



## Pell Grants Program Fact Sheet

### Background

The Pell Grant program is projected to run a surplus of roughly \$8 billion going into 2020. In a May 13, 2019 memo regarding a White House budget amendment, the President asked Congress to cancel nearly \$1.9 billion in unobligated balances in the Pell Grant program. The Administration lists a decline in pell recipient enrollment in higher education and previous funding for the program lasting longer than expected as the reasons to cut the surplus.<sup>1</sup> The amendment intends to use the canceled funds to fund other budget priorities, including human space exploration. The amendment highlights a return to the Moon as top priority for the Nation, and asks Congress to provide an additional \$132 million for exploration technology, \$1.38 billion for deep space exploration systems, and \$90 billion for a Moon rover, respectively, to the White House's original request. This paper explains the funding details of the Pell Grant program to help provide context in the larger discussion.

### Funding the Pell Grant Program

The Pell Grant is a need-based program funded by a complex structure. It involves a mix of discretionary<sup>2</sup> funding and two separate mandatory spending streams. Before 2007, the Pell Grant program was furnished entirely through discretionary appropriations. Because of repeated underfunding for the program, Congress created a rule in 2006 (through Fiscal Year 2006 Budget Resolution) mandating that the annual appropriations bill be charged with the estimated cost of fully executing the maximum award for the upcoming year.<sup>3</sup> This rule was also intended to remove incentives to underfund Pell and shift funds to other programs.

Today, the Pell Grant is funded through a combination of annual discretionary spending, which funds over 80 percent<sup>4</sup> of the program; a permanent mandatory funding (mandatory-for-discretionary) stream, specified in the Higher Education Act, to reduce the amount of discretionary funding necessary to maintain or increase the program's obligations; and a mandatory add-on that increases the

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<sup>1</sup> Executive Office of the President, Office of Management and Budget. Fiscal Year (FY) 2020 Budget Amendment. Online: [https://www.whitehouse.gov/wp-content/uploads/2019/05/FY20\\_Budget\\_Amendment\\_5-13-19.pdf](https://www.whitehouse.gov/wp-content/uploads/2019/05/FY20_Budget_Amendment_5-13-19.pdf)

<sup>2</sup> Spending that is subject to the appropriations process, by which Congress sets a new funding level each fiscal year for programs covered in an appropriations bill.

"Education Policy. Mandatory and Discretionary Spending." New America. <https://www.newamerica.org/education-policy/topics/federal-education-legislation-budget/federal-education-budget/federal-budget-process/mandatory-and-discretionary-spending/>.

<sup>3</sup> Enzi, Mike (Chairman). "The Complex Case of Pell Grant Budgeting". Senate Committee on the Budget. Budget Bulletin. September 13, 2018. <https://www.budget.senate.gov/imo/media/doc/BUDGETBULLETIN.PELLBUDGETING.pdf>.

<sup>4</sup> Lubben, Alex. "The Pell Grant Program has an \$8 Billion Surplus. Here's why you Still Have so Much Debt." Vice News. June 7, 2019. [https://news.vice.com/en\\_us/article/3k3j8v/the-pell-grant-program-has-a-dollar19-billion-surplus-heres-why-you-still-have-so-much-college-debt](https://news.vice.com/en_us/article/3k3j8v/the-pell-grant-program-has-a-dollar19-billion-surplus-heres-why-you-still-have-so-much-college-debt).

discretionary portion of each award.<sup>5</sup> Because most of the program is funded by discretionary money, there can be a shortfall or surplus depending on whether Congress overestimates or underestimates the cost of the Pell Grant for the year.

Nevertheless, students that qualify for Pell Grants receive the award calculated for them regardless of the available appropriations.<sup>6</sup> This means that a funding shortfall does not force the Department of Education to reduce the grants for which students are eligible. If there is a shortfall, money is borrowed from the subsequent year's appropriation. In years that a surplus accumulates, the Department of Education and Congress use the remaining funds to pay for grants in the upcoming school year.

Because the Pell Grant is funded primarily through annual discretionary appropriations, the program is different from other entitlement programs (e.g., Social Security and Medicare). These other programs are funded by mandatory formulas, meaning that Congress does not decide how much money is going toward them every time they draft a new budget.

### **Past Shortfalls**

After 2007, various elements led to shortfalls of the program. The College Cost Reduction and Access Act of 2007 increased the amount and types of income excluded from the Pell Grant eligibility formula. It also increased the income level under which applicants qualified for a maximum grant and allowed students to receive more than one Pell Grant if they attended school year-round. Moreover, the 2007 law created a 10-year mandatory funding source (later modified in 2010) for Pell Grants, totaling \$33.6 billion through fiscal year 2017. The law established a supplemental Pell Grant award for each of the next ten years. In 2008, the first year the program was in effect, each student who was eligible for a Pell Grant received a supplemental award of \$490 under the new mandatory funding. In 2010, the amount increased to \$690.<sup>7</sup>

In addition to the rising cost of the program caused by the changes mentioned above, other factors contributed to a shortfall. In 2008 and 2009, the number of Pell Grant recipients rose rapidly. 2008 saw an applicant increase of 13 percent; 2009 saw an increase of 27 percent. Increases in the four prior years never exceeded 5 percent. This growth came as a result of large increases in college enrollment and Pell Grant applications, caused by a weak economy.<sup>8</sup>

### **What caused the surplus in recent years?**

Congress changed the mandatory funding stream for the Pell Grant program in the Health Care and Education Reconciliation Act of 2010. The law ended subsidies for private lenders making federally backed student loans,<sup>9</sup> permanently reducing the cost of the loan program again. This allowed for Congress to reallocate those cost savings to the Pell program.<sup>10</sup>

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<sup>5</sup> The Congressional Budget Office (CBO) estimates funding for the mandatory add-on will total \$72.4 billion over the 2018-2028 period. Enzi, Mike. See note 3.

<sup>6</sup> This is how Pell Grants are like entitlements. Entitlement programs include Social Security and Medicare. Koestner, Leah. "The Pell Grant Program". Postsecondary National Policy Institute. May 30, 2018. <https://www.cbo.gov/system/files/115th-congress-2017-2018/presentation/53825-presentation.pdf>

<sup>7</sup> "Education Policy. Pell Grant Funding and History." New America. <https://www.newamerica.org/education-policy/topics/higher-education-funding-and-financial-aid/federal-student-aid/federal-pell-grants/pell-grant-funding/>

<sup>8</sup> *Ibid.*

<sup>9</sup> Gerstmann, Evan. "Trump's Proposed Cut to Pell Grant Funds is 'Lunacy'". Forbes. May 19, 2019.

<https://www.forbes.com/sites/evangerstmann/2019/05/19/trumps-proposed-cut-to-pell-grant-funds-is-lunacy/#1d7c0a623224>

<sup>10</sup> "Education Policy. Pell Grant Funding and History." See note 7.

Additionally, in 2011 Congress eliminated the year-round Pell Grant eligibility established in 2008. Congress also provided a supplemental funding of \$17 billion that helped fund the Pell program in 2011, 2012 and 2013, funds that were made available by eliminating Subsidized Stafford loans for graduate students. In Fiscal Year 2012, an appropriations bill provided supplemental funding by temporarily suspending the grace period interest benefit on Subsidized Stafford loans for undergraduate students for two years.<sup>11</sup>

### **On Funding Other Programs**

The surplus maintained since FY2012 has variably been used to increase Pell Grant awards, expand eligibility, and either fund other programs or reduce the budget deficit.<sup>12</sup> To reduce the surplus for a program, all or a portion of the surplus is rescinded in an appropriations act. The rescission from one program offsets the cost of other appropriations in the act.<sup>13</sup> For example, the Consolidated Appropriations Act of 2017, Public Law 115-31, included a rescission of \$1.3 billion from the Pell Grant program surplus.<sup>14</sup> It stated that “[o]f the unobligated balances available from Public Law 114-113<sup>15</sup> under the heading “Student Financial Assistance” for carrying out subpart 1 of part A of title IV of the HEA<sup>16</sup>, \$1,310,000,000 are hereby rescinded.”<sup>17</sup> The act does not specify where the funds are being transferred to.

Purchasing power is the lowest it has been in the history of the program. The maximum grant covers 29 percent of the cost of attending a four-year public university. When the program started in the 1970s, it covered nearly 80 percent of the cost of attending college.<sup>18</sup> Because of the discretionary nature of the program funding, the decrease in purchasing power, and uncertainty of economic stability, some argue the Pell Grant surplus should not be touched. Resolving a Pell shortfall may entail measures such as reductions in students’ awards, elimination of year-round grants, and reduction in the number of recipients through reducing students’ income threshold.<sup>19</sup> On the other hand, a surplus is maintained under the assumption that the program costs would eventually use the extra money (e.g., because of growth in college enrollment as a result of population growth or a period of weak economy).<sup>20</sup> Program costs are expected to increase primarily as a result of an estimated increase in the number of Pell Grant recipients and because Congress is currently authorizing year-round awards.<sup>21</sup>

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<sup>11</sup> *Ibid.*

<sup>12</sup> “Federal Pell Grant Program of the Higher Education Act: Primer.” EveryCRSReport.com. Updated November 28, 2018. <https://www.everycrsreport.com/reports/R45418.html>

<sup>13</sup> *Ibid.*

<sup>14</sup> Consolidated Appropriations Act, 2017. Public Law 115-31. Division H, Department of Education Appropriations Act, 2017. <https://www.congress.gov/115/plaws/publ31/PLAW-115publ31.pdf>

<sup>15</sup> Consolidated Appropriations Act, 2016.

<sup>16</sup> Higher Education Act of 1965, Public Law 89-329, Title IV—Student Assistance, Part A—Grants to Students in Attendance at Institutions of Higher Education, Subpart 1—Federal Pell Grants.

<https://legcounsel.house.gov/Comps/Higher%20Education%20Act%20Of%201965.pdf>

<sup>17</sup> Consolidated Appropriations Act, 2017. See note 14.

<sup>18</sup> Reich, David. “2018 Funding Bill Should Boost Pell Grants”. January 28, 2018. <https://www.cbpp.org/blog/2018-funding-bill-should-boost-pell-grants>.

<sup>19</sup> “Federal Pell Grant Program of the Higher Education Act: Primer.” See note 12.

<sup>20</sup> *Ibid.*

<sup>21</sup> *Id.*