



NASFAA ISSUE BRIEF

STUDENT AID FUNDING

DECEMBER 2019

KEY TAKEAWAYS

1. FEDERAL STUDENT AID PROGRAMS HELP MILLIONS OF STUDENTS ACCESS HIGHER EDUCATION EACH YEAR. HOWEVER, AFTER ADJUSTING FOR INFLATION, FUNDING FOR STUDENT AID PROGRAMS HAVE REMAINED LARGELY STAGNANT DESPITE RISING COSTS.
2. CONGRESS SHOULD ROBUSTLY INVEST IN THE FEDERAL STUDENT AID PROGRAMS TO MAINTAIN THE NATION'S ECONOMIC COMPETITIVENESS AND STRENGTHEN NATIONAL SECURITY.

"Given the breadth of students that benefit from student financial aid, it is imperative that these programs receive robust funding to support students in an evolving higher education landscape."

Since their inception, the federal student aid programs have served the important role of opening the doors to educational opportunity for millions of students. These programs support students at diverse institutions of higher education nationwide — from community colleges and regional public universities to private colleges and Historically Black Colleges and Universities (HBCUs).

Given the breadth of students that benefit from financial aid, it is imperative that these programs receive robust funding to support students in an evolving higher education landscape. Unfortunately, the federal aid available to students has remained largely flat over the decades, when adjusting for inflation.

PELL GRANT PROGRAM

The Federal Pell Grant is the cornerstone of the federal student aid system, ensuring undergraduate students from low-income families can access postsecondary education. The Pell Grant assists over 7 million students each year, with 80% coming from families with an income of less than \$40,000.¹

Despite increased attention to the importance of college affordability, the Pell Grant maximum award has not seen a significant increase since its inception in the 1970s. After adjusting to account for inflation, the maximum Pell Grant award was slightly lower in 2018-19 than it was in 1978-79.² The lack of meaningful increases to the grant's maximum award have contributed to its diminishing purchasing power. The Pell Grant covers 11% less of the average cost of tuition, fees, and room and board at public four-year institutions than it did two decades ago, with the 2019-20 maximum Pell Grant award covering less than one-third of those costs.³

Estimates of Pell Grant spending anticipate a depletion of the program's reserves within the next five years, though any economic downturn can significantly exacerbate this timeline.⁴ Economic recessions often lead displaced workers and others to pursue postsecondary education, thereby increasing Pell Grant participation and expenditures. For instance, between award years 2006-07 and 2010-11, which surrounded the Great Recession, the number of Pell recipients increased from 5.2 million to 9.3 million students, the average grant amount grew by 43%, and overall program costs rose by 158%.⁵

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FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT (FSEOG)

The FSEOG program provides grants to low-income undergraduates who demonstrate the greatest financial need. Priority is given to Pell Grant recipients, and students who have the lowest expected family contributions (EFC). The program requires a 25% nonfederal match from participating institutions, spreading risk across both taxpayers and institutions.

¹ NASFAA, "National Student Aid Profile: Overview of 2019 Federal Programs."

^{2,3} College Board, "Trends in Student Aid," October 2019, <https://research.collegeboard.org/trends/student-aid/figures-tables/pell-grants-recipients-maximum-pell-and-average-pell>

⁴ Committee for Education Funding, "Education Matters: Investing in America's Future," May 2019, https://cef.org/wp-content/uploads/FY-2020-CEF-Budget-Book_FINAL.pdf

⁵ NASFAA, "CBO Releases Report on Pell Grant Status," September 2013, https://www.nasfaa.org/news-item/1537/CBO_Releases_Report_On_Pell_Grant_Status

"Institutions can use FSEOG as a tool to address the financial needs of their students that may not be fully met by the Pell Grant program. FSEOG supports 1.5 million students annually, with over 67% of dependent recipients coming from families with an income of less than \$30,000."

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"Pell Grants should be protected from the annual appropriations process by moving the funding stream from the discretionary year-to-year funding to mandatory funding."

FSEOG is a campus-based program that provides institutions with the flexibility to decide both the recipient and grant amounts. As a result, institutions can use it as a tool to address the financial needs of their students that may not be fully met by the Pell Grant program. FSEOG supports 1.5 million students annually, with over 67% of dependent recipients coming from families with an income of less than \$30,000.⁶

FEDERAL WORK-STUDY (FWS)

The Federal Work-Study (FWS) program provides part-time jobs to undergraduate, graduate, and professional students and requires that participating institutions provide a 25% match to the federal funds allocated.

In 2016-17, the FWS program served approximately 617,000 recipients, and roughly 44% of dependent undergraduate recipients had family incomes below \$42,000. In fiscal year (FY) 2018, the program received a \$140 million increase - the first in nearly a decade - resulted in approximately 70,000 additional recipients. The FY 2018 funding level was maintained through FY 2019.

FWS enjoys broad, bipartisan support — and rightly so. It supports needy students while also providing valuable work experience. In a period of financial austerity, FWS stretches federal investments further by requiring matching funds from institutions and work-study employers.

WHAT CONGRESS CAN DO:

Ensure that the appropriate resources are available for education funding.

Congress should provide a sufficiently robust allocation to the House Labor, Health and Human Services, Education, and Related Agencies (Labor-H) appropriations subcommittee to support an increased investment in student aid programs, including a sufficient Pell Grant maximum award. Congress must also invest more heavily in campus-based programs, whose present-day funding levels are lower than those of nearly four decades ago after accounting for inflation. For example, in FY 1979, Congress appropriated \$1.8 billion for FWS and \$1.13 billion for FSEOG when adjusting for inflation — more than the FY 2018 levels of \$1 billion and \$1.1 billion respectively.

Shift the Pell Grant program to full mandatory funding.

Sustained and certain investment is necessary to ensure the Pell Grant regains its purchasing power. The annual federal budget and appropriations process adds unnecessary uncertainty to a program that plays a vital role in the lives of millions of students each year. Pell Grants should be protected from the annual appropriations process by moving the funding stream from the discretionary year-to-year funding to mandatory funding.

Increase certainty for low-income students and families by reinstating the automatic inflation adjustment to the maximum Pell Grant award.

The maximum Pell Grant award was indexed to the Consumer Price Index for All Urban Consumers (CPI-U) from FY 2014 to FY 2017, but this small boost averaged just \$69 per year and expired at the end of FY 2017. Congress should reinstate an automatic inflation adjustment to ensure consistent annual increases to the maximum award amount.

Protect the unobligated balances in the Pell Grant program.

Rescinding unobligated balances from the Pell Grant program puts its fiscal stability in jeopardy during times of economic hardship. As recently as 2011, the program faced a shortfall requiring congressional action to remedy. It is prudent to ensure adequate funds are available for a program whose costs are difficult to estimate precisely. 🌐

^{6,7} NASFAA, "National Student Aid Profile: Overview of 2019 Federal Programs."



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