

**The Importance of Pell Grants to  
Improving Higher Education Attainment**

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## **The Importance of Pell Grants to Improving Higher Education Attainment**

Thank you for the opportunity to offer testimony on the role of Pell grants in promoting higher education attainment. Pell grants clearly play a critical role in promoting educational attainment. Therefore, I urge you to support efforts to raise the maximum Pell grant, ensure future growth in the maximum Pell grant over time, and ensure full funding for Pell grants. I also urge you to support efforts to simplify the process for receiving this aid and increase knowledge of the availability of this aid.

## **The U. S. Must Raise Educational Attainment**

Postsecondary education is increasingly important to the nation's, and Pennsylvania's, continued economic prosperity and global competitiveness, given the shift from an industrial economy to an information and technology-driven economy (Advisory Committee on Student Financial Assistance, 2006; Carnevale & Desrochers, 2003). New jobs increasingly require at least some postsecondary education and the educational requirements of all jobs, including those that once required no more than a high school education, have been rising (Carnevale & Desrochers, 2003).

Projected demographic trends suggest that the demand for college-educated workers will continue to increase in the near future. Over the next 20 years, baby-boomers will retire from the labor force, resulting in a substantial shortage of workers, especially workers with the most education and experience (Carnevale & Desrochers, 2003). Although the total number of high school graduates nationwide is projected to increase between 2001-02 and 2018-19 (Western Interstate Commission for Higher Education, 2008), this growth will likely be insufficient to meet labor market demands.

Carnevale and Desrochers (2003) estimate that, in 2020, the demand will exceed the supply by 20 million for workers overall, and by 14 million for workers with at least some college education.

Although increasingly important, the U.S. is losing ground in the educational attainment of its population (Baum & Ma, 2007; National Center for Public Policy and Higher Education, 2008a). The educational attainment of the U.S. adult population has increased over time, as 28% of adults age 25 and older in the U.S. held at least a bachelor's degree in 2006, up from 26% in 2000 and 21% in 1990 (Baum & Ma, 2007). But, other nations are increasing the educational attainment of their populations at a faster rate (National Center for Public Policy and Higher Education, 2006). The share of the 25- to 34-year old population that has completed at least an associate's degree is now lower in the U.S. than in a number of other developed nations, including Canada, Japan, Korea, New Zealand, Ireland, Belgium, Norway, France, and Denmark (National Center for Public Policy and Higher Education, 2008a). In Pennsylvania, the percentage of adults age 25- to 34- who hold at least an associate's degree is lower than in Canada, Japan, Korea, and New Zealand (National Center for Public Policy and Higher Education, 2008b).

Recognizing these trends, President Barack Obama has articulated an ambitious but critical goal: "By 2020, America will once again have the highest proportion of college graduates in the world." Achieving this goal will require not only raising the overall educational attainment of the U.S. population but also reducing persisting gaps in educational attainment based on family income, race/ethnicity, and other demographic characteristics.

Since the mid-1980s, college enrollment rates have been between 25 and 30 percentage points lower for high school graduates in the lowest family income quintile than for those in the highest (Baum & Ma, 2007). Even after controlling for academic ability, educational attainment rates continue to be substantially lower for students with the lowest than highest socioeconomic status (Baum & Ma, 2007). Only 29% of 1992 high school graduates with the lowest socioeconomic status and highest test scores had attained at least a bachelor's degree by 2000, compared with 74% of those with the highest SES and highest test scores (Baum & Ma, 2007).

Mirroring national patterns, Pennsylvania also suffers from persisting gaps in measures of college preparation, participation, and degree completion based on race/ethnicity, family income, and other demographic characteristics. For example, in Pennsylvania, only 13% of Hispanics and 15% of Blacks between the ages of 25 and 64 have earned at least a bachelor's degree, compared with 30% of Whites (National Center for Public Policy and Higher Education, 2008b).

### **Insufficient Financial Resources Limit Educational Attainment**

Although other forces also play a role (Perna, 2006), insufficient financial resources continue to limit educational attainment for a substantial number of individuals. The Advisory Committee on Student Financial Assistance (2006) estimates that, between 2000 and 2010, 1.4 million to 2.4 million students from low- and middle-income families will be academically qualified for college but will not complete a bachelor's degree because of financial barriers. Money clearly matters, as research consistently shows a positive relationship between family income and such outcomes as number of college

applications submitted, enrollment in a two-year or four-year institution, and number of years of schooling completed (Ellwood & Kane, 2000; Hofferth, Boisjoly, & Duncan, 1998; Kane, 1999; Perna, 2000).

Known as the “foundation” of our nation’s student financial aid system (College Board, 2008), Pell grants have played a critical role in addressing the financial barriers that limit educational attainment for students from low- and moderate-income families. Over the past decade, the number of Pell recipients rose by 46%, increasing from 3.7 million in 1997-98 to 5.4 million in 2007-08 (College Board, 2008). Reflecting the emphasis of Pell eligibility criteria on financial need, two-thirds of all dependent students who received Pell grants in 2007-08 came from families with incomes below \$30,000 (College Board, 2008). Research consistently shows that need-based grants – like Pell grants – promote college enrollment, particularly for students from low-income families and Black students (Kane, 1999; Perna & Titus, 2004; St. John et al., 2004).

Nonetheless, the effectiveness of the Pell grant has been diminished by the decline in its purchasing power. Although federal spending on Pell grants increased in constant dollars by 75% over the past decade (from \$8.2 billion in 1997-98 to \$14.4 billion in 2007), so too have college prices. The maximum Pell Grant covered only 32% of average total tuition and fees at public four-year colleges and universities nationwide in 2007-08, down from 50% in 1987-88 (College Board, 2008).

The emphasis of Pell on awarding aid based on students’ financial need is increasingly important, given trends in criteria for other types of aid. The share of state financial aid awarded based on criteria other than financial need increased substantially over the past two decades, rising from 17% in 1987-88 to 28% in 2006-07 (College

Board, 2008). Looked at another way, between 1996-97 and 2006-07, the amount of non-need-based state grant aid awarded to undergraduates increased in constant dollars by 250%, while the amount of need-based state grant aid increased by only 58% (NASSGAP, 2008). Awarding financial aid based on academic merit raises troubling questions for equity, as, by definition, students with lower average levels of academic achievement, i.e., students who are disproportionately from low-income families, Black, and Hispanic) are less likely than other students to receive merit-based aid (Heller & Marin, 2002). Moreover, research shows that grant aid that is awarded based on financial need has a larger positive effect than grant aid that is awarded based on non-need criteria (St. John et al., 2004).

### **Increased Funding for Pell Grants Has Many Benefits to Educational Attainment**

Although research shows the importance of grant aid to students' college enrollment, available aid is now typically insufficient to meet to meet 100% of financial need for all students (Choy & Berker, 2003). In 1999-00, about half of all full-time, full-year dependent undergraduates nationwide had some amount of unmet financial need (defined as a student's expected family contribution less all financial aid, including grants and loans), regardless of the type of institution attended (Choy & Berker, 2003). Moreover, unmet financial need is especially common among undergraduates from lower- and lower-middle-income families (Choy & Berker, 2003).

Most students, especially those from low- and middle-income families, are not able to cover their unmet financial need from current income or savings. As a result, when funding from Pell grants and other grants is insufficient, students typically use two

mechanisms to pay these costs: loans and employment. Numerous indicators describe the pervasiveness of loans. For example, between 1997-98 and 2007-08, total education loans (including subsidized and unsubsidized federal Stafford loans, PLUS loans, and non-federal loans) increased by more than 100% in constant 2007 dollars, increasing from \$41 billion in 1997-98 to \$85 billion in 2007-08 (College Board, 2008). Bachelor's degree recipients averaged \$12,400 in debt in 2006-07, up from \$10,600 in 2000-01 (College Board, 2008).

Borrowing “pays off” for many students, especially those who successfully complete their degree programs and obtain jobs that enable them to repay their loans (Gladieux & Perna, 2005). Nonetheless, the need to borrow to pay college prices has several negative consequences. First, although the use of loans to finance postsecondary educational expenses seems commonplace, the emphasis of the U.S. financial aid system on loans limits college opportunity for individuals who are unwilling or unable to incur this type of debt (Perna, 2008). Willingness to borrow is positively related to college enrollment (Callender & Jackson, 2005). But, willingness to borrow appears to vary across groups, as Blacks and Hispanics have been found to be less willing than Whites, and students from low-income families have been found to be less willing than higher-income students, to borrow to pay college prices (Callender & Jackson, 2005; ECMC Group Foundation, 2003; Linsenmeier, Rosen, & Rouse, 2006).

A second caution about the reliance on loans pertains to potential negative consequences of borrowing for students who do not complete their educational programs. Most students who borrow complete their degree programs, obtain jobs, and receive sufficient salaries to repay their loans. But, a substantial share of students who borrow to

pay postsecondary educational expenses “drop-out” before completing their educational programs (Gladieux & Perna, 2005). About one-fifth of first-time undergraduates nationwide in 1995-96 who borrowed to help pay college prices were not enrolled and did not complete a degree within six years but still had an educational debt to repay (Gladieux & Perna, 2005).

A third worry about the heavy reliance on loans to pay college prices pertains to potential negative consequences of borrowing for students’ persistence and degree attainment. Research suggests that, although unrelated to degree attainment, receiving a loan may reduce the likelihood of persisting from year-to-year at both community colleges (Dowd & Coury, 2006) and four-year institutions (DesJardins, Ahlburg, & McCall, 2002). Moreover, the negative consequences of loans for educational attainment appear greater for Blacks than for Whites and for low-income than high-income students (Kim, 2007).

In addition to borrowing, students are also working more hours while enrolled in order to pay college expenses that are not covered by financial aid (Perna, in press). In 2003-04, about 75% of dependent undergraduates and 80% of independent undergraduates worked while enrolled (Perna, Cooper & Li, 2007). Working dependent undergraduates averaged 24 hours of employment per week while enrolled, while working independent undergraduates averaged 34.5 hours per week (Perna, Cooper & Li, 2007). In 2006, nearly one in ten (8%) undergraduates under the age of 25 and enrolled full-time was employed at least 35 hours per week (U. S. Department of Education, 2008).

Much about the effects of working on students' educational outcomes is unknown. Nonetheless, research consistently suggests working off-campus and more than 15 hours per week – as substantial percentages of students are now doing – reduces the likelihood of persisting to degree completion (Perna, Cooper & Li, 2007). Moreover, working off-campus and more than 15 hours per week also increases the length of time to degree, and consequently increases the direct costs and opportunity costs of attaining that degree (Perna, Cooper & Li, 2007).

### **Recommendations**

With the emphasis on awarding grant aid based on students' financial need, Pell grants play a critical role in reducing the financial barriers to college enrollment and degree attainment, especially for students from low- and moderate-income families. Increasing the maximum Pell grant, and fully funding the Pell grant, will help ensure that students from low- and moderate-income families have the financial resources needed to pay college prices and will help reduce potential negative consequences associated with borrowing and working.

In addition to increasing the maximum Pell grant and fully funding the Pell grant program, I also urge you to support efforts to simplify the process for applying for federal aid. A substantial number of students now fail to complete the FAFSA, thereby forgoing need-based aid for which they are eligible. In 1999-2000, 1.7 million low- and moderate-income undergraduates who were enrolled for-credit at higher education institutions nationwide did not complete the FAFSA (King, 2004). About one-half of these individuals were estimated to be eligible to receive a federal Pell grant. Research suggests

that using existing data from the Internal Revenue Service to populate the FAFSA increases the likelihood of applying for and receiving aid, as well as the amount of aid received (Bettinger, Long, & Oreopoulos, 2009).

I also urge you to support efforts to improve knowledge and information about the availability of Pell grants and other aid for low- and moderate-income students.

Currently, students do not learn about the amount of need-based aid that they will receive until after they have completed a number of steps, including applying for admission to college, submitting a financial aid application, and receiving a response from a college or university (Kane, 1999). Increasing knowledge and information about available aid may improve educational attainment directly by ensuring that more eligible students apply for and receive the aid (Bettinger et al., 2009). These efforts may also improve educational attainment indirectly. High school students who are aware of the availability of financial resources to pay for college are more likely to engage in the types of behaviors that are required to enroll in and succeed in college, including aspiring to high levels of education and becoming adequately academically prepared (Perna & Steele, in press).

Thank you for your consideration of these remarks. I welcome your comments and questions.

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