

**THE REIMAGINING AID DESIGN AND DELIVERY (RADD) CONSORTIUM** FOR THE REFORM OF FEDERAL STUDENT AID GRANTS AND WORK-STUDY:



**OUR AGENDA**  
FOR REFORM



CENTER *for* POSTSECONDARY *and*  
ECONOMIC SUCCESS



This agenda was developed by a five-member consortium designed to identify key reforms necessary for ensuring that Pell Grants and the Federal Work-Study program better meet the needs of America's growing population of low-income, post-traditional students, with a special emphasis on underrepresented students. The consortium is comprised of *Excelencia* in Education, the Center for Postsecondary and Economic Success at CLASP, College Board, the Committee for Economic Development, and the National Urban League and was generously funded by the Bill & Melinda Gates Foundation as part of its Reimagining Aid Design and Delivery initiative.

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## INTRODUCTION

Today’s college students no longer fit the “traditional” student profile of a full-time student transitioning directly from high school to a four-year college or university.<sup>1</sup> Fifty-one percent of undergraduate students are independent, 44 percent are adults age 25 or older, 26 percent are parents, and 41 percent work more than 20 hours per week. These “post-traditional” students have unique needs, many have taken a longer path to college enrollment, and often bear financial responsibility for their families and dependents.

Over the last three decades, college costs have increased nearly four times faster than the median family income. Financial aid has not filled the growing gap and “unmet financial need”—the share of college costs not covered by financial aid or what the family is expected to contribute—has risen sharply. Half of community college students averaged \$4,500 in financial need in 2007-08 and 43 percent of students at public four-year colleges averaged \$6,400 in unmet need.<sup>2</sup> Rising unmet need means students must work more or borrow more to stay enrolled. Forty-three percent of undergraduate students work part-time to cover college and family costs; 32 percent work full-time. And while working a modest amount during college can increase performance, working too many hours can negatively affect academic performance, retention, and completion.<sup>3</sup>

In light of these trends, the goal of this consortium was to bring together our diverse organizational perspectives, as well as feedback from stakeholder groups (e.g. administration and leadership of minority-serving institutions, civil rights advocates, business leaders, four-year and community college administrators and leadership, and students) to identify policy opportunities for a re-designed student aid system that helps all students—but specifically post-traditional students—afford and complete college. The recommendations in the pages that follow outline a foundation of our shared policy agenda; individual organizations may differ on specific implementation issues (e.g. income thresholds for eligibility) or may have accompanying policy recommendations that do not appear in this paper.

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1 National Center for Education Statistics, 2012.

2 National Center for Education Statistics, 2011.

3 Scott-Clayton, Judith. *What Explains Trends in Labor Supply Among Undergraduates, 1970-2009? NBER Working Paper 17744*. National Bureau of Economic Research, 2012.



## GUIDING PRINCIPLES FOR REFORM

In developing these shared recommendations, the consortium members agreed that reforms to the federal student aid and work-study programs should abide by a set of common guiding principles. Reforms should:

1. Increase educational and economic opportunity for all students, prioritizing access and success for low-income and underrepresented students.
2. Provide federal aid as clearly, transparently, and simply as possible, so that outreach to students and their families can begin early, and be proactive, encouraging, sustained, and accurate.
3. Be based on evidence of demonstrated effectiveness in serving low-income, disadvantaged students. Evaluate proposals to ensure they do no harm to these targeted populations.
4. Ensure that federal grant aid, in combination with a manageable amount of work and loans, is adequate to make completion of a postsecondary educational program financially possible for all qualified students.
5. Take a comprehensive approach to addressing all financial and non-financial barriers to degree completion.
6. Hold institutions receiving federal funding reasonably accountable for keeping college affordable and strengthening student success in a manner that accounts for an institution's unique student body.

All of our recommendations included within these pages will adhere to the above guiding principles. Lastly, despite the growing popularity of policies and efforts designed to improve the rates of college completion among all students, this consortium recognizes the vital importance of maintaining a focus on access, particularly in light of increased pressures for institutions to increase completion rates. Accordingly, our recommendations fall under two categories: policies that improving college access and those that support college retention and completion.

# POLICY RECOMMENDATIONS:

## SUPPORTING ACCESS FOR POST-TRADITIONAL STUDENTS

### 1) Restore provisions that enable students without a high school diploma or equivalency to be eligible for federal student aid

In December 2011, Congress eliminated provisions that allowed college-ready students who did not have a high school diploma or equivalency to be eligible for federal student aid (commonly known as the “ability to benefit” option, or “ATB”). Under ATB, students without a high school diploma or its equivalent had the opportunity to qualify for federal financial aid, including Pell Grants, so long as they showed their ability to benefit from postsecondary education by passing a federal test or successfully completing six credits toward a certificate or degree. In a study conducted by the U.S. Department of Education, results from a series of successful pilots showed that students who qualified for aid under ATB and received financial aid went on to earn higher grades and completed more credits than students with high school diplomas who also received financial aid.

The elimination of ATB closed the door to college credentials for thousands of underserved students and undermines the growth of innovative programs that can improve college access and completion for underprepared students. However, in December 2014 Congress passed budget legislation that partially reinstated the ATB provision for students who enroll in an eligible career pathways program. While the change went into effect retroactive to July 1, 2014, the amount of Pell an ATB student receives depends on their enrollment date in their career pathways program. Those who enter before July 1, 2015 will be eligible for the maximum award of \$5,830, while those enrolling on or after will be limited only to the maximum discretionary award of \$4,860. We suggest fully restoring provisions that enable students without a high school diploma or its equivalent to be eligible for federal student aid. With access to financial aid, students can take advantage of the growing number of career pathway and bridge

programs — an evidence-based model designed to help underprepared, low-income, and lower-skilled students earn credentials more quickly than through traditional, sequential programs. ATB students are more likely to be low-income, first generation and minority than other students receiving federal aid. An estimated 31 percent of ATB students are Hispanic and 19 percent are Black — compared to 14 percent of all undergraduates who are Hispanic or Black.<sup>4</sup>

### 2) Simplify the Pell Grant Application Process

The application process for federal aid is complicated. In order to eliminate barriers and ensure federal student aid is going to the neediest students, we propose a simpler process that would make it easier for a greater number of low-income students to apply for and predict their aid eligibility.

**A Simpler Eligibility Process.** Currently, to receive federal student aid, students and families must complete the Free Application for Federal Student Aid (FAFSA). There is clear evidence that the current FAFSA process creates barriers for students.<sup>5</sup> Furthermore, despite progress in recent years in developing a simpler online application, many students do not complete the FAFSA because of its perceived complexity.

We propose a simplified financial aid formula that relies solely on a few pieces of data from federal income tax forms. Adopting this approach would disproportionately help low-income students in overcoming the barriers currently associated with applying for federal student aid.

Although the online application and the IRS Data Retrieval Tool simplified the federal application process, there is opportunity to design a more streamlined system that could expand college access for millions of low-income students each year. We recommend the following improvements:

4 *Eliminating “Ability to Benefit” Student Aid Options Closes Door to College Credentials for Thousands and Undermines Innovation*, Center for Law And Social Policy (2012). [www.clasp.org/documents/clasp-atb-one-pager.pdf](http://www.clasp.org/documents/clasp-atb-one-pager.pdf)

5 Bettinger, Eric, B. T. Long, Philip Oreopoulos, and Lisa Sanbonmatsu. (2012) “The Role of Application Assistance and Information in College Decisions: Results from the H&R Block FAFSA Experiment.” *Quarterly Journal of Economics* 127(3).

1. Limit the required financial data to two elements: Adjusted Gross Income (AGI) and number of exemptions (family size).
2. Allow applicants whose parents or who themselves are not required to file a federal tax form to qualify for the maximum Pell Grant award without requiring them to provide financial data on the FAFSA.
3. Base eligibility on “prior prior” year (PPY) tax data (data from the year before the year currently used to determine federal aid eligibility). Relying on PPY data would ensure that the majority of tax filers could populate FAFSA financial fields with accurate IRS data.
4. Allow students who have experienced unusual changes in their family circumstances (death of a parent or working spouse or loss of a job) to appeal the original eligibility determination.
5. Conduct a pilot study to determine whether the requirement to reapply for federal student aid each year could be eliminated in the future.

**A More Transparent Need Analysis.** Under the current system, it is difficult for students and families to estimate the amount of student aid they are eligible for because of the number of data elements that go into the formula and the underlying calculations that are applied to the data. We believe that the eligibility formula needs to be simplified to help students from low- and moderate-income backgrounds understand early in their college preparation years how much financial aid they are likely to receive. Our proposals to streamline eligibility include:

1. For most students, Pell Grant eligibility should be based solely on Adjusted Gross Income (AGI) and family size (number of exemptions).
2. For tax filers with more complex financial circumstances, IRS “triggers” would be used to identify those filers based on key data elements (e.g. negative AGI, specific tax schedules filed).
3. Establish eligibility income thresholds: award the maximum grant to students with family income at or

below a level relative to the poverty line (e.g. 100 percent, 130 percent) and limit the eligibility of students with family incomes over established thresholds (e.g. 200 percent, 250 percent of the poverty line). This would ensure that Pell is targeted more effectively to low- and moderate-income students.<sup>6</sup>

4. To increase the predictability of Pell awards, the maximum award should be adjusted each year by the increase in the CPI plus 1 percent.
5. By moving to a very simple Pell eligibility determination based on AGI and family size, award look-up tables would allow low- and moderate-income students to predict their Pell Grant awards well in advance of applying for aid.

**Meeting the Data Needs of States and Institutions to Determine Non-Federal Aid.** While federal student aid is a growing proportion of all available financial aid, 39 percent of grant aid comes from colleges and universities and eight percent from states.<sup>7</sup> This aid is particularly important for students who do not receive Pell Grants.

To help states and institutions award available aid, we recommend that more detailed financial data (from the IRS) be used to drive an economically-sound need analysis formula to determine aid for applicants whose family income makes them ineligible for Pell grants.<sup>8</sup> Only data captured by the IRS would be used to calculate the EFC.

**The Impact of a Simplified Formula.** To understand the impact of basing Pell eligibility on AGI and family size, the College Board modeled several approaches using NPSAS:12 data, tying eligibility to the 2012 poverty guidelines and comparing the results to those calculated using the 2014-15 Federal Methodology and Pell award table.

The results we have highlighted below assume that all eligible students will complete the application process. Although this outcome is unlikely and as a result, increases in program expenditures are over-estimated in our analysis, we believe that a simpler process will encourage more students to apply. Under the first model which sets the maximum Pell Grant at

6 Specific income thresholds must be determined. Individual consortium members vary in their recommended income thresholds.

7 *Trends in Student Aid 2014*. College Board, <http://trends.collegeboard.org/sites/default/files/2014-trends-student-aid-final-web.pdf>

8 Destin, M. & Oyserman, D. (2009). From assets to school outcomes: How finances shape children’s perceived possibilities and intentions. *Psychological Science*, 20(4), 414-418.

130 percent of poverty, enrolled students who did not file the FAFSA but would be eligible for a Pell Grant totaled approximately 922,000 dependent students, 1.3 million independent students without dependents other than a spouse, and 1.5 million independent students with dependents. Under an alternative model which sets the maximum award at 100 percent of poverty, somewhat fewer non-filers would be eligible.

■ If students qualified for the maximum Pell Grant when income was equal to or less than 130 percent of poverty, and lost eligibility once income reached 250 percent of poverty:

- More than a million additional dependent students would be eligible for Pell Grants; average grants would decrease slightly from \$3,669 to \$3,359. Total expenditures for dependent students would increase from about \$15.3 billion to just under \$17.5 billion.
- Among independent students without dependents other than a spouse, almost 1.75 million additional students would qualify for a Pell Grant assuming all eligible non-FAFSA filers completed the simplified process. Among all students in this category, average grants would decrease by less than \$400 from \$3,278 to \$2,892. The gap between current and predicted average awards would increase as students ascend the income scale. In fact, among the lowest-income students eligible under both current and future rules, the average grant would actually increase.
- Assuming all eligible independent students with dependents applied for a Pell Grant, almost 1.5 million additional students would qualify; average grants would drop from \$3,372 to \$2,882, and expenditures would increase by about \$2.4 billion. As above, the average grant among the lowest-income students in this category would actually increase, decreasing only among higher-income students.

### **3) Develop early-awareness materials for students and families**

Many students, especially those from low-income backgrounds, do not get information and encouragement

early enough about their postsecondary opportunities and the financial aid for which they may be eligible. Students and families often overestimate the cost of attending college, basing any information they might have on published prices rather than net prices, thus believing that college is not a possible future pathway toward a career and so do not take the necessary steps to prepare academically.

There is considerable evidence that the early awareness of funding available to pay for college can have a positive impact on academic preparation and planning for college.<sup>9</sup> To ensure that all students and families are aware of the importance of postsecondary education and the associated benefits, we recommend that the federal government provide college information annually, customized to the family's financial circumstances. Families would check a new box on the IRS form each year, giving permission to the IRS to release information to the U.S. Department of Education, which would send information about the importance of college, paying for college, and financial aid eligibility. For a more hands-on (and potentially complementary) approach, Congress could also pilot programs that enlist the services of eligible private and public groups (e.g., community-based organizations) to implement research-based approaches to serve low-income, minority, and other disadvantaged populations. Services would include financial literacy counseling, creating an individual college development plan, navigating the financial aid application process, and identifying sources of financial aid.

Furthermore, the consortium also recognizes that a tremendous information gap exists among adult students, particularly those who are underprepared for college. In addition to early awareness activities targeted at young people, we recommend also establishing similar activities targeted toward adults. This could include developing materials that would be distributed through libraries, Department of Labor One-Stops, high school equivalency preparation programs, human service agencies, and other places where low-income adults are likely to frequent.

9 Elliott, W., Choi, E.H., Destin, M., & Kim, K. H. (2011). The age old question, which comes first? A simultaneous test of children's savings and children's college-bound identity. *Children and Youth Services Review*, 33(7), 1101-1111.

# POLICY RECOMMENDATIONS:

## SUPPORTING COMPLETION AMONG POST-TRADITIONAL STUDENTS

### 4) Reform Pell Grants to Support Student Completion

The structure of the Pell Grant program should embed behavioral incentives designed to encourage students to complete their degree or credentials in a timely manner.

Currently, students can receive Pell Grants for two semesters or three quarters during the academic year and cannot receive additional funds to cover summer terms. Additionally, the current program defines full-time enrollment as 12 credits per hour per term, however, timely completion requires an average of 15 credit hours per term. Therefore, if students only complete 12 credit hours each term, he or she will not complete an associate's degree in two years or a bachelor's degree in four, resulting in increased educational cost, higher loan debt, and loss of wages in the job market.

Students should be encouraged to complete as many credits and as many terms per year as is appropriate for them, and the Pell Grant program should be modified to support timely completion and student success. We suggest that full-time for financial aid eligibility purposes should continue to be defined as 12 credits per term. Additionally, no change should be made to the current definition of three-quarter or half-time status. To encourage on-time completion, students who enroll in 15 or more credits per term should receive a "bonus" equal to one-quarter of their Pell Grant.

Furthermore, we suggest Pell Grants should be reinstated for summer terms and should be awarded in the same way during any other academic term without any unique institutional reporting requirements. To implement this change, it will be necessary to remove the annual grant limit.

### 5) Supplement Pell Grants with guidance and support services

In order to support increasing completion rates for low-income students, the Pell Grant program should be expanded to provide guidance and support services for

recipients. Potential students should receive information about the educational programs and institutions at which they have a good chance of succeeding, about the employment options likely to be available upon program completion, and about the costs they will incur, including likely student debt levels.

High school students and independent students with work and family responsibilities need different types of information and face unique barriers in accessing information. As a result, advising support should be designed to recognize these differences. For instance, most older students considering postsecondary education do not have access to school counselors, peers enrolling in college, federal TRIO programs, or other resources designed for younger, more traditional students.

To supplement the Pell Grant program, low-income high school students who qualify for free-or-reduced-price lunch should have access to federally-funded college coaching service from the time they apply for admission and financial aid through their first year of enrollment. The design of the coaching service, portions of which could be automated, should be subject to discussion, and pilot programs should be evaluated before full-scale implementation.

Pell Grant recipients ages 24 or older should also have access to advising through an independent third-party career counselor before enrolling. Counseling services could include information about the best college options, career assessment and opportunity, financing, and assistance with accessing federal, state, and local income supports such as TANF, childcare assistance, Supplemental Nutrition Assistance Program (SNAP), and Medicaid. The design of these counseling services will require experimentation and evaluation of alternative models. Such services would be optional, but strongly encouraged.

Institutions should be required to provide academic and career guidance programs to all Pell recipients once they enroll to ensure that they are progressing satisfactorily toward completion of their planned credentials.

**6) Revisit the current Federal Work-Study (FWS) allocation formula to reflect the demographic distribution of needy students across the country and align Federal Work-Study placements with students' field of study**

For the growing proportion of post-traditional students seeking a postsecondary education to quickly improve their standing in the labor market, the FWS program could play a more formative role in their career development while also proving much-needed financial aid. Nearly one-third of undergraduates work more than 35 hours per week and almost half work part-time. While working a moderate number of hours while in school has been associated with higher achievement, working too many hours can threaten degree completion. Internships provide an unmatched opportunity for students to get their foot in the door and gain experience that will help them secure employment upon graduation, but financial necessity may make it difficult for low-income students to take advantage of unpaid internships in their field of study.

The FWS program is funded jointly by the federal government and institutions/employers, collectively providing about \$1 billion to fund 700,000 student job placements each year that should align with a student's academic and career goals to the maximum extent possible. Federal policy reform should encourage these career-related matches. This could be done by aligning the stated purpose of the program with the allowable and encouraged activities as well as incentivizing states to fund work-study programs related to state and regional economic growth industries.

Furthermore, federal work-study funds should be redistributed to better reach post-traditional students. To do so, we suggest analyzing the current distribution of FWS funding by geography, institution type, and student income to better frame an understanding around changing the formula based on student need rather than the current historical receipt



of funding. Our own preliminary analysis shows FWS is more concentrated in private institutions and in the mid-Atlantic although population growth and financial need is more concentrated in community colleges and in the Southwest. We also suggest changing the requirement of need to Pell eligibility rather than the broader definition of “need” so that institutions can better align their institutional financial aid decisions. Lastly we support simplifying the program implementation to allow institutions more flexibility for their use as needed by their students.<sup>10</sup>

<sup>10</sup> Flexibility could be implemented in a variety of ways. Excelencia in Education suggests combining funds from the Supplemental Education Opportunity Grant (SEOG) with FWS while the College Board supports the movement of funds from one-campus-based program to another.

## 7) Pilot incentives for states and institutions to encourage and reward the enrollment and graduation of post-traditional students

While the federal government plays a critical role supporting college access by the distribution of financial aid, state policies and institutional practices are extraordinarily influential to help students access and succeed in college. The consortium widely agrees that states and institutions should expand their role in supporting post-traditional students. Below are two distinct pilot programs that would test promising state and institutional models for supporting student success.

### **Provide Incentives to Institutions to Develop Supportive Services (College Board)**

To increase student attainment, institutions must provide effective support services to Pell Grant recipients. The federal government should direct funding to institutions through a new incentives program to help them develop supports designed to improve the rates at which low-income students complete their educational programs.

This program would provide subsidies to institutions based on the number of Pell Grant recipients who demonstrate academic success by moving to second-year status or beyond, transferring from two-year to four-year institutions, or completing degrees or certificates requiring more than one year of full-time study. The amount of the subsidy would be calculated as a percentage of the Pell Grant awards received by the students who demonstrated such success and a portion of the funding from the incentive program

would be used to support experiments designed to improve the success rates of low-income students.

Institutions would determine the best use of the incentive funds based on the characteristics and needs of their Pell Grant recipients and not all institutions that qualify to participate in Title IV programs would be eligible to receive funds under this incentive program.

### **Pilot a National, Voluntary Compact for College Completion for Students and Colleges (CLASP)**

An ever-growing body of research has found that need-based grant aid increases access and persistence among undergraduate students. But financial aid combined with other interventions—such as innovations in course delivery, curriculum or instruction, learning communities, financial incentives, extra academic support and advising, emergency transportation or child care aid, and others—may have an even larger effect.

We propose a Compact for College Completion, which would be designed to maximize the impact of these promising strategies that have been shown to contribute to higher completion rates. The Compact would provide additional funds and national recognition to students and colleges that agree to partner with the federal government on increasing completion. While the scope of the initiative would depend on available funding, the intent is to pilot the Compact for College Completion with a large number of students within selected colleges to increase the impact on each institution as a whole.<sup>11</sup>

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<sup>11</sup> For more information on the proposed Compact for College Completion, see *Reforming Student Aid: How to Simplify Tax Aid and Use Performance Metrics to Improve College Choices and Completion*, CLASP, 2013.



## CONCLUSION

Today's college students navigate many pathways to a postsecondary degree but far too many face daunting prospects for completion, especially low-income and post-traditional students. Faced with rising college costs, growing levels of responsibilities including balancing school, work, and family, and complex federal and institutional processes, it is no surprise that many students struggle to persist long enough to earn a degree. Federal higher education policies should be designed to help low-income and post-traditional students overcome financial barriers to student success and career mobility. Reforming the federal Pell-Grant and work-study programs are just two ways in which innovative policy reforms, as proposed above, will help ensure more low-income students persist in and complete college.



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