**United States House of Representatives**
**Committee on Education and the Workforce**
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**Prepared Testimony of**
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Chairwoman Foxx, Ranking Member Hinojosa, and Members of the Subcommittee, thank you for the opportunity to testify this morning on the importance of keeping the Pell Grant program strong for current and future generations of students.

My name is Michael Dannenberg, and I am the Director of Higher Education and Education Finance Policy at The Education Trust. The Education Trust is a nonprofit advocacy organization that promotes high academic achievement for all students at all levels — pre-kindergarten through college. Our goal is to close gaps in opportunity and achievement that consign far too many young people — especially low-income students and students of color — to lives on the margins of the American mainstream.

Now more than ever, economic demands are making a postsecondary degree the surest way into the middle class.[1] Those with only a high school diploma earn less than three-fifths as much as those with a bachelor's degree.[2] Even in the current wobbly economy, the unemployment rate among Americans with at least a bachelor's degree continues to be low at just under four percent, about half that of Americans with only a high school diploma.[3] Further, the demand for college-educated workers is growing: a recent Georgetown University study projects the U.S. economy will be short about three million college-educated workers beginning in 2018.[4] To thrive, our nation needs more young people to earn postsecondary certificates and degrees. Given our fast changing demographics, we will not be competitive with other nations unless our large and growing population of low-income students and students of color enrolls in and completes postsecondary certificate and degree-granting programs at much higher levels.

## Skyrocketing College Costs

Unfortunately, for many students, the dream of a college education as a path to the middle class often collides with the hard reality of college costs. Published college tuition and fees have increased by 538 percent since the early 1980s. That's almost twice as fast as health care costs and nearly four and a half

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[1] Georgetown Center on Education and the Workforce report, *Help Wanted: Projections of Jobs and Education Requirements through 2018, June 2010, available at http://cew.georgetown.edu/jobs2018/*.
[2] Calculations by TICAS on data from the U.S. Census Bureau, Current Population Survey, 2013 Annual Social and Economic Supplement, Table PINC-04; and unpublished data from the Bureau of Labor Statistics, Current Population Survey, 2012 annual average for unemployment rates. Young adults defined as persons aged 25.34.
[3] Bureau of Labor Statistics, Economic News Release for Oct. 2013, Table A-4, available at http://www.bls.gov/news.release/empsit.t04.htm.
[4] *Id.*

times as fast as inflation.[5] On average, America's four-year, non-profit private colleges now list a published price of more than $30,000 a year.[6] Add to those skyrocketing costs the effects of shortsighted policies that shift financial aid away from those who need it most toward those who need it least and you have something of an economic tsunami for hard-working students growing up in families with incomes in the bottom forty percent. For these students, attending the college that's best for them or attending college at all too often seems out of reach.[7]

## Pell Grants Make College More Affordable

Make no mistake. The Pell Grant program makes college possible. It changes lives, millions of them. Over nine million students, including 60 percent of African American undergraduates and 51 percent of Latino undergraduates, depend on Pell Grants.[8] Over 90 percent of Pell recipients come from families with incomes of less than $50,000, and a quarter come from families with an adjusted gross income of just $6,000.[9] Grant aid to Pell recipients – and I was one of them, awarded a maximum Pell Grant – has made a tremendous difference to students and this country.

The percentage of low-income students going to college today is twice what it was 40 years ago when the Pell Grant program began.[10] We've cut the gap between low-income and upper-income students' college access rates by 40 percent.[11] More low-income students are not just going to college. Many are going to colleges that are a better fit for them and in which they're more likely to succeed, because of the Pell Grant program.

To be sure, the Pell Grant program needs to be made more fiscally secure. While its finances are relatively stable at the moment, recent funding trends have put its future stability in question.

Moreover, the program is now inadequate to meet its original intent. The Pell Grant once financed nearly three-quarters of the cost of a public four-year college education.[12] As recently as the early 1980s, it covered more than half of the cost. Today, despite recent increases, the maximum award is only $5,645, while the average cost of tuition, room and board at a four-year public college is $18,391. That means the Pell Grant today covers just 31 percent of a student's cost -- the smallest share of

[5] Darcie Harvey analysis of Bureau of Labor Statistics, Consumer Price Index - All Urban Consumers, 1982-2011 and American Community Survey, 1982-2009.
[6] College Board, Trends in College Pricing 2013, Table 1A
[7] Demos and Young Invincibles, *State of Young America: Economic Barriers to the American Dream*, Nov. 2011, available at http://www.demos.org/sites/default/files/publications/SOYA_Stories_0.pdf.
[8] Congressional Budget Office (CBO). May 2013 baseline; Calculations by The Education Trust on data from the U.S. Department of Education, National Postsecondary Student Aid Study, 2011-12. Race/ethnicity categories exclude foreign students.
[9] *See* U.S. Department of Education, *2010-2011 Federal Pell Program End of Year Report*, Table 3 (June 29, 2012).
[10] National Center for Education Statistics, *Condition of Education* (2010) and *Condition of Education* (2012). Data for low-income students represent two-year moving averages because of small sample sizes.
[11] Id.
[12] College costs are defined here as average total tuition, fees, room, and board costs at public four-year colleges. Calculations by TICAS on data from the College Board, 2012, "Trends in College Pricing 2013," Table 2, http://bit.ly/14OJvbv, and U.S. Department of Education data on the maximum Pell Grant. The maximum Pell Grant for 2013-14 was officially announced in the U.S. Department of Education's "2013-14 Federal Pell Grant Payment and Disbursement Schedules," http://www.ifap.ed.gov/dpcletters/GEN1306.html.

college costs since the inception of the program. Low-income students are now *more than twice as likely* as other students to have student loans (61 percent vs. 29 percent), and they still have substantial unmet financial need.[13]

So we have a conundrum. To meet businesses' demand for more skilled and college educated workers, we need more low-income students and students of color to complete college. These students comprise an increasingly large percentage of our elementary and secondary education population (40 and 45 percent, respectively) and thus of our future workforce. They rely on Pell Grants to access higher education. But the Pell Grant program no longer buys as much as it once did, leaving all too many students at risk either of not starting college, not finishing college, or worst of all, ending up with large amounts of student loan debt and no degree.

**Funding Gaps**

Just to maintain the current maximum grant, the Pell Grant program is projected to confront a funding gap of more than $40 billion over the next 10 years *at current discretionary spending levels*.[14] To address the projected funding gap, let me first be clear about what we should not do: we should not repeat our recent history of reducing direct aid to needy students in order to finance shortfalls in the Pell Grant program. Some $56 billion in past funding gaps have been "filled" overwhelmingly by student benefit cuts, including the very unfortunate elimination of summer Pell Grants.[15] Instead, we should address the projected long-term Pell Grant program funding gap through "a balanced approach" of increased revenue options and targeted spending reductions in aid to *institutions*, not to needy students.

What kind of targeted spending reductions can we make?

1. **Revise the "Return to Tile IV" Rules.** When a student withdraws from college prior to completion of a term, the former student and her institution generally must return a portion of disbursed federal financial aid (Title IV aid, which includes Pell Grants). Returning Pell Grant aid, however, is in most cases entirely the institution's responsibility. Only in cases where the former student's Pell Grant exceeds tuition and fees does he or she hold any responsibility for returning a portion of aid. Current policy allows former students and institutions that served them to retain a percentage of aid disproportionate to former students' periods of enrollment. Instead, federal policy should:

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[13] Calculations by TICAS on data from the U.S. Department of Education, National Postsecondary Student Aid Study, 2011-12.
[14] Assuming that the discretionary appropriation for Pell Grants keeps pace with Budget Control Act caps starting in Fiscal Year 2014, the Pell Grant funding gap is estimated at $19 billion over 10 years (FY14-FY23). The Pell Grant funding gap in Fiscal Year 2016 is estimated at $3.8 billion. Calculations by the Center for Budget and Policy Priorities on data from the Congressional Budget Office, May 2013 baseline projections for the Pell Grant program, http://1.usa.gov/15O4Ot9.
[15] Calculations by the Center on Budget and Policy Priorities on data from the Congressional Budget Office as per March 2011 baseline and estimates of changes made in 2011.

a. Require federal funds be returned in proportion to time not enrolled rather than allow institutions to retain 100 percent funding for enrollment once a student completes just 60 percent of a term;
b. Establish two weeks of attendance – the typical drop/add period – as the default withdrawal date for students who do so without formal notification or institution documentation of attendance, rather than assume 50 percent of term attendance as current policy does;
c. No longer allow former students – typically at community colleges – who use Pell Grant aid to cover costs beyond tuition and fees to keep half of aid awarded, regardless of when they withdrew; and
d. Provide for return of funds to the federal programs from which they were derived rather than have all returned aid funds dedicated to loan programs prior to grants.
**Altering Return to Title IV guidelines would save more than $10 billion over 10 years** without placing undue burden on needy students.

What can be done on the revenue side?

1. **Establish a Rainy Day Fund:** Just as families take advantage of good times to save money for future financial hardships, the federal government should husband funds for future Pell Grant program shortfalls. Possible sources include:

    a. When the Congressional Budget Office (CBO) Mid-Session Review produces "good news" with an unexpectedly low deficit due to stronger than anticipated economic growth or lower than expected spending, a portion of that surplus – 20 percent, for example – should be dedicated to a Pell Grant Rainy Day Fund. The remainder of the unexpected windfall can be used to reduce the deficit. While it may seem easy to divvy up rainy day funds among a number of federal programs, they should remain targeted solely on the Pell Grant, which is unique in its occasional need for supplemental funding.[16] **Over the past 10 years, this "good news" policy would have generated $25 billion in support for the Pell Grant program.[17]**
    b. Every outstanding Federal Family Education Loan (FFEL) that is consolidated into the Direct Loan program generates budget savings. There is a massive amount of outstanding volume – over $400 billion worth - that could be refinanced. Congress should authorize the Secretary to offer financial incentives to borrowers and owners of outstanding FFEL loans to convert that debt into the Direct Loan program as long as the result generates budget savings for the federal government that is used to capitalize a

[16] In a similar vein, to the extent that there are surpluses in the Pell Grant program itself – as there were in FY 2013 and are projected to be in FY 2014 and FY 2015 – those surpluses should be held within the Pell program to cover the funding gap that is projected for FY 2016 and beyond when appropriators need to cover a greater share of total Pell Grant costs. Over the last 10 years, the Pell Grant program has experienced an equal number of funding gaps and surpluses, with its surpluses being much larger than its gaps.
[17] Education Trust analysis of Congressional Budget Office's Budget and Economic Outlook Updates, 1992-2012.

Pell Grant Rainy Day Fund. **The New America Foundation estimates at least $17 billon could be saved through FFEL student loan refinancing.**[18]

c. Each year, funds derived from the student aid programs either directly or indirectly are transferred to the U.S. Treasury for general purposes. Instead, those recouped funds associated with legal settlements – and there are a number of large impact cases – or failure to meet current statutory requirements – as is the case with the College Access Challenge Grant (CACG) – should be dedicated to a Pell Grant Rainy Day Fund. **Last year, $75 million in CACG funds alone were returned to the Treasury.**

2. **Adjust the Pell Baseline**: The more than $40 billion projected shortfall is based on frozen program funding levels. The Budget Control Act of 2011 increased overall discretionary spending limits over the next 10 years to account for increased program costs. In the event that discretionary caps grow in the future – and I recognize that's a matter for debate – the Pell Grant program should at least see a proportionate share of the increase in overall discretionary spending. **Doing so in accord with the Budget Control Act of 2011 would cut the projected shortfall by about $23 billion over 10 years.**

Congress, not just this Committee, should consider addressing the Pell funding gap in terms of spending cuts that do not harm needy students and revenue increases. I recommend ranking spending reduction and revenue options from most-to-least palatable and working through the matrix accordingly. Ideally, we would finance closing the funding gap, restoring those summer grants, and placing the Pell Grant program on the mandatory side of the budget in order to avoid future uncertainty.

Regardless, going forward, I would recommend you adopt the guiding principle of putting needy students first. Specifically, **Congress should avoid policies that:**

- **Eliminate or reduce student access to the Pell Grant program.** Eliminating the program would be counterproductive to our economic needs as Pell is still a core financial aid component for low-income students. Reducing access would likely drive students to "undermatch' into institutions from which they are much less likely to graduate or, in a worse outcome, lead them to avoid postsecondary education all together.

- **Penalize low-income students who work or reduce grants to very-low income students whose families receive means-tested benefits**. For example, some policies seek to decrease the Income Protection Allowance (IPA), which is the amount of personal income a low-income student can keep to cover living expenses before being expected to contribute to college costs. Others would count Earned Income Tax Credits against Pell eligibility. These policies penalize work and harm students and families trying to work and educate themselves out of poverty.

[18] Burd & Carey et al., *Rebalancing Incentives in Federal Student Aid*, New America Foundation, January 2013.

**Stretching the Pell Dollar**

Perhaps surprisingly, there are also significant actions Congress can take at no new fiscal cost to strengthen the Pell Grant program's impact. It requires modifying other education finance policies that create the context for Pell.

As members of the Subcommittee know, there are a host of federal higher education programs – outside of the Pell Grant program and the unsubsidized Stafford student loan program – that are not sufficiently targeted to maximize Pell's impact. If those current federal higher education grant, loan, and tax programs were better targeted, and funds saved were consolidated and integrated into a new state aid program, Congress could provide -- *at no new costs to taxpayers* nationally -- sufficient funding for states and colleges to guarantee hard working, responsible students a college education with no loans or interest-free loans.

Imagine being able to tell an 8th grader who needs aid that she can go to college either debt-free or with an interest-free loan if she works hard in school and out – guaranteed. Indiana has a program like that, the 21st Century Scholars program, and it's been very successful. Specifically, Congress should consider the following recommendations:

- **A State Play is Crucial**. The primary cause of rising tuition and fees at public colleges and universities, which educate more than 70 percent of all undergraduate students, is declining state funding for higher education.[19] Maximizing the federal investment in Pell Grants will require ensuring that states and institutions of higher education become committed partners in holding down costs.

  Flexible state aid conditioned on guaranteeing a low net price for students from low-income families would encourage states to maintain their own funding for higher education, push colleges to keep costs' growth down at least for working class students, through efficiency innovations, rebalance institutional aid toward those with financial need, or some combination thereof. I want to emphasize this need not, should not, be an unfunded mandate. But it would be attractive to most states: already, the Education Trust has identified 10 different offsets – many in this committee's jurisdiction – that could finance flexible state aid to such an extent that nationally it pays 100 percent of the costs that states and institutions would encounter in maintaining a no-loan or interest free loan guarantee for responsible low and middle-income students.[20]

- **Commit to Improved Secondary School Preparation**. A key indicator of whether a student will complete college is the rigor of her high school curriculum.[21] The Pell Grant program was

[19] *See* Harnish, Thomas, *Update on the Federal Maintenance of Effort Provision: Reinforcing the State Role in Public Higher Education Financing* (July 2012).
[20] *See* Dannenberg & Voight, *Doing Away With Debt* (Feb. 2013), pp. 14-17
[21] *See* Adelman, Cliff, *Answers in a Toolbox* (1998); *see also* Adelman, Cliff, *The Toolbox Revisted* (2003)

designed to increase access to postsecondary education, not promote completion. Nonetheless, it is in the nation's interest to have as many enrolled Pell students as possible complete college. To do that, all students, particularly those from low-income families, need to graduate high school academically prepared for college and career. Supplemental aid to states should ensure that all students get a college and career ready course of study in high school. This will reduce the need for remediation at the postsecondary level, boost completion levels, and speed time to degree, thereby reducing the aggregate cost of a college degree for those who do complete.

- **Consider How Low is Too Low**. Institutions can participate in the Pell Grant program and receive students' grant dollars largely regardless of how well they serve needy students. But a college that is enrolling an extraordinarily low percentage of Pell Grant students is not appreciably advancing a key mission of federal aid to higher education. Likewise, a college that is graduating an extraordinarily low percentage of students is arguably a poor federal investment and undermining the Pell Grant program's impact. We should invest supplemental funds, if not Pell itself, in institutions that are achieving some bare minimum outcomes.

## Conclusion

These recommendations, while bold, are based on state and institution financial aid models, Congress' past history of targeting and consolidating programs, and non-partisan budget estimates. They require compromise, courage, and vision.

Forty years ago Senator Pell envisioned a society in which "no student with the talent, desire, and drive to pursue postsecondary education will be stopped by the inability to pay." With our $1 trillion national student debt and college graduation rates hovering just above 50 percent, we are far from realizing Senator Pell's dream. But to the extent that we are making progress, we are doing so because of efforts like the Pell Grant program. It deserves to be preserved, strengthened, and its impact maximized. Senator Pell's vision was right 40 years ago, and it remains right today.

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