Simplifying and Modernizing Pell Grants to Maximize Efficiency and Impact

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The Situation

The Pell grant program has been the cornerstone of college financial aid since its inception in 1972 as the Basic Educational Opportunity Grant.[1] The program promotes access to college for low-income students. Its voucher design—in which grant eligibility is assigned to the student, who can use it at any accredited public or private institution with few strings attached—reflects a distinctively American approach, appropriate for a diverse and decentralized system of higher education. In 2015–16, 7.6 million students (about one-third of undergraduates) received $28 billion in grants through the program.

Although the program was originally intended mainly for recent high school graduates entering traditional four-year degree programs, today's Pell program is also the federal government's primary workforce training program.[2] Sixty percent of Pell grant recipients are independent students—that is, they are age 24 or older, married, or have children of their own.[3] Fewer than half are enrolled in bachelor's degree programs. A slight majority are pursuing certificates or associate degrees, many of which are in applied occupational or technical programs. Half are working 30 hours a week or more while enrolled.[4]

As both the returns to college and the price of college have risen, so have the stakes around financial aid program design. More students receive more aid than ever before. Yet degree completion rates have stagnated, and inequality in college access and completion has, if anything, gotten worse (Bailey and Dynarski 2011).

Unfortunately, the Pell grant program remains stuck in the 1970s, undermining efficiency and equity. Its cumbersome application process and opaque eligibility formula saddle students, families, and institutional staff with unnecessary bureaucratic burdens and make it harder to communicate the program's benefits to the students who need it most. Its outdated limitations on how many courses and credits students can get aid for annually distort students' educational choices in ways that slow or curtail their progress toward degree completion. Finally, the Pell program does nothing to help recipients navigate the increasingly complex options they face as they compare schools and programs and embark on their courses of study.

With too many students failing to access the aid they need and fewer than half (45 percent) of first-year Pell recipients completing any degree or credential six years later, reforms are needed to streamline the program and better support college success, not just access.[5]

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Recommendations

1. Pell eligibility should be determined once and calculated automatically using a simplified formula with data already available from the Internal Revenue Service (IRS), making eligibility transparent and eliminating the need to file a separate Free Application for Federal Student Aid (FAFSA) each year.[6]

To apply for a Pell grant (or any other federal student aid), a student has to file a Free Application for Federal Student Aid. But the unnecessarily burdensome form and the convoluted eligibility formula that underlies it have become barriers to Pell dollars' efficiency and effectiveness. With well over 100 questions about income, assets, and expenses, the FAFSA approaches the IRS Form 1040 in length and is longer and more complicated than the 1040A and 1040EZ, the tax forms filed by most taxpayers.[7] The information from the FAFSA form is used in a complicated formula to compute a student's Expected Family Contribution (EFC), which is used to determine eligibility for Pell grants, Stafford Loans, and other federal student aid. (Many states and institutions also use the EFC as the basis for their own aid.[8]) Students must resubmit their financial information for each year they enroll, even though most students' eligibility remains stable.

The FAFSA is more than just an annoyance. The form, and the convoluted eligibility formula underlying it, obscures the significant amount of aid available to low-income students. Many students who would qualify for aid never submit a FAFSA. Others may fail to adequately prepare for college because they assume from an early age that they cannot afford it. Ironically, the students who need aid most are the most likely to be discouraged by the complicated application process. Yet research has shown that most information on the form is not necessary. Students' Pell eligibility can be determined with a high level of precision using just a handful of elements from the form, such as adjusted gross income, family size, and number of family members in college (Dynarski and Scott-Clayton 2006, 2007; Dynarski, Scott-Clayton, and Wiederspan 2013).

The US Department of Education has moved toward simplification in recent years by reducing the number of questions on the FAFSA, enabling students to apply a few months earlier by using income data from two years prior instead of the prior year, and enabling students to automatically import tax information from the IRS (until this service was halted in March 2017 because of security concerns). These improvements have had a limited impact on the application experience. The application remains long and burdensome, students still cannot easily discern their eligibility well in advance of college application, and many students who apply one year fail to reapply the next year.

Two reforms would make a meaningful difference. First, the system should base eligibility for most students on factors that can be gleaned from IRS records, such as adjusted gross income and family size, eliminating the need for a separate FAFSA application. In addition to streamlining the application process, this would enable prospective students to easily determine their eligibility years in advance without having to fill out lengthy forms. Prospective students could refer to a simple look-up table that could fit on a postcard. Second, eligibility should be determined only once, when students begin an undergraduate program.[9] This would eliminate the need for students to reapply each year and help them plan—financially and academically—how they will complete their degrees, not just their current year of study.

Various proposals have articulated additional details for how this could work. These include the Financial Aid Simplicity and Transparency Act introduced by Senators Alexander and Bennet and proposals by Asher (2007), Dynarski and Scott-Clayton (2007), and Baum and Scott-Clayton (2013). There may be more than one workable model, as long as the goals of communicating eligibility early and eliminating the need for a separate application are achieved. Although some have expressed concern that states and institutions might require additional aid applications if the FAFSA is eliminated, this is a surmountable problem. A simplified formula can replicate state and federal aid awards (Baum et al. 2012). Elite private institutions already use additional forms and will continue to do so. If necessary, the federal government could use inducements to encourage institutions not to add forms.

2. Fund students for a set number of credits, equal to 125 percent of the credits required for their degree, so they can complete at the pace that makes sense for them.

Pell awards should be prorated to reflect students' enrollment intensity and allow them to complete at the pace that makes sense for them. This is already the case for part-time students (i.e., students enrolled less than 12 credits a semester or the equivalent for quarter-based or clock-hour systems). But full-time students receive the same award whether they enroll for 12 credits, 15 credits, or more. Until the recent revival of the "summer Pell" program, which allows students who enroll full time during the school year to receive additional funding for the summer term, students could not receive Pell for more than 24 credits a year, even though 30 credits a year are required to complete a two- or four-year degree program on time.[10]

This arbitrary definition of "full time" has led to perverse incentives that discourage timely completion. Students who complete 24 credits a year for five years receive 25 percent more in total Pell funding than students who complete 30 credits a year for four years, even though they complete the same number of credits. Further, absent summer Pell, students have had a strong incentive to take summers off, even though this may not otherwise make sense (especially for students in one- or two-year programs who want to enter or reenter the labor market as soon as possible).

Recognition of these perverse incentives has led to debate about whether the full-time threshold should be raised and contributed to the revival of the summer Pell. But funding students on a per credit basis would provide a simpler and integrated solution to both these problems. It would make the definition of full-time moot; all students would receive a per credit amount. It would enable students to receive the same per credit award whether those credits are taken in the fall, spring, or summer, unlike the summer Pell, which creates its own perverse incentive for some students to shift courses from the academic year to the summer, even though not all schools offer a full range of courses in the summer.[11]

Lifetime Pell awards would be capped at a fixed number of credits so students who accelerate have fewer credits available in future years; there is no incentive for institutions to inflate credits or for students to take more credits than are necessary for the degree. Baum and Scott-Clayton (2013) also recommend strengthening Satisfactory Academic Progress requirements so students will not attempt more credits than they think they can complete.

3. Leverage technology to help Pell recipients compare options, answer questions, and meet deadlines, so they can get the most out of their awards.

Addressing students' financial constraints is necessary, but not sufficient to generate dramatic improvements in degree completion. To use their awards effectively, Pell recipients need better information and personalized, third-party guidance as they make their college choices and learn to navigate through them. Before enrollment, low-cost, technology-enabled coaching services may help students interpret aid award letters and prioritize tasks and paperwork required to complete the enrollment process. After enrollment, such services may help identify barriers to persistence and provide students links to relevant, institution-specific resources.

The federal government relies upon schools to provide this support. But with student-to-counselor ratios at public colleges as high as 1,500-to-1, there are too few of them to provide timely and personalized guidance to current students, let alone prospective ones (Bettinger, Boatman, and Long 2013). Moreover, college-based counselors will not necessarily provide neutral advice regarding which school or program is in students' best interests.

Without such guidance, many students will make their college choices unaware of the range of their options and with an incomplete understanding of the financial implications of their choices (Avery and Kane 2004; Bowen, Chingos, and McPherson 2009; Hoxby and Avery 2013; Hoxby and Turner 2013; Roderick et al. 2009; Rosenbaum, Deil-Amen, and Person 2006). Others may miss an important paperwork deadline or procrastinate on their decision for so long that they fail to matriculate, a phenomenon known as "summer melt" (Castleman and Page 2014). Even after entry, students may struggle to navigate institutional bureaucracies and may not realize how their academic decisions interact with their financial aid eligibility.

Evidence is mounting that simple, low-touch coaching interventions that reach out to students from college application to initial enrollment and through the first year of college can have substantial effects on enrollment and persistence (Bettinger and Baker 2014; Castleman, Page, and Schooley 2014; Hoxby and Turner 2013). Although several interventions that have shown success have involved at least one in-person meeting, all took advantage of text messaging, e-mail, and phone calls to communicate efficiently with students. Depending on their intensity and format, these services could be provided directly by the Department of Education or contracted out to third parties. In a separate memo, Ben Castleman outlines one model in detail. Ideally, the government would test a pilot program via a rigorous randomized controlled trial before expanding to serve all Pell recipients.

Costs and Benefits

The first two recommendations—simplifying the aid application process and providing awards on a per credit basis—could be implemented in a cost-neutral fashion.[12] A modest increase in spending could help ease the transition to a new formula (e.g., by allowing current Pell recipients to receive the higher of their award under the new system or their prior year's award).

During the transition period, the federal government and individual institutions would have to invest time and resources to update the systems to calculate and disburse Pell grants. Over the long term, the reforms recommended above should reduce the time federal and institutional administrators spend processing, verifying, and answering questions about the form. Moreover, with nearly 20 million FAFSAs filed each year, eliminating the form would free up an estimated 30 million hours students and families spend filling out the form annually, the equivalent of nearly 17,000 full-time jobs.[13]

The third recommendation—to provide third-party guidance from application through the first year of enrollment—would require new funds to design and support, but by leveraging technology (e.g., text message outreach), the cost would be modest relative to overall program expenditures. These coaching services cost just $200 to $1,000 per student. An investment on the order of $2 to $4 billion (7 to 15 percent of current Pell funding) could support meaningful and effective guidance services for new Pell recipients.[14]

The reforms suggested above might be the most cost-effective and evidence-based investments in human capital the new administration could make. One experiment found that reducing the burdens of the FAFSA had outsize impacts on college enrollment and persistence. Bettinger and coauthors (2012) randomly selected customers of a tax preparation service to receive assistance completing and submitting the form. The intervention increased immediate college entry rates 8 percentage points (24 percent) for high school seniors and 1.5 percentage points (16 percent) for independent participants with no prior college experience. Another experiment by Castleman and Page (2015, 2016) that used text messages to help students with financial aid reapplication increased persistence into the second year 14 percentage points at community colleges. These results are relevant because the recommendations outlined above would make the application automatic and would eliminate the need to reapply annually. Coaching and mentoring interventions also have a strong evidence base. Castleman, Page, and Schooley (2014) found that just two or three hours of summertime guidance improved college enrollment rates 3 percentage points. Bettinger and Baker's (2014) study of a first-year coaching service similarly found that it increased persistence 5 percentage points.

In contrast, research suggests that tax benefits for college enrollment have no impact on enrollment or persistence (Bulman and Hoxby 2015). A shift of federal resources away from these tax benefits and toward a streamlined, augmented Pell grant program could yield substantial benefits without adding anything to the federal deficit.

Implications for Other State and Federal Programs

The FAFSA form is not used only to distribute Pell grant awards. The output from the current aid formula, the Expected Family Contribution, is used to determine eligibility for other federal programs and state aid programs. Skeptics worry that eliminating the FAFSA will result in a proliferation of new aid applications to these other programs.

The first response to this concern is that eligibility for most of these other programs could be easily approximated under a simplified formula as well. Just as studies have found that Pell grant eligibility can be accurately determined using just a handful of items from the FAFSA (primarily, adjusted gross income and family size), research suggests that state aid can also be accurately approximated with information collected via the income tax system (Baum et al. 2012).

States that piggyback off FAFSA data primarily use the EFC and sometimes adjusted gross income in their eligibility calculations. If the FAFSA were eliminated, the Department of Education could still pass along to states and institutions the same basic elements used for the new, simplified federal formula, including adjusted gross income and family size, and additional elements available via tax records. During the transition to the simplified system, an EFC could continue to be backed out via the new formula if needed.

Requiring only a one-time application for federal aid is likely to be more consequential, as states would have to decide whether to go along with the change or require students to file separate renewal applications for state aid. The federal government should encourage states to follow the federal model of setting eligibility once for students' full course of study. But even if they do not, the Department of Education might provide automatic annual updates on students' core application elements (e.g., adjusted gross income and family size) without students having to file additional paperwork, even if these updates are not used in the federal formula.

Concluding Thoughts

Federal student aid, particularly the Pell grant and Stafford loan programs, are at the foundation of efforts to increase college enrollment and attainment. Given the stakes involved for students and taxpayers, it is essential that every dollar of student aid have the maximum impact. The reforms suggested above are research based and could substantially improve the effectiveness of federal investments in postsecondary education.

Simplifying the aid eligibility and application process, removing perverse incentives that slow progress toward completion, and leveraging low-cost guidance services to help students make the most of their awards, could help students spend less time worrying about money and more time focusing on what they need to do academically to prepare for and succeed in college.

Notes

1. Pell grant statistics are taken from Baum and coauthors (2016).
2. For comparison, the US Department of Labor's spending on employment and training programs was less than $10 billion in 2016. See US Department of Labor (2017).
3. Undergraduates under age 24 are also considered independent if they are orphans, wards of the state, veterans, or active-duty military.
4. Author's calculations using the National Center for Education Statistics (NCES) QuickStats, with data from the National Postsecondary Student Aid Survey 2012. Data from the Beginning Postsecondary Student: 2012–14 survey (BPS:12/14) further indicates that approximately 34 percent of first-year Pell recipients are in applied occupational or vocational programs (i.e., pursuing either a certificate or an applied associate degree).
5. Author's calculations using NCES QuickStats with BPS:03/09 data.
6. This recommendation and the ones that follow closely mirror a 2013 proposal by Baum and Scott-Clayton. See the Baum and Scott-Clayton (2013) proposal for additional supporting evidence and details regarding how these recommendations could be implemented.
7. When students fill out the online form, they can skip many of these questions. But because students cannot know which questions they can skip before they begin, many students may need to assemble all the information they will need before they start the form (especially if they are not completing the form at home).
8. The Expected Family Contribution formula is so complicated that the document outlining it for financial aid professionals is 36 pages, and the handbook explaining the full application process is 120 pages. The Department of Education does not explain the formula to applicants, stating only, "Your EFC is **not** the amount of money your family will have to pay for college nor is it the amount of federal student aid you will receive. It is a number used by your school to calculate the amount of federal student aid you are eligible to receive." See "Expected Family Contribution (EFC)," Free Application for Federal Student Aid, accessed June 19, 2017, https://fafsa.ed.gov/help/fftoc01g.htm. For the full 36-page formula guide, see Office of Federal Student Aid (n.d.). For the handbook for financial aid professionals, see "Application and Verification Guide [2017–2018 Federal Student Aid Handbook]," US Department of Education, Office of Federal Student Aid, November 22, 2016, https://ifap.ed.gov/fsahandbook/1718FSAHandbookAVG.html.
9. In practice, to address the fact that many students stop out or switch institutions, eligibility could be fixed for a set numbers of years (e.g., five to six years, enough for the median graduate to complete a bachelor's degree). After that point, students would have to reapply. Students could also reapply if their status changes from a dependent to an independent student.
10. Students who enroll part time have always been able to claim Pell in the summertime, as they would not have maxed out their annual 24-credit limit during the school year.
11. For example, a student taking 30 credits during the academic year and none during the summer still can only get 24 credits' worth of Pell coverage. But a student taking 24 credits during the academic year and 6 credits during the summer can now get 30 credits' worth of coverage.
12. Policymakers often worry about how changing just one element of the formula (e.g., eliminating asset information, switching from prior-year to prior-prior-year income data) will affect costs. But what is proposed here is to rebuild a simpler formula from scratch. In doing so, policymakers can set formula parameters to ensure cost neutrality.
13. This is based on the Paperwork Reduction Act of 1995 notice on the 2016–17 FAFSA, which estimates that it takes 1.5 hours to complete the form, including time spent gathering documents. The 2017–18 FAFSA was estimated to take only 55 minutes, but that was before the removal of the IRS Data Retrieval Tool, which allowed applicants to automatically retrieve necessary tax information rather than locating and inputting this information manually.
14. The $2 to $4 billion figure is based on a $500 to $1,000 investment per new Pell recipient (estimating that approximately 45 percent of 9 million annual Pell recipients are new rather than renewal recipients).

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