of available funding...**

that in practice as well as principle reflects our distributional priorities" (p. 19). In other words, in the event of large increases in enrollment, rather than relying on program inefficiency to limit applications, we could revisit the grant schedule to ensure the program can absorb the costs of success.

### *If students can get more Pell assistance for taking more credits, won't this provide an incentive for students to overload on courses and balloon the costs of the program as the summer Pell did?*

To the extent that students accumulate more credits and thus acquire more education, typically we would see this as a good thing. By placing lifetime limits on eligibility, we reduce the potential for students to take wasteful credits, because doing so will leave them with fewer credits available in the future. Moreover, by strengthening the existing SAP requirements, we limit the incentives for students to take more courses than they

can reasonably handle in a given term. Finally, with respect to the summer Pell, it is worth noting that some of the additional costs of that initiative might be recouped if students took the same number of courses eventually, but simply shifted forward some of their planned course-taking from future semesters.

***If students can get more Pell assistance for taking more credits, won't this put pressure on institutions that are already capacity constrained?***

One concern expressed by some opponents of funding students who enroll for more credits per semester more generously than those who enroll for the twelve credits currently required for receipt of the maximum Pell Grant is that institutional capacity constraints sometimes prevent students from enrolling more intensely. The proposed system would not differentiate between students who simply prefer to take fewer credits, those who are unable to enroll more intensely because of family and work responsibilities, and those limited by course availability. Students would not be penalized based on the pace at which they complete the credits required for their degrees or certificates. Perhaps the relationship between course availability and Pell funding would provide greater incentives for institutions to ensure that students could get the courses they need in a timely manner.

***Shouldn't concerns about the quality and effectiveness of existing One-Stops make us hesitant to require all independent Pell recipients to use them or services like them?***

The requirement proposed here that independent students receive advising from a disinterested third party before enrolling in a postsecondary program does not depend on One-Stops. The fundamental idea is that these students need assistance in assessing their own prospects and in determining the ability of the many available programs to meet their needs. Institutions with an interest in their enrollment are not in a position to provide this objective guidance. We suggest the existing One-Stop system as a starting point in order to avoid establishing a second parallel bureaucratic structure, but it is possible that the whole system should be replaced. A number of experts have proposed reform of the existing One-Stop system (e.g., Jacobson 2009; Strong 2013).

Our intent is to stimulate discussion of the best approach to meeting this need and to encourage experiments with rigorous evaluation of alternative approaches. The idea is to support services that will supplement those provided by institutions, particularly those in the for-profit sector and in community colleges; these institutions educate the vast majority of independent students.

***What happens to students who are under age twenty-four, but are considered independent under current rules, for example because they are veterans, married, or have children of their own?***

If these students grew up in a low-income family, then they would have eligibility as dependent students based on their family's income when they were aged fourteen to sixteen. This eligibility would remain available until the students turn twenty-four. However, students who would be considered independent under current rules could choose to apply as independent students at any age. Students would not be allowed to receive grants under more than one eligibility formula simultaneously.

***What happens to students who are initially eligible for Pell as a dependent student, but don't finish their degrees by age twenty-four?***

When dependent students receiving Pell reach the age of twenty-four, they are no longer eligible for any unused funds as dependent Pell recipients, and would need to reapply as independent students. Their use of Pell funds as dependent recipients would count toward the number of credits for which they would be eligible as independent students (i.e., eligibility under both statuses would count toward lifetime eligibility caps, as is true under the current system). In practice, a student who has been enrolled full-time for several years prior to age twenty-four is likely to have low enough earnings to qualify for assistance as a newly independent student (as is also true in the current system).

Though reapplication would be required at the point a student becomes independent, this single reapplication is a significant improvement on the current system, which requires reapplication every year a student is enrolled.

***The proposed Pell Grant reforms focus on modifying student choices and behaviors to improve their postsecondary success. Don't we also have to change the way institutions perform in order to ensure that more Pell Grant recipients earn the degrees and certificates to which they aspire?***

Improving the success of Pell Grant recipients certainly requires changes at the institutional level. This likely requires directing students to institutions with stronger records as well as improved guidance, support, and instruction within institutions. Changes to institutional eligibility for participation in Pell are beyond the scope of this paper. We have supported elsewhere proposals that direct some funds associated with the Pell program to institutions, based on their success in supporting Pell recipients through their studies (Baum et al. 2013; Rethinking Student Aid Study Group 2008). It is important to note that we support basing funds provided directly to institutions on their success in educating Pell Grant recipients, but oppose linking the Pell Grant awards available to individual students on any rating system applied to institutions that meet the qualifications for receipt of Title IV student aid.



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## Chapter 6: Conclusion

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The federal Pell Grant program has transformed the lives of many Americans who would not have had access to postsecondary education without this support. But it was designed forty years ago with a focus on recent high school graduates from low-income families for whom the primary barrier to a college degree was lack of funds. Today, over half of all Pell Grants are awarded to students without regard to their parents' financial circumstances, because almost half of the recipients are over the age of twenty-four, and 60 percent are independent. A significant portion of the funding is used for short-term occupation-specific programs, many of which are offered in for-profit institutions. Too many students, particularly among those returning to school after time in the labor force, never earn postsecondary credentials. It is time to restructure the program to better serve current and future students.

We propose augmenting the program with guidance and supports tailored for dependent and independent students. Dependent students would receive enhanced outreach and light-touch coaching through their first year of college, while independent recipients would receive guidance and assessment from disinterested third parties to help them choose the most appropriate courses of study before enrolling. For all students, the application process and eligibility criteria would be simpler

and more predictable. The program's structure would do more than it now does to support student success.

For all students, Pell eligibility would depend on three years of income history as reported by the IRS. But small differences in family income would affect the size of the Pell Grants only for dependent students. Independent students would qualify for a full grant, half a grant, or no grant. The Pell program would determine eligibility automatically for all seventeen-year-olds and these awards would remain available for those students through age twenty-four. Independent students would simply apply when they are ready to enroll.

Award levels would be based on the number of credits for which students are enrolled. Students would receive more funding if they enrolled for more courses, including courses over summer terms; this would encourage them to progress toward their degree goals in a timely manner. Students would have to show progress to continue receiving Pell Grants, even if they moved from one institution to another.

A simpler Pell Grant program focused on student success and tailored to the needs of both traditional college-aged students and older students seeking to improve their labor-market skills will be more effective for both students and taxpayers.

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# Endnotes

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1. In 2011–12, 37 percent of 25.5 million undergraduate students received Pell Grants, an increase from 22 percent of 19.8 million undergraduates a decade earlier (College Board 2012b, Table 14a).
2. Independent students are typically at least twenty-four years old and are considered financially independent of their parents for purposes of financial need determination. Younger students are considered independent only if they have children, are married, or meet one of several other specific criteria such as being an orphan or a veteran.
3. Segmenting the population by age leads to similar findings. Among students who began their studies at age twenty-five or older, 37 percent earned a credential within six years, including 3 percent who earned bachelor's degrees.
4. The evidence on persistence or completion is less clear. See Dynarski and Scott-Clayton (2013) for a recent review.
5. The 2007–08 statistics are based on tuition and fees minus all grants, and account for actual intensity of enrollment (full-time or part-time status).
6. A separate study by Bos and colleagues (2012) of the SOURCE peer-to-peer advising program in California, which provided approximately nine hours of guidance to each student over the course of a year at the end of high school, also showed large effects, but was substantially more expensive at \$1,000 per student.
7. The concern about Pell's ability to effectively serve multiple populations has been raised recently by the Rethinking Pell Grants Study Group, in which both authors participated. Our proposal incorporates and expands on several ideas that group raised.
8. The pattern is similar if we segment the population by age instead of dependency status. Almost half of all undergraduates (39 percent of Pell recipients) who began their studies at age twenty-four or younger enrolled in bachelor's degree programs, while only 10 percent of all undergraduates (9 percent of Pell recipients) age twenty-five or older took this path.
9. According to data from the *National Postsecondary Student Aid Study* (NCES 2008), 39 percent of 2007–08 associate degree students who began their studies after age twenty-four were in occupational or technical programs, compared to 29 percent of those who began their studies at an earlier age.
10. Conversely, 80 percent of Pell recipients aged twenty-three or younger are classified as dependent.
11. Authors' calculations using *Beginning Postsecondary Students Longitudinal Study* (NCES 2009) data via NCES Data Lab (calendar months elapsed to first degree, for associate degree recipients).
12. Examples include MyEdu, uAspire, and InsideTrack.
13. For an evaluation of the counseling and career services provided at Workforce Investment Act–funded One-Stop Centers, see Heinrich et al. (2009). Another study of individual training accounts used at Workforce Investment Act–funded centers found that a mandatory counseling requirement may have discouraged study participants from using those services, but noted that it was only the anticipation of counseling, and not the counseling itself, that appears to have discouraged participants. That study suggested that providing better information on the nature of required counseling services from the outset could mitigate the problem (Perez-Johnson, Moore, and Santillano 2011).
14. The system would accommodate other family structures. The financial circumstances of any adult claiming a seventeen-year-old as a dependent on her tax form would serve as the basis for Pell Grant eligibility.
15. Note that the rationale for treating these individuals as independents under the current system is the impracticality of obtaining parental income information for students who may already have established their own households. Under our system, this is not an issue since parental income information is obtained from the high school years and eligibility is then fixed at age seventeen. Individuals who grew up in middle-class or wealthy families, and thus are not eligible for Pell as dependent students, could still apply as independent students if they meet the criteria; we think it is unlikely that this flexibility would induce many such individuals to get married or have children solely to influence their Pell eligibility. (To the extent there is potential for gaming, it is already present in the existing rules.)
16. Reliance on the credit hour as a measure of student progress is currently under debate. We assume that modifications of the credit hour system will leave in place some unit for measuring student progress, which could easily be substituted for credit hours in our system.
17. SAP requirements vary by institution and would continue to do so under the proposed system, as long as students' SAP status is reported centrally. A typical SAP requirement is that students maintain a minimum GPA of 2.0 and complete at least two-thirds of credits attempted.
18. See Jacobson (2009) for discussion of the need for better data on the employment outcomes of Pell recipients.

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## Highlights

In a new Hamilton Project discussion paper, Sandy Baum of the Urban Institute and The George Washington University and Judith Scott-Clayton of Teachers College, Columbia University, propose three major structural reforms to the current Pell Grant system, each tailored to the different circumstances of independent and dependent students.

## The Proposal

### **Establish guidance and support services tailored for both dependent and independent students.**

All students need better information and guidance about the educational programs and institutions in which they have a reasonable chance of succeeding, the employment and graduate study options likely to be available when they complete their studies, and the costs they will incur. Independent students, most of whom have work and/or family responsibilities, face barriers to success that are different from those faced by dependent students, most of whom are recent high school graduates, so the authors suggest slightly different services for each group.

### **Simplify the current eligibility and application process to allow for easier access to Pell Grants.**

When young people reach the age of seventeen, the Pell program would automatically calculate their Pell Grant eligibility based on their parents' tax returns for the prior three years. For most students, eligibility would be based on just income and family size, and for all, eligibility would be fixed for multiple years. This would greatly reduce the financial uncertainty that students face when beginning a postsecondary program and eliminate the problem of students failing to reapply for aid each year.

**Enhance timely completion incentives to support student success.** Students would be funded according to the number of credits for which they are enrolled, so that recipients who want to finish on time are no longer penalized relative to those who stretch out their studies. Students would be eligible for Pell Grants to cover up to 125 percent of the credits required for their specific degree or certificate, up to a lifetime maximum of 150 credits, and those who finish on time would receive a small bonus.

## Benefits

The proposed Pell Grant reforms would for the first time make Pell a true program with students as participants, and not just a grant with students as recipients, and would increase the likelihood that beneficiaries will succeed in college. Moreover, the program would be tailored to the different needs of dependent and independent students, and would better achieve the array of goals it has grown to serve. Access to higher education for low-income students of all circumstances would be improved, and students would be incentivized to complete their degrees in a more-timely manner at a lower cost both to them and to the Pell Grant program.



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