

President Obama's Fiscal 2010 Budget Overview

Reliable Pell Grants

Background: The Pell Grant program, which provided \$18 billion in need-based grants to more than 6 million students in academic year 2008-2009, is the foundation of federal student aid. Low-income families count on the grants to help them pay for college. Most program funding is provided through annual appropriations; beginning in fiscal year 2008, mandatory funds were provided to support a small addition to the discretionary Pell Grant award. Specific levels for the mandatory add-on are set in statute through 2012, at which point it reaches \$1,090; related funding drops from \$5 billion in 2012 to \$105 million in 2013 before rising back to \$4.3 billion or more through 2017.

Funding Pell Grants through the annual budget process requires appropriations to be based on estimated program costs. To the degree these estimates differ from actual costs, funding shortfalls and surpluses must be accounted for in future years. Pell Grant award levels are regularly threatened by funding shortfalls in the program. Because the size of the grant is determined by the annual discretionary budget process, it often stagnates for years and then grows unpredictably, making it difficult for families to plan.

FY 2010 Budget Proposal: The Budget proposes to make all Pell Grant funding mandatory (not subject to annual appropriations), beginning with a maximum award of \$5,550 for the 2010-11 school year, a \$200 increase over the previous year. For later years the maximum award would be indexed to the consumer price index (CPI) plus 1 percentage point.

Results:

- **Give students and families confidence that funding will be available.** The current approach to funding Pell Grants, through the discretionary appropriations process, results in award levels often being determined very late in senior year for students graduating from high school. It also leads to erratic and unpredictable increases in grant aid to students, which often fail to keep up with inflation let alone college costs. Research consistently points to a positive link between the predictability of student aid awards and educational attainment. Making Pell Grants mandatory eliminates uncertainty for students and families planning for the cost of college. Grant levels could be announced earlier, making the program more effective at encouraging low-income students to enroll.
- **Indexing the maximum award above the CPI will address the steady erosion of the Pell Grant's purchasing power in recent decades.** Thirty years ago, the maximum Pell Grant funded 77 percent of the cost of attending the average four-year public school and nearly the entire cost of the average two-year public school. Even with the increase included in the Recovery Act, today's maximum grant covers only 35 percent of the cost of attending a four-year school and 68 percent of comparable costs at two-year school. Using a CPI+1 index

will keep the award on an upward trajectory without creating a direct incentive for schools to raise prices to gain more student aid dollars.