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Policy Brief
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# Indexing Pell to Inflation Benefits States

## Introduction

Known as the foundation of student aid, the Pell Grant program has been a significant financial resource for decades among low- and moderate-income students. The federal program provides funding directly to students through the institutions they attend. Because states play no active role in Pell, it's easy to assume the program does not influence the effectiveness of state and local policies. However, Pell Grants can be a critical part of states' college affordability policies.

When state budgets are tight, Pell Grants can indirectly give states more financial flexibility to support the success of innovative state and local ideas. Conversely, cuts to Pell, or the failure to maintain current provisions such as tying the value of it to inflation, can have lasting negative impacts on the success of state postsecondary initiatives. This brief is designed to show examples of these linkages that may not be initially clear to policymakers.

## The Context: Funding languishes while costs of attendance rise

Postsecondary education is the third largest component of state budgets after Medicaid and K-12 education.[1] When the Great Recession hit, states had to find new ways to keep their budgets balanced in the face of suddenly declining revenues. This drove state legislatures to significantly cut funding to state institutions of higher education. As a result, those who set tuition policy at those institutions were left little choice but to make up the funding shortfall by increasing tuition costs,[2] further contributing to the nation's postsecondary education affordability problem.[3]

While the Great Recession is now behind us, state spending on postsecondary education has remained depressed. The Center on Budget and Policy Priorities found that 44 of 49 states spent less in inflation-adjusted dollars per student in 2017 than in 2008.[4] This continued state under-investment in postsecondary education has led to tuition increases on students and their families and to threats on the quality of education at these institutions.[5] Because the vast majority of students attend public institutions, it is critically important that they remain affordable and able to provide a quality education to all. For the low-income students at public institutions who are also parenting, or those who are employed at least part-time, their time and resource constraints create additional challenges to getting quality, affordable postsecondary education.[6]

Many of these students have relied on loan and non-loan federal financial aid programs, predominantly Pell Grants, Supplemental Educational Opportunity Grants (SEOG), and Work-Study. But the federal investment in these programs has been mixed. In 2008, Congress provided $1.74 billion to the SEOG and Work-Study programs. While Congressional investment in these programs has remained a relatively flat $1.72 billion in 2016, level-funding these programs functions as a cut because the costs of postsecondary education continually rise.

In contrast, funding for Pell Grants during the Great Recession multiplied because Congress voted in 2009 to increase the maximum award and specified that the grants would increase with inflation in future years.

In addition, Pell's automatic spending increases allowed the program to provide grants to the influx of students who returned to school during the Recession. Overall spending on Pell Grants increased dramatically from the $15.4 billion Congress provided students in 2008 to a peak of $41.7 billion in 2011. Funding eventually leveled out by 2016 when the program provided $28.5 billion in grant aid. This rise in spending, along with the uptick in student borrowing,[7] helped buffer some of the negative impacts of state disinvestment in higher education.[8]

When Congress adopted the new maximum award, it agreed to automatically increase the amount annually based on the Consumer Price Index (CPI). But it did so only through June 30, 2018. Therefore, the current $5,920 maximum award will now flat line for the foreseeable future. This means that Pell will continue losing its spending power as tuition and living expenses continue to rise. For comparison, the current maximum is already less than 30 percent of the annual cost at a public, 4-year college.[9] As Pell becomes increasingly unable to offset a large portion of students' costs, it further threatens the grant's relevancy as the foundational college affordability tool it was designed to be for low- and moderate-income students.

## States also depend on a continually relevant Pell Grant

While states have begun to recommit funds to their postsecondary institutions, total state spending remains at about 2011 levels, and it is still below 2008 levels.[10] This has not stopped the growth of innovative ideas to support student success in postsecondary education at the state and local levels.

For instance, some states—and even institutions and localities—have rolled out 'college Promise' programs (sometimes also called 'debt-free' college or 'free college'). These initiatives are all focused on the same idea: providing additional funding to offset students' remaining tuition and fee costs (known as "last-dollar" programs) or tuition, fees *and* other costs of attendance ("first-dollar" programs). Pell is integral to these programs because it is either a huge determinant of the state's obligation in a last-dollar program, or an important resource toward funding a student's living costs in a first-dollar program.

While first-dollar programs are more effective at stacking a low-income students' grant aid in order to more comprehensively meet their financial needs (as noted above), the majority of initiatives underway, particularly at the state level, are last-dollar.[11] With bipartisan support among the public,[12] both Republican[13] and Democratic[14] administrations are championing these programs.

Promise programs have become popular in large part because of their success at supporting students' continued enrollment in college.[15] For instance, research into the effects of the Kalamazoo Promise—which is an early Promise program—found that low-income students had proportionally larger gains in the attempted number of credits within two years after high school than higher-income students[16]. The research also showed that students of color attempted about six additional credits. Moreover, Tennessee Promise, one of the most prominent statewide initiatives, has shown positive results in student retention and transfers to 4-year institutions.[17] This program is helping achieve Tennessee's goal of having 55 percent of its population hold a college credential by 2025.

Pell plays an important role as a companion source of aid for students in other state and local efforts. The City University of New York's Accelerated Study in Associate Programs (ASAP) initiative is similar to free college efforts because it offers students a tuition waiver for up to three years. Because ASAP provides a last-dollar waiver, it covers tuition costs after Pell and state grant aid is applied. Eighty-eight percent of ASAP participants received a Pell Grant.[18] The program has produced strong, positive results because it addresses financial and non-financial barriers by providing resources for tuition, textbooks, and transportation, as well as career coaches and integrated basic education.[19]

## Congress should take action to maintain the value of Pell

To support innovations in state funding to students through programs like Promise, and to further states' ability to increase investment in their colleges, Congress must continue to tie Pell Grants to inflation. When students have access to more Pell funds, states have greater flexibility to invest in innovative programs like Promise, to make their current programs more inclusive, and to fund additional priorities.

With last-dollar programs (like Tennessee Promise), state funding supplements a students' other federal, state, and institutional grant aid. The state's financial responsibility is the difference between tuition and fees and the student's combined grant aid and work-study. The greater the grant aid a student receives, the less state funding is needed to fulfill its Promise commitment. Of particular importance in this equation is the value of Pell, since the program is comparatively generous and goes to all eligible students. College leaders agree that a strong Pell Grant program is a necessary link in the chain that ensures the success of Promise programs.[20][21] A Tennessee college access advocacy group has similarly raised the alarm about the need for Congress to commit to this change for the sake of Tennessee Promise.[22]

By reinstating the annual CPI increases, Congress could continue the guarantee started through states last-dollar programs, without requiring ever more state funds to make up the gap left by a stagnating Pell Grant. This reinstatement would also limit the need for states to establish more restrictive eligibility rules for their Promise programs in order to reduce program costs. Such cuts have inequitable effects, invariably harming low-income and adult students, as well as students of color.[23] Indexing Pell can also guard against the negative effects of reduced spending during an economic downturn, as evidenced during the Great Recession.

Congress should again demonstrate its dedication to Pell—and the recipients and state programs tied to it—by continuing to increase its value with inflation. This would encourage the stability and continued investment in affordable college options, as well as support state- and local-driven initiatives of all types. Not doing so puts a strain on these programs, particularly many Promise programs that are still in their infancy, and the state budgets that support them.

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# Endnotes

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