

DEPARTMENT OF EDUCATION

Statement by

**Martha Kanter
Under Secretary of Education**

on

The Federal Pell Grant Program

Mr. Chairman and Members of the Committee:

Thank you for inviting me to testify on the future of the Federal Pell Grant program. As you know, President Obama's FY 2012 Budget proposal will further the President's ambitious goal of having the highest proportion of college graduates in the world by 2020 so that the United States can have a workforce with the necessary skills to meet the demands of the 21st century.

In order to continue investments in higher education that are critical to America's future, while also choosing to maintain fiscal discipline, the Administration is committed to an approach to the Pell Grant Program that will do three things:

- Maintain recent increases in the maximum award to \$5,550;
- Pay for those increases within the framework of a five-year freeze on discretionary spending, and without forcing cuts in other priority investments; and,
- Put Pell Grants on a sound financial footing for future years.

The needed discretionary appropriations for the Pell Grant program will be higher in 2012 and thereafter than in prior years due to rising program costs and because, in past years, one-time funding was used as a temporary solution and shortfalls have accumulated. If no changes are made in the program, funding would need to increase by more than \$20 billion from 2011 to 2012. This is because costs have been rising as notably more students attend college, 2009-2011 funding needs were partially addressed

outside of regular appropriations bills, and shortfalls cumulating to \$8.5 billion also must be addressed in 2012. The FY 2012 Budget, including the proposed Pell Grant Protection Act, continues the commitment to invest in higher education while making the choice to maintain fiscal discipline by generating mandatory and discretionary savings for Pell Grants by a total of \$100 billion, taking administrative actions to reduce errors in Pell Grant awards, and providing discretionary budget authority that is adequate to fully fund the Federal Pell Grant program for not only this year but projected costs over the next 10 years as well.

The Importance of Pell Grants

As we speak this morning, our economy is at a pivotal point. Last month, the unemployment rate fell to its lowest level in nearly two years. Our economy has now added 1.5 million private sector jobs over the last year. But we need to keep building on that momentum and build an economy that is based on shared prosperity and a strong middle class. If we are to reach these goals, then we have to make a larger investment in education.

Students pursuing postsecondary education today face a different national landscape than the one they would have seen just a few decades ago. College, or other postsecondary training, has never been more important to finding meaningful and substantial employment. Over the past decade, individuals with only a high school diploma have been twice as likely to be unemployed as individuals with college degrees. In the current economy, individuals who may be having trouble finding a job, or see their income stagnating, may be returning to school for new or additional training. The demand for more education is a welcome development, but it has resulted in exceptional challenges to postsecondary education in general, and to the Federal Pell Grant program in particular. Today, almost half of Pell Grant recipients are over the age of 23 and, among older students, 84 percent have an annual income under \$30,000.

The Federal Pell Grant program, with its estimated 9.6 million recipients in award year 2012-2013, remains the foundation upon which Federal student aid under Title IV of the Higher Education Act of 1965 (HEA) rests. Most state student assistance programs also regard the Federal Pell Grant as the starting point in assembling a needy undergraduate student's aid package. Research confirms what we know from experience – the availability of financial aid makes a meaningful difference in students' decision to enroll and complete college.

The Challenge of Funding Pell Grants

Overall, the number of Federal Pell Grant recipients has grown from 6.2 million in award year 2008-2009 to an estimated 9.4 million in 2011-2012. In addition, this 52 percent increase is concentrated in the lowest income categories of students, who are eligible for the largest awards. While the economy has been the largest factor in the increasing the costs of Pell Grants, other causes include:

- The statutory increase of the maximum award to \$5,550, which has helped students' ability to pay for college;
- Changes to the Federal Pell Grant program, including the statutory provision that allows eligible students to receive more than one Pell Grant in an award year; and,
- Statutory changes to the need analysis formula, which expanded the number of students who qualify for the maximum award, and allowed other students to qualify for larger awards.

The FY 2011 Continuing Resolution passed by the House (H.R. 1) would deal with these cuts in a way that would hurt students, make college more expensive, and make it harder for the country to have the educated workforce it needs to thrive in the years ahead. By cutting the maximum grant by \$845, H.R. 1 would make college more expensive for nearly 10 million students, and if these cuts were extended into next year with no further action, it would cut the maximum award by more than half. The

Administration has proposed a balanced approach that makes the tough choices needed to protect the \$5,550 Pell Grant.

President's Budget Proposals

In 2012 and thereafter, the needed discretionary appropriations for the Pell Grant program will be higher than in prior years due to rising program costs and because, in past years, one-time funding was used as a temporary solution and shortfalls have accumulated. If no changes are made in the program, funding would need to increase by more than \$20 billion from 2011 to 2012. This is because costs have been rising as notably more students attend college, 2009-2011 funding needs were partially addressed outside of regular appropriations bills, and shortfalls cumulating to \$8.5 billion also must be addressed in 2012. To do nothing would reduce the maximum grant by \$2,650.

The Administration is committed to an approach to the Federal Pell Grant program that will maintain the maximum award at \$5,550; fund it within a framework of a five-year freeze on discretionary spending, and without forcing cuts in other priority investments; and put Pell Grants on a sound financial footing for future years.

The 2012 Budget request for Pell Grants in the amount of \$28.6 billion, in combination with other policy changes proposed, supports these goals. We urge the Appropriations Committee to provide these funds as part of a coordinated solution to protect students from large cuts in the maximum Pell Grant.

We have also proposed changes to the Higher Education Act to maintain the current Pell Grant. This Pell Grant Protection Act, which would require action by the authorizing committees, would:

- Eliminate the current provision of “two Pell’s” saving \$8 billion in 2012, and \$49 billion over 10 years. Created by the Higher Education Opportunity Act of 2008, the provision allows students to receive up to two Pell Grants in one award year, and was designed so students would be able to accelerate progress towards completion of a postsecondary credential. However, the fiscal impact of the “two Pell’s” provision is more than 10 times higher per year than expected. After having

seen the provision implemented for a year – and the costs resulting from it - there are serious questions about whether it is achieving its goal of meaningfully accelerating students' degree completion. Because we propose eliminating the second Pell grant in the 2011-12 award year, which begins on July 1, we urge Congress to enact the Pell Grant Protection Act by June.

- Eliminate poorly-targeted student loan interest subsidies for graduate and professional students, which would save \$1 billion in 2012 and \$29 billion over 10 years. There is little evidence the subsidy influences students' ability to enroll in graduate school, which school they attend, or whether they graduate. It is also a poorly targeted subsidy; for instance, among all education levels, those who have completed graduate education have the highest median incomes. Congress and the Administration have already expanded income-based repayment to help students, including graduate and professional students, who struggle to afford their loans.
- Provide borrowers with “split loans”– those with at least one loan held by the Department of Education and at least one FFEL loan held by lenders – an opportunity to simplify their repayment process by combining their repayment obligations into a single schedule of repayment to the Department. This easier repayment process reduces the risk of default, will reduce the cost of loans for students, and is expected to save \$2 billion in 2012.
- Expand the Perkins Loan program by increasing loan volume to nearly \$8.5 billion a year – eight and a half times the current Perkins volume, saving nearly \$600 million in 2012 and more than \$7 billion over 10 years. This expansion would increase the number of students receiving loans to over 3 million and reach as many as 2,700 additional postsecondary education institutions.
- Reward schools for successful outcomes with low-income students, through the College Completion Incentive Grants program, to help our investment in Pell Grants go further. This program would provide \$50 million in 2012 and \$1.3 billion over 10 years to schools to achieve

better results and successful employment for their students by providing funds linked to the school's graduation of more low-income students.

- Rationalize programs for aspiring teachers, estimated to cost approximately \$175 million in 2012, and nearly \$400 million over 10 years. Seventy-five percent of students receiving TEACH Grants fail to complete the required service commitment, resulting in the conversion of their grants into loans. The new Presidential Teaching Fellows program will address this flaw, recruit exceptional candidates into teaching, and provide an incentive to States to improve their teacher preparation and retention programs.

The Administration is also taking administrative action to reduce the costs of the Federal Pell Grant program. The Department of Education will greatly expand the use of IRS data for financial aid eligibility, encourage more students to use IRS data when they apply online, and require colleges verifying applicants' income to use IRS data whenever possible. These actions will reduce the burden on students, families, and colleges and save almost \$350 million in 2012 by preventing Pell Grant overpayments.

Conclusion

More students than ever are relying on Federal aid, and if we are to reach our goal of out-innovating, out-educating and out-building the rest of the world, we need to continue our investment in these students. Protecting the \$5,550 Pell Grant will require coordinated effort. The 2012 Budget requests \$28.6 billion for the Pell Grant program, a funding level that – in combination with the Pell Grant Protection Act and the steps the Administration is taking to increase the accuracy of Pell awards – would be sufficient to maintain the \$5,550 maximum Pell Grant award.

The Administration looks forward to working with the Appropriations Committee and the authorizing committees on this important piece of legislation which will control Pell Grant costs but also maintain the Administration and Congressional commitment to the Federal Pell Grant Program.

I would be happy to answer any questions you might have. Thank you.