



State Grant Aid and Pell Grants

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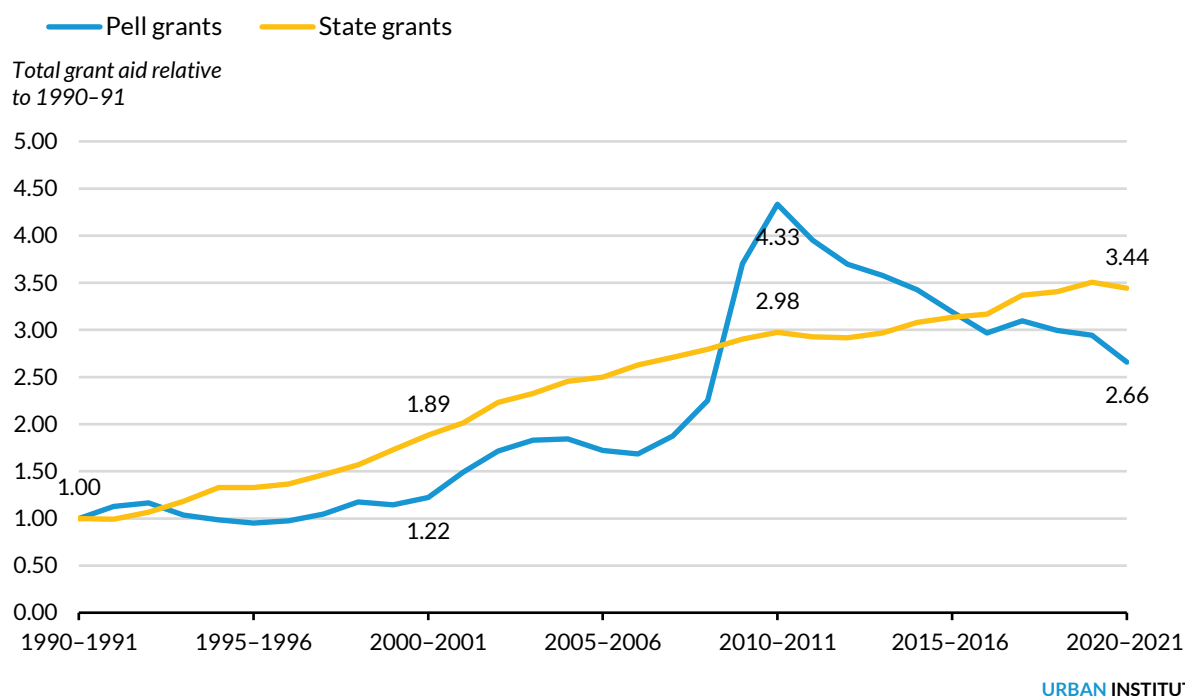
The recently passed \$400 increase in the maximum Pell grant is far from the doubling many proponents advocate for and is not large enough to compensate for the historically high increase in consumer prices between 2021 and 2022. But before adjusting for inflation, the 6.2 percent increase is the largest since the \$421 (or 9.8 percent) increase in 2008–09 and the \$619 (or 13.1 percent) increase in 2009–10. This change, as well as the 2021 FAFSA Simplification Act, which will go into effect in 2024–25 and is likely to expand Pell eligibility, will affect some state grant programs directly.¹ The risk of allowing federal dollars to replace state dollars instead of furthering the goal of increasing access and success for the state’s students should be a call to action for state policymakers seeking to maintain or strengthen their state grant programs. Our goal is to provide a framework for individual states to ensure their students benefit from the increased generosity of federal grant aid and that state programs are best structured to promote the state’s goal of increasing educational opportunities and attainment.

The federal government and most state governments share the goal of increasing access and success in higher education for students from low-income backgrounds. Federal Pell grants are targeted toward low- and moderate-income students, with almost all eligible recipients coming from the bottom half of the income distribution.² Many state grant programs also target low- and moderate-income students, but some consider other factors, such as academic performance for eligibility.³

State grant aid for undergraduate students has increased steadily over the past three decades, doubling in inflation-adjusted dollars between 1990–91 and 2001–02 and reaching almost three and a half times its 1990–91 level in 2020–21 (figure 1). In contrast, Pell grant expenditures rose sharply between 2007–08 and 2010–11, to more than four times their 1990–91 level, before declining steadily to 2.7 times their 1990–91 level by 2020–21. In other words, state grant aid is increasingly important in helping students finance college.

FIGURE 1

Total Pell and State Grant Aid for Undergraduate Students Relative to 1990–91
1990–91 to 2020–21



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Source: Jennifer Ma and Matea Pender, *Trends in College Pricing and Student Aid 2021* (New York: College Board, 2021).

In 2020–21, undergraduate students received 11 percent of their total grant aid from state governments, 22 percent from Pell grants, 48 percent from their institutions, and 19 percent from other federal grants and other sources (Ma and Pender 2021).

State Grant Programs

Grant programs vary dramatically from state to state. Overall, about three-quarters of state grant aid is distributed based on students’ financial circumstances, with the other quarter dependent on academic achievement alone. Twenty states allocated less than one-quarter of their aid on the basis of financial circumstances in 2019–20. In 26 states, at least 95 percent of aid is need-based aid. Average grant aid per full-time equivalent student averaged \$980 in 2019–20 but ranged from less than \$50 in some states to almost \$2,500 per student in other states.

Changes to the Pell grant program will not affect all state programs the same way.⁴ But all states should look at how increases in Pell funding and changes to the application process and the formula will affect their students and how Pell awards interact with eligibility for state grants. In some states, the impact will be immediate and direct. For example, some programs promise eligible students a certain amount of total grant aid—either state and federal aid combined or state, federal, and institutional aid

combined. There may be a fixed dollar amount or a specified share of the cost of attendance (COA). In these cases, an increase in a student's Pell grant leads automatically to a reduction in state grant aid unless the state modifies the formula.

In some states, the state grant is likely to be influenced by Pell award levels but less directly. An example is the requirement that although there is no set limit for total grant aid, institutions must ensure all state grant recipients have at least enough grant aid from all sources combined to cover their tuition and fees.

In other states, which allocate their awards without reference to Pell, students are more likely to see their total grant aid increase along with their Pell grants.

The discussion below considers different basic grant structures, including those that are and are not automatically tied to Pell levels and may or may not require constant modification in the face of changes in Pell grant levels. It provides examples of actual state grant programs and how increases in Pell are likely to affect them. We also address impending modifications to the Pell program and their potential implications for state grant aid.

Possible Grant Structures

Need-based grant programs differ in their eligibility requirements, sometimes specifying academic criteria, time elapsed since high school graduation, or minimum credit hours of enrollment. Programs may fund all eligible students or ration funds by excluding some eligible students. Some states allocate funds to institutions, which distribute them to students. But a more common practice is for states to determine the size of individual awards.

In setting these individual award levels, states can use one of three basic approaches: a progressive grant structure under which award size declines as income or expected family contribution (EFC) increases, a flat grant that adds the same number of dollars to each student's Pell award, or a system that awards larger state grants to students with smaller Pell grants (higher EFCs) so all aided students have similar total grant amounts.

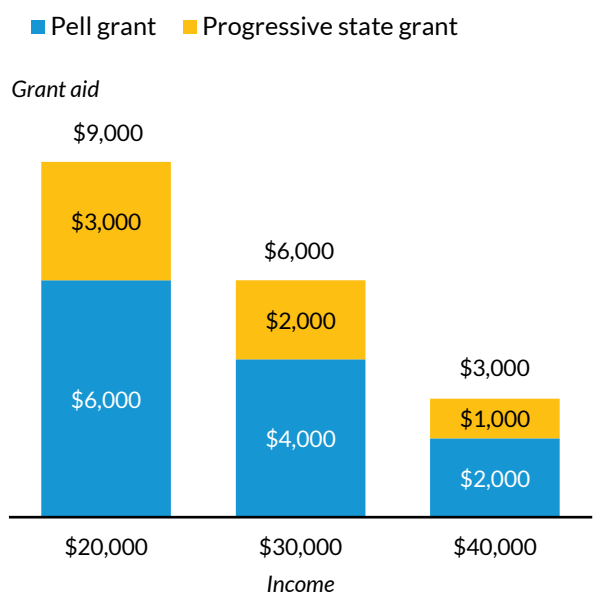
The discussion below illustrates each of these approaches.

Progressive Grant Structure

States such as New Jersey construct their grant programs without reference to federal grant aid and with the goal of providing larger state subsidies to students with less ability to pay. The grants offered under these programs may not change automatically in response to changes in Pell.

In figure 2, both Pell and state grant amounts decline as income increases. In this example, a \$10,000 increase in income leads to a \$2,000 decline in Pell and a \$1,000 decline in state aid, for a total decline of \$3,000. In other words, the slope of total grant aid is steeper than the slope of the Pell grant program.

FIGURE 2
Progressive State Grant Structure



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Source: Authors' calculations using hypothetical data.

NEW JERSEY

New Jersey is a state whose major need-based grant program is entirely independent of Pell.

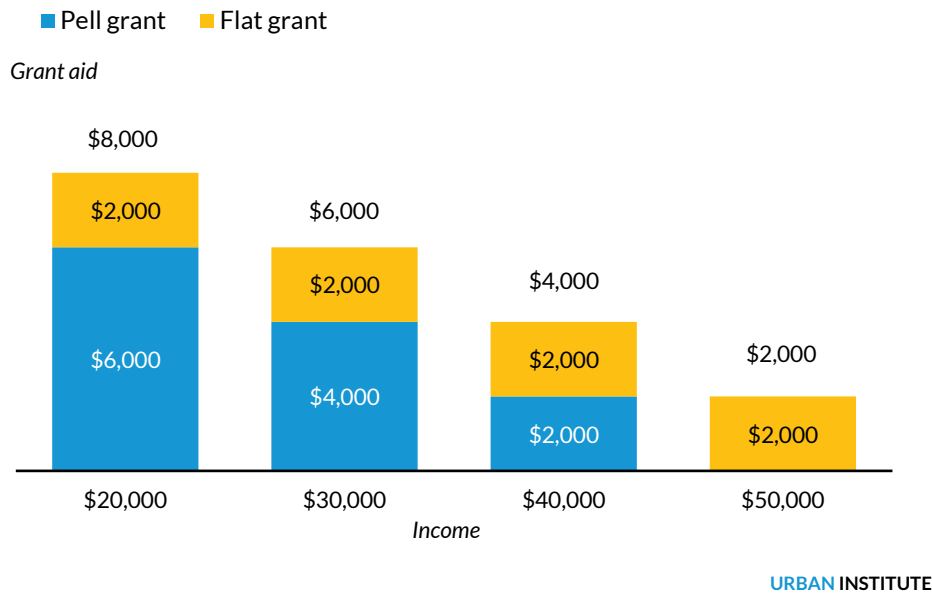
The award table specifies grant levels at each institution based on the New Jersey Eligibility Index, a substitute for the federal EFC (HESAA, n.d.).

The New Jersey state grant system essentially parallels the Pell program. It calculates an index of ability to pay for each student and awards the largest grants to the students who are least able to pay. Pell grants decline dollar for dollar as federal EFC increases. Because New Jersey Tuition Aid Grant (TAG) amounts also decline as EFCs (which differ somewhat from federal EFCs) rise, a \$1 increase in ability to pay results in more than a \$1 decline in total financial aid. Unlike Pell, New Jersey's TAG levels vary depending on the institution the student attends.

Flat State Grant Structure

In contrast, a state grant program that awards the same dollars to all students below a certain income level, similar to the Cal Grant system but tapering off at higher income levels, maintains the Pell award slope. Such a program might not seem progressive from the state's perspective, but it essentially acts as an increase in the Pell grant maximum (figure 3). Like the progressive structure, this framework may not lead to a direct connection between Pell award levels and state grants.

FIGURE 3
Flat State Grant Structure



Source: Authors' calculations using hypothetical data.

CALIFORNIA

California's Cal Grant A program awards eligible students \$5,742 toward tuition and fees at California State University or \$12,570 at the University of California.⁵ Students can use their Pell grants to cover other expenses. In other words, students' total grant aid depends on their federal grant aid (as well as institutional aid). Cal Grants will not automatically decline as Pell increases.

But without awards levels tapering at the upper end of eligibility (family income of \$116,800 for a family of four in 2022–23), the program has a serious cliff, with a small increase in income generating a very large decline in aid (CSAC, n.d.). It would not be difficult to create a taper at the upper end of program eligibility.

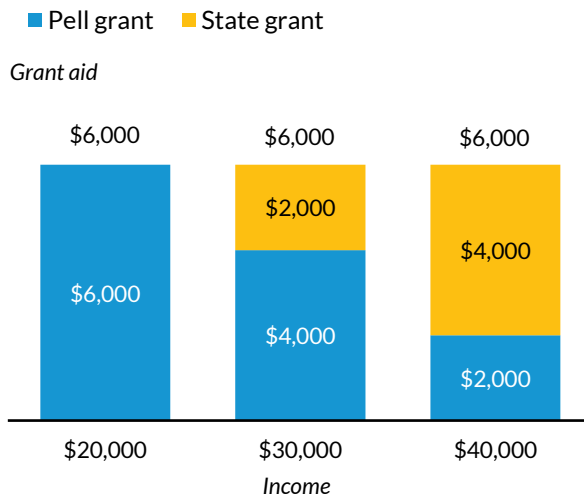
Neither the progressive nor the flat grant structure leads to award changes in response to changes in Pell grants. Policymakers could decide that students do not need state funds as much when the federal government is more generous, but if the program parameters do not change, students will reap the full benefits of increases in Pell grants.

Fixed Total Grant Aid

Programs with flat or progressive state grant structures ensure that students with lower EFCs receive more total grant aid than those with higher EFCs, diminishing the inequality in available resources. In contrast, some programs set a fixed level of total grant aid for eligible students. This type of program, which may be based on the idea that all eligible students should receive enough grant aid to cover their tuition and fees, awards larger state grants to students with higher incomes or EFCs, who receive

smaller Pell grants than other recipients. This structure is most likely to lead to automatic reductions in state grant awards in response to increases in Pell grants (figure 4).

FIGURE 4
Fixed Total Grant Aid



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Source: Authors' calculations using hypothetical data.

NORTH CAROLINA

The North Carolina state grant program is an example of a state grant system likely to be directly affected by changes in Pell. The North Carolina Education Lottery Scholarship (ELS) program supplements Pell, with the goal of providing all full-time students with EFCs below \$5,800 a total of \$4,377 (in 2022–23) in federal and state (ELS) grant aid.⁶ (Part-time students enrolled at least half time receive smaller amounts of aid.) Students with the lowest ability to pay (EFCs below \$2,100 in 2022–23) do not receive this state funding because their Pell grants cover the promised total aid amount.

Community college students are also eligible for the North Carolina Community College Grant (CCG), which provides grants up to \$3,400 for students enrolled in 15 or more credit hours per semester and smaller grants for those enrolled at least half time. Students with EFCs between \$1,000 and \$8,500 are eligible in 2022–23.

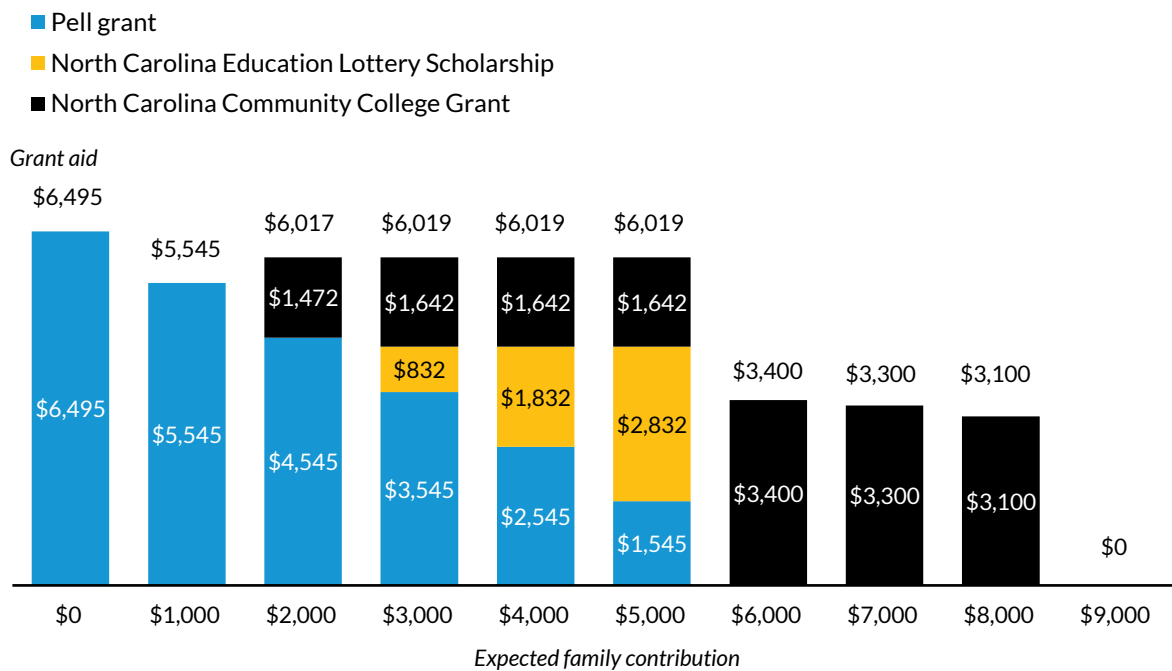
The CCG aims to provide a set total grant amount, including Pell and ELS, for students with qualifying EFCs. The CCG increases as EFC rises from \$1,100 to \$2,300 to compensate for smaller Pell grants. The grant award rises from \$1,643 for those at the upper end of Pell eligibility to \$3,400 for those with slightly higher EFCs, tapering only slightly before falling to \$0 for EFCs above \$8,500 (figure 5).

Students receiving state grant aid receive the same level of total state plus federal grant aid, regardless of their EFCs. For those receiving aid, a \$1 increase in Pell leads to a \$1 reduction in the ELS.

The funding does not diminish differences in the financial resources available to students within this range. For full-time students with EFCs above \$5,846, which is the limit for Pell eligibility, the ELS drops suddenly from \$3,704 to \$0. This eligibility cliff creates a large gap in funding for those on the border of the EFC cutoff.

Total grant aid does not decrease as EFC rises for students with EFCs below the cutoff for the ELS (figure 5). Some students with EFCs too high to qualify for Pell or the ELS receive a CCG with the amount fairly constant until it falls to \$0.

FIGURE 5
North Carolina Education Lottery Scholarship and Community College Grant, 2022–23

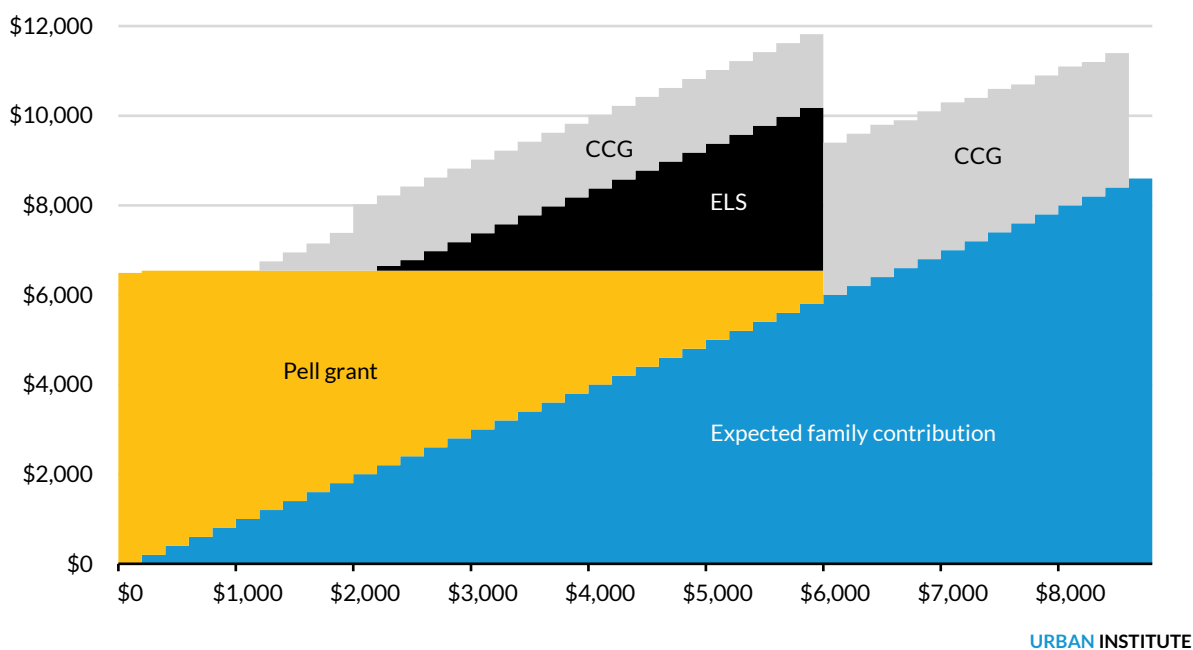


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Source: North Carolina State Education Assistance Authority data.

Another perspective on the distribution of resources resulting from the allocation of grants to community college students in North Carolina comes from adding grant aid to available resources as measured by EFC. The Pell program helps bring the total resources available to students with low EFCs up to match those with higher EFCs (up to the Pell limit). But the state grant program undoes this equalizing effect (figure 6).

FIGURE 6
North Carolina Grant Aid for Community College Students



Source: Authors' calculations using hypothetical data.

Note: CCG = North Carolina Community College Grant; ELS = North Carolina Education Lottery Scholarship.

To put this approach in context, all students with incomes below a certain level currently have a \$0 EFC. For example, in 2021–22, many dependent students whose parents' incomes were below \$27,000 automatically qualified for a \$0 EFC. Students with family incomes of \$15,000 were eligible for the same Pell grant as those with incomes of \$26,000. (The FAFSA Simplification Act includes a provision for a negative EFC, renamed the Student Aid Index, or SAI.)

In effect, the North Carolina approach of promising the same aid to all students with EFCs below a specified level raises the level of income at which students qualify for the maximum aid beyond the level associated with the maximum Pell grant. Even though the federal methodology deems these students able to contribute something to their own education, North Carolina treats them as though they have no greater ability to pay than those with lower incomes.

There is no clear answer about the income level that yields some discretionary income that could be used to help pay for college. But using state grant aid to bring grant aid for students with small Pell grants (or no Pell grants) up to the levels lower-income students receive should be based on an assessment that they are not any more able to pay than are students receiving the maximum Pell grant—that students with positive federal EFCs cannot, in fact, contribute. There is no such explicit logic behind the North Carolina grant programs for community college students. Rather, the goal seems to be providing all students with EFCs below a specified level with enough grant aid to cover their tuition and fees and a fixed amount of additional expenses.

CHANGES IN TOTAL GRANT AID AS STUDENTS' PELL GRANTS INCREASE

Like other states, North Carolina reviews its grant program parameters annually, frequently adjusting them to accommodate funding changes, tuition prices, enrollment patterns, and other relevant factors. One of those factors should be the impact of changes in federal student aid policy.

Under North Carolina's current system, community college students with \$0 EFCs are not eligible for state grant aid, so their total government aid is simply the maximum Pell amount (for full-time students). But the share of aid coming from the state increases at higher EFC levels, as Pell fills less of the state's target aid amount. Since 2016–17, the CCG program has included a premium for students enrolled in at least 15 credit hours, 3 hours above the 12 hours required to qualify for a full-time Pell grant. This policy should increase the share of students who accumulate enough credits to complete their degrees in a timely manner.

Students receiving this 15-hour premium saw their total aid rise at about the same rate as the Pell grant increased—\$680 between 2016–17 and 2021–22. For students with \$3,000 EFCs, the increase in the CCG compensated for a decline in the ELS (table 1). In other words, these students received the full benefit of the Pell increase despite the direct connection between Pell and state grant aid because the state raised the total grant aid target as Pell increased. But for students enrolling in only 12 credit hours per semester, the increase in total grant aid was about \$400 smaller than the increase in Pell. In other words, for these students, the state allowed Pell increases to replace state grant aid.

TABLE 1

North Carolina State Grant Aid for Students with \$3,000 EFCs, 2015-16 to 2021-22

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Change 2016 to 2021
Pell grant	\$2,825	\$2,865	\$2,970	\$3,145	\$3,245	\$3,395	\$3,545	\$680
ELS	\$1,000	\$1,130	\$950	\$852	\$752	\$832	\$896	-\$234
CCG for students enrolled in 15+ hours	\$700	\$1,000	\$1,120	\$1,483	\$1,584	\$1,154	\$1,240	\$240
CCG for students enrolled in 12 hours	\$700	\$600	\$720	\$683	\$784	\$554	\$440	-\$160
CCG 15-hour premium	\$0	\$400	\$400	\$800	\$800	\$600	\$800	
Total grants for students enrolled in 15+ hours	\$4,525	\$4,995	\$5,040	\$5,480	\$5,581	\$5,381	\$5,681	\$686
Total grants for students enrolled in 12 hours	\$4,525	\$4,595	\$4,640	\$4,680	\$4,781	\$4,781	\$4,881	\$286
Change in Pell	N/A	\$40	\$105	\$175	\$100	\$150	\$150	N/A
Change in state aid for students enrolled in 15+ hours	N/A	\$430	-\$60	\$265	\$1	-\$350	\$150	N/A
Change in state aid for students enrolled in 12 hours	N/A	\$30	-\$60	-\$135	\$1	-\$150	-\$50	N/A
Change in total aid for students enrolled in 15+ hours	N/A	\$470	\$45	\$440	\$101	-\$200	\$300	N/A
Change in total aid for students enrolled in 12 hours	N/A	\$70	\$45	\$40	\$101	\$0	\$100	N/A
Share of aid for students enrolled in 15+ hours coming from the state	38%	43%	41%	43%	42%	37%	38%	N/A
Share of aid for students enrolled in 12 hours coming from the state	38%	38%	36%	33%	32%	29%	27%	N/A

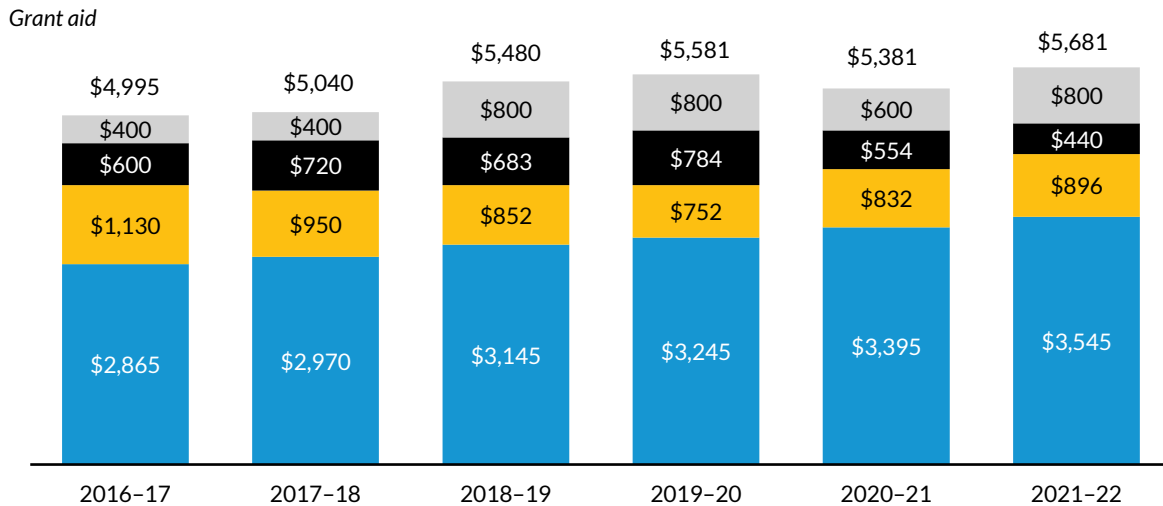
Source: North Carolina State Education Assistance Authority data.

Note: CCG = North Carolina Community College Grant; ELS = North Carolina Education Lottery Scholarship; N/A = not applicable.

FIGURE 7

North Carolina State Grant Aid for Students with \$3,000 Expected Family Contributions, 2015–16 to 2021–22

- Pell grant
- North Carolina Education Lottery Scholarship
- North Carolina Community College Grant for students enrolled in 12 hours
- North Carolina Community College Grant 15-hour premium



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Source: North Carolina State Education Assistance Authority data.

This example highlights the reality that states must make conscious decisions about how to respond to increases in Pell. Without changes in the program parameters, total grant aid will remain the same for many students, who will not benefit from the increase in Pell. It may be easier to allow budget pressures to erode state grant aid when Pell increases take up some of the slack. But the increase in Pell will not ease financial pressures for students if states do not preserve the strength of their own grant programs.

North Carolina is designing a major revision to its state grant programs, largely in response to the recommendations of a 2019 state student aid study group (Joint Steering Committee 2019). Policymakers are considering the impact of changes to Pell as they develop their new aid structure.

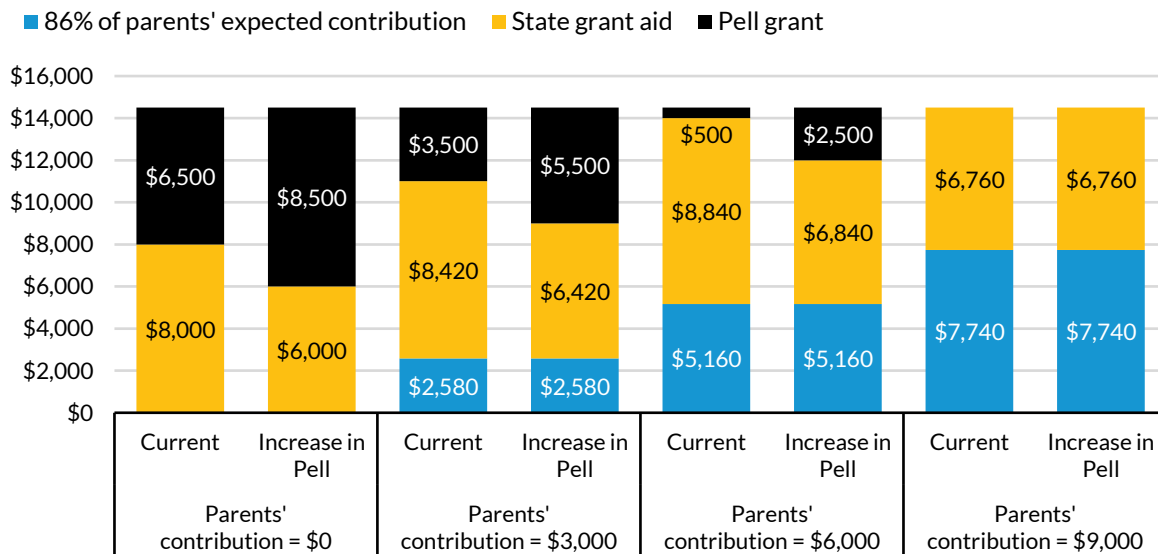
MINNESOTA

Minnesota’s “shared responsibility model” is a different type of program that also risks depriving students of the benefits of increases in Pell.⁷ All students are expected to contribute half their COA out of savings, earnings, loans, or aid from institutions or other private sources. For dependent students, the other half is covered by a combination of parents’ expected contribution, Pell grants, and state grants.⁸ (The COA defined by the state grant program is not dependent on institutions’ estimated student budgets but on a fixed allowance for living expenses.)

In Minnesota, total grant aid increases as students' ability to pay decreases. But Minnesota's model also sets a fixed amount for the combination of federal and state grant aid for each student. Students will receive less state grant aid as their Pell grants increase unless the state modifies the formula to allow grant aid to cover a larger share of COA.

Because only a fraction of the expected contribution (86 percent for dependent students) is included in the funds that add up to the half of the COA students are not expected to cover on their own, the higher expected contributions associated with higher incomes do not quite cover the loss in Pell grants, so state grants are sometimes larger for higher-income students than for lower-income students (figure 8). But the central issue related to potential changes in the Pell grant program is that given COA and expected contributions, as Pell grants increase, unless the state changes the program parameters, state grant aid will decline so the sum of the two aid sources remains constant and students do not receive more grant aid in total. Instead, the new federal dollars will replace state dollars. If state policymakers hope to increase access and success among their students, they will have to attend to the provisions of their grant programs that could limit the effectiveness of increased federal grant aid in supporting their students.

FIGURE 8
Minnesota State Grant Aid



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Source: "Minnesota State Grant," Minnesota Office of Higher Education, accessed June 23, 2022, <https://www.ohe.state.mn.us/mPg.cfm?PageID=138>.

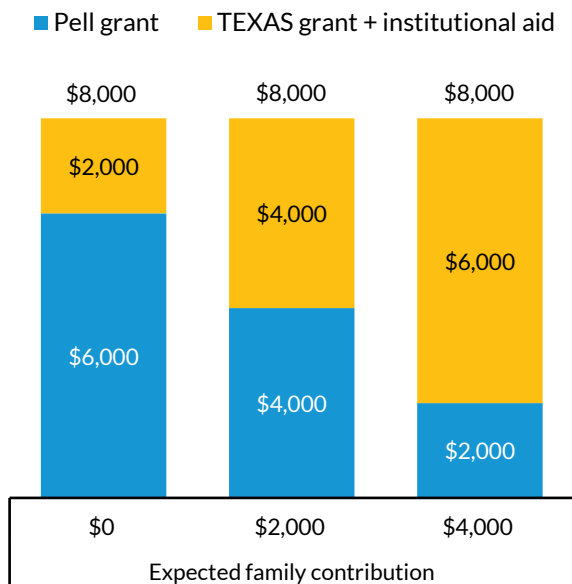
TEXAS

Unlike North Carolina and Minnesota, Texas does not require that total federal plus state grant aid for individual students adds up to a specified amount for its grant recipients. The Texas system is decentralized, with institutions receiving state funds and setting individual student award levels. But

under the Toward EXcellence, Access, and Success (TEXAS) grant program for students at public four-year institutions, total grant aid for state grant recipients must cover tuition and fees. (Many eligible students do not receive state grant funding.)

The TEXAS Grant program requirement of a minimum total grant amount equal to tuition and fees often yields the same total grant aid for each recipient. In contrast, under the Texas Educational Opportunity Grant (TEOG) program for community college students, grant aid *other than Pell* must cover tuition and fees. This means that very few students receive state grants. But among those who do, total grant aid declines as EFC rises, and students can use Pell to cover living expenses. Figures 9 and 10 illustrate how these two programs work. When Pell is included in total grant aid, increases in federal aid are likely to replace state dollars. When Pell is not part of the tuition and fee coverage, the risk is not the same.

FIGURE 9
TEXAS Grant for Public Four-Year College Students Whose Tuition and Fees Are \$8,000

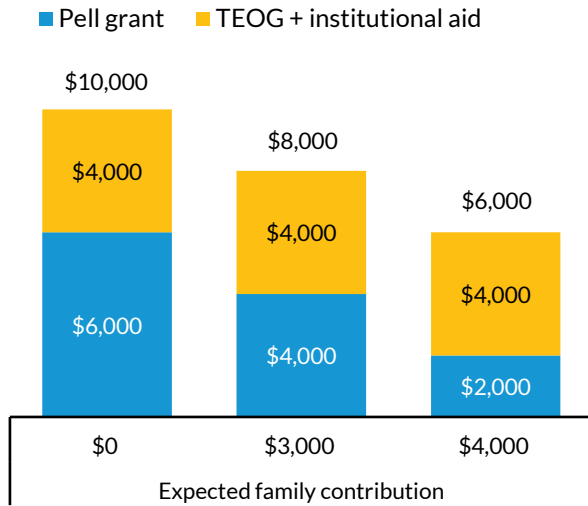


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Source: Authors' calculations using hypothetical data.
Note: TEXAS = Toward EXcellence, Access, and Success.

FIGURE 10

Texas Educational Opportunity Grants for Community College Students Whose Tuition and Fees Are \$4,000



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Source: Authors' calculations using hypothetical data.

Note: TEOG = Texas Educational Opportunity Grant.

ILLINOIS

The Illinois Monetary Award Program (MAP) is a need-based grant program that supplements students' available resources to help them pay tuition and fees and a living allowance. Instead of incorporating the federal EFC into the MAP formula, Illinois uses an adjusted EFC that multiplies the federal parent contribution by a factor ranging from 1.1 to 1.6 that increases as parents' contribution rises and adds a standard student contribution of \$1,800. Students with Illinois EFCs up to \$9,000 (equivalent to a federal EFC of about \$4,700) are eligible for MAP.

Award levels are determined by adding a \$5,020 living allowance (in 2022–23) to tuition and fees and subtracting the student's resources, which equal the Illinois EFC and 80 percent of the Pell grant award. The award is the lesser of tuition and fees, the calculated award, and the award maximum of \$5,496 (in 2022–23). Because of budget constraints, allowable tuition and fees are still set at the 2009–10 level, and the Pell grant dollars considered in the calculation are based on the same year (maximum of \$5,350) (table 2).⁹

TABLE 2

Illinois Monetary Award Program Calculation Examples

	Example A	Example B
Tuition and fees	\$13,000	\$3,500
Living allowance	\$5,020	\$5,020
Total budget	\$18,020	\$8,520
Federal parents' contribution	\$2,000	\$2,000
Illinois parents' contribution	\$2,564	\$2,564
Student contribution	\$1,800	\$1,800
Illinois expected family contribution	\$4,364	\$4,364
80% of expected Pell	\$2,680	\$2,680
Budget – expected family contribution – Pell	\$10,976	\$1,476
Award	\$5,496	\$1,476

Source: Authors' calculations based on data from "2022–23 MAP Formula," Illinois Student Assistance Commission, accessed June 22, 2022, <https://www.isac.org/isac-gift-assistance-programs/map/map-formula/2022-23-MAP-Formula/#22-23StartupFormula>.

Notes: Maximum award is \$5,496. Actual award levels may be rounded.

Because Pell is considered a resource in the formula for calculating state grant amounts, increases in Pell may reduce state award levels. For Pell grant recipients at four-year institutions in Illinois, increases in Pell levels are unlikely to affect MAP eligibility because the maximum award level is low relative to students' financial need. But for students at community colleges, under the current formula, increases in Pell will reduce awards, which are capped at the difference between the total budget allowed and the sum of EFC and Pell.

The current formula is based on out-of-date tuition charges, and the Illinois Student Assistance Commission's goal is to raise the tuition and fee levels in the calculation to reflect actual current prices. Updating those charges could prevent a decline in MAP awards. Dedication of the staff responsible for state grant aid to making these need-based awards more generous and the possibility of increasing the allowable budget levels may lead to steady or higher state grant awards as Pell increases. But the written regulations would not guarantee this in a different political environment.

LAST-DOLLAR FREE COLLEGE PROGRAMS

Many programs that promise to cover tuition for all students are "last dollar" programs that cover only the gap between other federal and state aid and tuition. They award more money—waive more tuition—for students who do not receive Pell grants than for those who do. Free college programs covering community colleges in Tennessee and several other states and all public colleges in New York operate this way.

Tuition at most community colleges in Tennessee is about \$4,300, significantly below the Pell grant maximum of \$6,495. Students with EFCs below about \$2,200 will not receive any funding from Tennessee Promise. And because state grant aid is also considered before determining Promise awards, students with higher EFCs may also be ineligible for additional funding.

If Pell grants increase, Tennessee will spend less on its Promise program. Students whose Pell grants already exceed tuition and fees will have more dollars beyond tuition and fees to devote to their living expenses. But Pell recipients in the state's eligible associate degree programs whose Pell grants still do not exceed tuition and fees will see no increases in the total aid they receive unless the policy changes (or unless tuition increases).

First-dollar "free college" programs eliminate tuition and fees, allowing Pell grant recipients to use their entire awards for other expenses. In contrast, last-dollar programs promise that no matter a student's ability to pay, unless their Pell grant exceeds tuition and fees, they will receive the same total public subsidy and be left with the same expenses to cover using loans, earnings, family support, and other sources. Increases in Pell should provide an opportunity for states to further reduce financial barriers to college enrollment and success facing low- and moderate-income students that do not create similar challenges for those from more affluent households.

Other Impending Changes to the Pell Program

The FAFSA Simplification Act of 2022 introduced numerous changes to the calculation of Pell award levels. For example, instead of the current system, which sets Pell levels for full-time, three-quarters-time, and half-time students, Pell grants will be prorated by the actual number of credit hours for which students are enrolled. Some oddities will emerge if states with Pell-sensitive systems do not make a parallel change. Currently, EFCs cannot go below \$0, but the new Student Aid Index will be negative in some cases (the SAI can be as low as -\$1,500). Some states might take advantage of the new negative SAI to differentiate award levels among students with no measured ability to contribute.¹⁰

The new law expands maximum award eligibility to include families making less than 175 percent of the federal poverty level and single parents making less than 225 percent of the federal poverty level.¹¹ As a result, some students will receive larger grants even without an increase in the maximum award level. This reality will mean that individual students could lose state grant aid under some state formulas, even without a visible increase in the maximum Pell grant.

Similarly, increases in the income protection allowance, which excludes some income from consideration in calculating ability to pay, will make students eligible for larger grants. Elimination of the allowance for state and local taxes will have the opposite effect.

The new law has the potential to significantly increase the number of Pell recipients. Some high-income students will be excluded because those with siblings in college will no longer see their EFCs divided among multiple children in college. But in addition to removing the restrictions for incarcerated students in prison education programs, those who have not registered for Selective Service, and those with drug offenses on their records, students from households with adjusted gross incomes below a specified share of the federal poverty level for their household size will be automatically eligible for at least a minimum Pell grant (Collins and Dortch 2022). In 2017–18, 18 percent of the undergraduate students meeting this threshold (ranging from 275 percent of the federal poverty level for dependent students with married parents and independent students without dependents to 400 percent for

independent single parents) did not receive Pell grants.¹² The newly eligible students could increase the number of Pell grant recipients by almost 20 percent. Most of the new recipients will likely receive small federal grants because they apparently do not currently qualify.

If state grant programs promise aid to all Pell recipients—and especially if they promise that total aid for all Pell recipients will add up to a specified total—the change could add significantly to cost of the state program.

State officials should examine the potential impact of the impending changes to Pell on their grant programs.

Adjusting State Grant Programs So That Students Benefit from Pell Increases

Concerns over the idea of students seeing no benefit from increases in their federal Pell grants because of dollar-for-dollar declines in state grant aid do not necessarily lead to the conclusion that state grant awards should be insensitive to federal grant levels. In some states, budget constraints lead to rationing of state grant aid, with many eligible students not receiving funding.¹³ It is reasonable for states to consider allowing increases in Pell grants to permit state funds to be spread across more students. Existing aid recipients would see their total grant aid rise by an amount less than the full increase in their Pell grants, and eligible students currently excluded from state programs would see their unmet need decline.

This outcome could emerge from changes in the parameters—but not the structure—of existing aid programs. For example, North Carolina could raise the target amount of aid for recipients of the lottery and community college grant programs. If the maximum Pell grant were to increase by \$2,000, the state might increase the target aid amount by \$2,000, leaving state grant aid at its current level. Or the state might raise the target by \$1,000 but include some students not currently funded. (North Carolina funds all eligible students, but the lowest-income students are not eligible.)

A state using the Minnesota model might lower either the share of the expected contribution that is included in the calculation of available funds or the share of COA that students are expected to cover on their own.

These modifications would allow students to benefit from the Pell grant increase but would not alter the way some state grant programs compensate students for their reduced Pell grant eligibility resulting from their higher EFCs, an approach that reduces the effectiveness of need-based aid in diminishing inequalities in the total resources available to students from different backgrounds.

Increasing Pell grant awards has long been a central focus of advocates for increased college access. Financial barriers for low- and moderate-income students can increase reliance on student loans and reduce educational attainment. But Pell grants provide just over one-fifth of the grant aid helping undergraduate students pay for their college expenses. Almost half the aid comes from the institutions

students attend, and more than 10 percent comes from state grant programs. If increases in Pell funding are to accomplish their intended goal, states must ensure Pell increases supplement, rather than replace, state grant aid.

Each state can examine the relationship between its aid and the federal grant program. Some states will find that no modification is necessary. Others will find that either tweaking the parameters of their programs or restructuring them will be the best strategy for increasing educational opportunities for the students in their states with the most limited resources.

Notes

- ¹ Kristin Blagg and Matthew Chingos, “How Will the New Pell Grant Formula Affect Students?” *Urban Wire* (blog), Urban Institute, August 5, 2021, <https://www.urban.org/urban-wire/how-will-new-pell-grant-formula-affect-students>.
- ² “State Grant Aid: Who Receives State Grant Aid?” Urban Institute, accessed June 22, 2022, <http://collegeaffordability.urban.org/financial-aid/state/#/>.
- ³ “State Grant Aid: Who Receives State Grant Aid?” Urban Institute.
- ⁴ For an introduction to this issue, see Blagg and Baum (2021).
- ⁵ “What Are the Cal Grant Award Amounts,” California Student Aid Commission, accessed June 22, 2022, <https://www.csac.ca.gov/post/what-are-cal-grant-award-amounts>.
- ⁶ “NC Education Lottery Scholarship,” College Foundation of North Carolina, accessed June 22, 2022, <https://www.cfnc.org/pay-for-college/apply-for-financial-aid/nc-education-lottery-scholarship/>.
- ⁷ “Minnesota State Grant,” Minnesota Office of Higher Education, accessed June 22, 2022, <https://www.ohe.state.mn.us/mPg.cfm?pageID=138>.
- ⁸ The formula for independent students replaces parents’ contribution with the expected contribution from the students and spouse (if married).
- ⁹ “2022–23 MAP Formula,” Illinois Student Assistance Commission, accessed June 22, 2022, <https://www.isac.org/isac-gift-assistance-programs/map/map-formula/2022-23-MAP-Formula/#22-23StartupFormula>.
- ¹⁰ For a comprehensive analysis of the new law, see Collins and Dortch (2022).
- ¹¹ Austin Reid, “Congress Expands Pell Grant Eligibility, Simplifies FAFSA,” National Conference of State Legislatures, January 20, 2021, <https://www.ncsl.org/research/education/congress-expands-pell-grant-eligibility-simplifies-fafsa-magazine2021.aspx>.
- ¹² Authors’ calculations using 2018 National Postsecondary Student Aid Study PowerStats data.
- ¹³ Sandy Baum, Kristin Blagg, and Macy Rainer, “Building a State Financial Aid Program: What Are the Trade-Offs of Different Design Choices?” Urban Institute, October 14, 2020, <https://apps.urban.org/features/how-to-build-a-state-financial-aid-program/>.

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