Student Aid Policy Analysis

The College Completion Agenda May Sacrifice College Access for Low-Income, Minority and Other At-Risk Students

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EXECUTIVE SUMMARY

There is a tension between college access and completion. College access seeks to enable all students to pursue a college education, regardless of their ability to pay. College completion seeks to increase the number of students graduating from college. But low-income students are at higher risk of dropping out of college, so expanding college access may cause decreases in college graduation *rates* (as opposed to changes in the *number* of students graduating). Conversely, pressure to increase graduation rates may cause some colleges to become more selective in the students they admit because high school GPA and admissions test scores correlate strongly with college completion. One of the easiest ways to increase graduation rates is to exclude high-risk students. So efforts to boost college completion may directly or indirectly shift eligibility for the Pell Grant program from financial need to academic merit, hurting college access by low-income students. Thus the college completion agenda may sacrifice college access to gain improvements in graduation rates without achieving meaningful increases in the number of students graduating from college.

This paper evaluates the potential impact of proposals to refocus the Pell Grant program on college completion instead of college access, such as proposals to establish a minimum graduation rate threshold on institutional Pell Grant eligibility. The key findings in this report are as follows:

- Establishing a minimum graduation rate threshold on institutional Pell Grant eligibility will shift significant amounts of funding from community colleges to 4-year colleges. Regardless of the graduation rate threshold, community colleges are always hit the hardest.
    - A 20% minimum graduation rate threshold on institutional Pell Grant eligibility would cut overall Pell Grant funding at community colleges by more than $5 billion. While 4-year for-profit colleges would also lose nearly $1 billion, the for-profit sector as a whole would experience a net gain of more than $500 million in Pell Grant funding.
    - A 20% minimum graduation rate threshold on institutional Pell Grant eligibility would cause the average graduation rate for Pell Grant recipients to increase by 8.5 percentage points, but there would be a net 1% decrease in the number of college graduates.
- College graduation rates correlate with academic performance and other risk factors, so refocusing the Pell Grant program on completion will shift eligibility from financial need to academic merit. High-risk students – such as first generation college students, low-income students, students who are single parents, students who lack a high school diploma, independent students, students who work full-time while enrolled and students who enroll part-time – are less likely to graduate. This represents an abandonment of the basic principle that every student should have an equal opportunity to pursue a college education without regard to ability to pay.

- Pell Grant recipients in Bachelor's degree programs who have an A-average high school GPA are almost twice as likely to graduate within six years as students with a B-average high school GPA.

- Pell Grant recipients in Bachelor's degree programs who have the highest admissions test scores are more than twice as likely to graduate in six years as students with the lowest admissions test scores.

- Bachelor's degree attainment rates for independent students are less than half the Bachelor's degree attainment rates for dependent students, while Associate's degree and Certificate attainment rates are similar for dependent and independent students.

- Bachelor's degree attainment rates for Pell Grant recipients increase with increasing family income, so a policy that rewards colleges with higher graduation rates may directly or indirectly discourage colleges from admitting students who are among the poorest of the poor.

- High-risk students are more likely to enroll in Associate's degree and Certificate programs and at less selective colleges. Refocusing the Pell Grant program on completion will introduce a bias in favor of Bachelor's degree programs at more selective colleges.

  - About one eighth of students in Bachelor's degree programs are at high risk, compared with more than half of students in Associate's degree programs and two thirds of students in certificate programs.

  - Low-income students do not have the same postsecondary educational opportunities as high-income students. Low-income students are more than twice as likely as high-income students to pursue an Associate's degree or Certificate, as opposed to a Bachelor's degree.

  - Six-year Bachelor's degree attainment rates for Pell Grant recipients who intend to obtain a Bachelor's degree at very selective 4-year colleges are more than triple the Bachelor's degree attainment rates at open admissions 4-year colleges.

- The better graduation rates at very or moderately selective colleges may have more to do with their aggregation of the most talented students than with the value added by these colleges. More than half of the above-average improvement in graduation rates is predicted by the mix of high school GPA and admissions test scores of students enrolled at these institutions.

- Bachelor's degree attainment rates for Pell Grant recipients at for-profit colleges are less than half of Bachelor's degree attainment rates at public and non-profit colleges. However, Associate's degree and Certificate attainment rates among Pell Grant recipients at for-profit colleges are greater than at public and non-profit colleges, despite a generally higher-risk mix of students.

RECOMMENDATIONS

The Pell Grant program is big enough and important enough that one should be cautious about making sweeping improvements in the program without conducting careful analysis and testing of the proposed changes in advance. Proposals to "reimagine" the Pell Grant program must not only be evaluated for effectiveness in improving college completion, but also for the potential to harm college access.

The potential for unintended consequences must also be considered. This is why there must be empirical testing through randomized case-controlled prospective studies before any proposal is implemented.

The focus of improvements in college completion should be on increasing the *number* of college graduates, not increasing the college graduation *rates*. Some proposals to increase college graduation rates will result in decreases in the number of students graduating from college.

Proposals to improve college completion must correlate changes in funding with changes in performance. Simplistic approaches that focus on absolute performance metrics instead of the relative change in performance will not necessarily yield improved outcomes. Giving more money to better-performing colleges may not improve college graduation rates by much, since the wealthy and academically talented students at these elite institutions are already likely to graduate. There's much more room for improvement at colleges that have lower graduation rates.

Proposals to improve college completion must not only consider the improvements at colleges that gain additional funding, but also the offsetting declines in performance at the colleges that lose funding. The increase in performance at colleges that gain funding must more than compensate for the decrease in performance at colleges that lose funding.

Congress should consider making a bold increase in the average Pell Grant per student. College graduates pay more than twice as much in federal income taxes as high school graduates. Every dollar invested in the Pell Grant program yields more than two dollars in profit to the federal government over the typical recipient's work-life. Doubling or even tripling the average Pell Grant funding per recipient would significantly increase the number of low-income students graduating with college degrees each year by providing low-income students with the same postsecondary educational opportunities as high-income students. This could lead to a new American renaissance, an era of expanding economic prosperity and an end to generational poverty.

METHODOLOGY

The analysis in this report is based on data from the 2007-08 National Postsecondary Student Aid Study (NPSAS:08), the 2009 follow-up to the 2003-04 Beginning Postsecondary Students longitudinal study (BPS:04/09), the 2010-11 Integrated Postsecondary Education Data System (IPEDS) and 2010-11 Pell Grant disbursement data. The NPSAS is a large survey conducted every four years by the National Center for Education Statistics at the US Department of Education. The 2007-08 NPSAS surveyed 114,000 undergraduate students about how they paid for college. The BPS is based on the subset of NPSAS respondents who first enrolled in college in the NPSAS year and tracks outcomes three and six years after their initial enrollment. The 2003-04 BPS surveyed 16,700 undergraduate students. The analysis of NPSAS data was performed using the data analysis system[1] and the analysis of the BPS data was performed using the PowerStats system.[2] IPEDS contains financial aid, enrollment and graduation rate data reported by all colleges that participate in the federal student financial aid programs.[3] The Pell Grant disbursement data is based on Title IV Program Volume Reports published by the Federal Student Aid Data Center.[4]

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[1] http://nces.ed.gov/dasol
[2] http://nces.ed.gov/datalab/powerstats/
[3] http://nces.ed.gov/ipeds/datacenter/DataFiles.aspx
[4] http://studentaid.ed.gov/about/data-center/student/title-iv

THE COLLEGE COMPLETION AGENDA, ZERO-SUM GAMES AND THE PELL GRANT

The college completion agenda seeks to increase the number of Americans with college degrees. Towards this end, President Obama and two of the largest foundations have set ambitious goals for the nation. President Obama said, in an address to a joint session of Congress, that "We will provide the support necessary for all young Americans to complete college and meet a new goal: By 2020, America will once again have the highest proportion of college graduates in the world."[5] The Bill and Melinda Gates Foundation seeks to "double the number of low-income adults who earn a postsecondary degree or certificate with genuine value in the marketplace by the time they reach age 26."[6] The Lumina Foundation for Education wants "60 percent of the American population to hold high quality two- or four-year college degrees" by the year 2025.[7]

These are worthwhile goals. However, some public policy advocates are now seeking to achieve these goals by "reimagining" the Pell Grant program and other student financial aid programs. They want to shift the focus of the inadequately funded[8] Pell Grant program from expanding access to college by low-income students to increasing college graduation rates. They assume that government financial aid funding is now a zero-sum game, with no possibility of increases for the foreseeable future, so carving out funding for college completion may require cuts in funding for college access.[9] In a zero-sum game, more money for one form of financial aid means less money for another form of financial aid. In a zero-sum game, more money for college completion will mean less money for college access. In a zero-sum game, more money for one college means less money for another. In a zero-sum game, the stated goal shifts from expanding intelligent investment for future gains to spending limited funds more efficiently and effectively.

To some extent, higher education has been in a zero-sum game since the Higher Education Reconciliation Act of 2005 and the College Cost Reduction and Access Act of 2007 started a shift in funding from education lender subsidies to student financial aid. Billions of dollars were also diverted to deficit reduction. Rather than spend new money on higher education, it was easier to spend old money, yielding politically powerful statements like "historic investments in student aid at no new cost to taxpayers." But with the end of lender involvement in the origination of new federal education loans, as enacted by the Health Care and Education Reconciliation Act of 2010, there was no longer any more old money left to redirect to increases in student financial aid. The promised increases in the maximum Pell Grant, although anemic, were not fully funded by this legislation, setting the stage for subsequent legislation that trades off cuts in one form of financial aid to fund another. The Budget Control Act of 2011, for example,

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[5] President Barack Obama, *Address to Joint Session of Congress,* February 24, 2009.

[6] Remarks by Melinda Gates and Hillary Pennington, *A Forum on Education in America*, November 11, 2008.

[7] Jamie P. Merisotis, *Sharing the Goal of Increased College Attainment*, April 23, 2009.

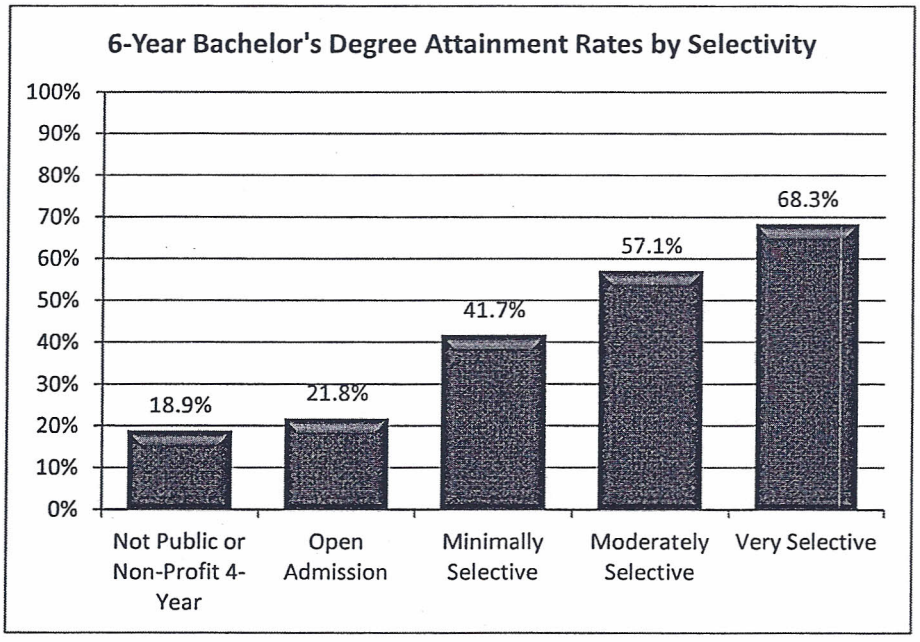
[8] *The Rising Price of Inequality: How Inadequate Grant Aid Limits College Access and Persistence*, Advisory Committee on Student Financial Assistance (ACSFA), June 2010.
http://www2.ed.gov/about/bdscomm/list/acsfa/rpijunea.pdf

[9] Despite this capitulation by some public policy advocates, there are still strong arguments in favor of increased investment in postsecondary education. Government cuts in student aid funding are short-sighted, in that they sacrifice long-term financial and non-financial gains for short-term budgetary demands. College graduates pay more than twice as much in income taxes as people with just a high school diploma. The payback period for the Pell Grant is about a decade. Since the typical college graduate works for three or four decades, that leaves the government with several decades of pure profit. There is no better investment the government can make. An investment in financial aid is not just an investment in the future of the individual student, but also an investment in the future of the United States of America.

eliminated the subsidized Stafford loan for graduate and professional students in order to address a funding shortfall in the Pell Grant program for 2012-13. This legislation also eliminated prompt payment discounts in the Direct Loan program, leaving just auto-debit discounts. This was followed by the Consolidated Appropriations Act of 2012, which cut Pell Grant eligibility for some students to eliminate the program's remaining funding shortfall. This legislation also eliminated subsidized interest benefits to undergraduate students during the six-month grace period after graduation for new loans in 2012-13 and 2013-14. Then the one-year extension of the 3.4% interest rate on subsidized Stafford loans to undergraduate students was paid for, in part, by eliminating subsidized interest benefits to new borrowers as of July 1, 2013 who take longer than 150% of the normal timeframe to graduate.[10] At the same time, state governments have continued the long-term trend toward cuts in constant dollar per-student state support of postsecondary education.

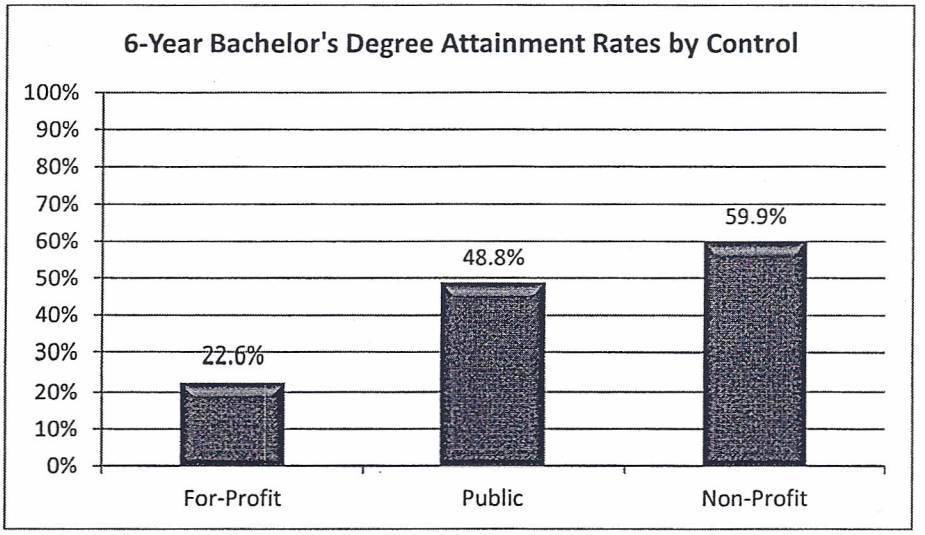
Given that Congress is already trading off one form of financial aid against another, the proponents of reimagining ask why not redirect some of the funds that are focused on improving college access toward improving college graduation rates?

The specious argument in favor of increasing funding for college completion certainly seems plausible. There are significant differences in college degree attainment rates among colleges, so why not invest more money in the colleges that have better graduation rates? For example, the following chart shows 6-year Bachelor's degree attainment rates among Pell Grant recipients who intended to obtain a Bachelor's degree according to institutional selectivity, based on an analysis of the 2009 follow-up to the 2003-04 Beginning Postsecondary Students longitudinal study (BPS:04/09).



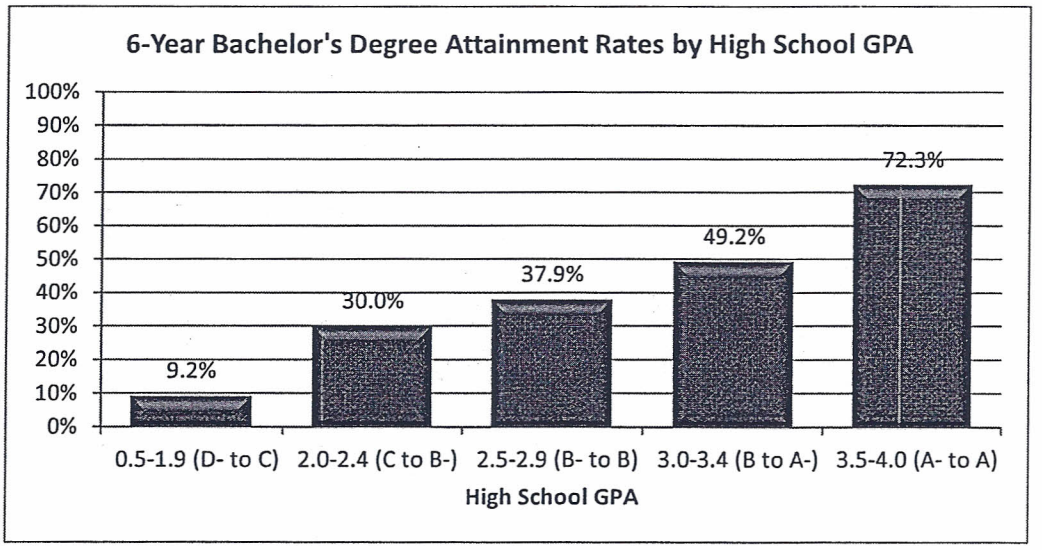
[10] The Student Loan Interest Rate Extension was included in the conference report for the Surface Transportation Extension Act of 2012, Part II (P.L. 112-141), also known as the Moving Ahead for Progress in the 21st Century Act (MAP-21).

The next chart shows how Bachelor's degree attainment rates vary according to institutional control, with the best performance at private non-profit colleges.



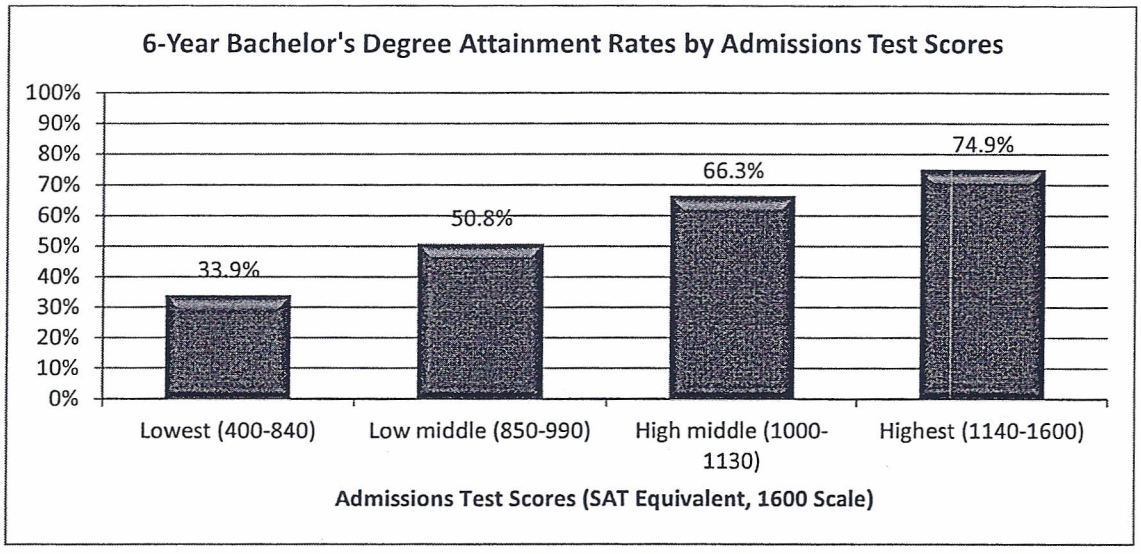
FLAWS IN REIMAGINING THE PELL GRANT PROGRAM

But there are subtle flaws in this sort of analysis that will ultimately cause the shifting funds from access to completion to be ineffective and harmful to both priorities. The better performance of the more-selective institutions may have more to do with their aggregation of the most talented students than with the value added by these colleges.[11] For example, an analysis of the BPS:04/09 data demonstrates that increases in six-year Bachelor's degree attainment rates for Pell Grant recipients who intended to obtain a Bachelor's degree correspond to higher high school grade point averages (GPA)



[11] More than half of the above-average improvement in graduation rates at very or moderately selective colleges is predicted by the mix of high school GPA and admissions test scores of students enrolled at these institutions.

and to better performance on admissions tests. Of the Pell Grant recipients who intended to obtain a Bachelor's degree, 70.4% of those with above-average admissions test scores (≥ 1000) received a Bachelor's degree within six years, compared with 42.9% of those with below-average admissions test scores (< 1000).[12]



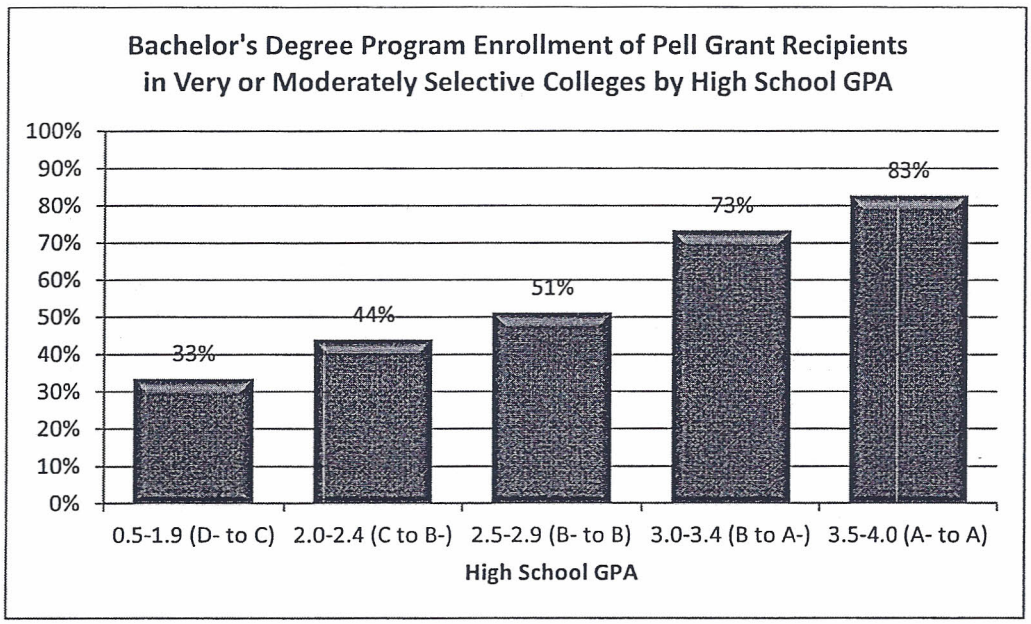
As the next two tables demonstrate, the Pell Grant recipients enrolled in Bachelor's degree programs by very selective and moderately selective institutions are more likely to have higher high school GPAs and higher admissions test scores. This potentially contributes to the higher graduation rates at the more selective institutions.

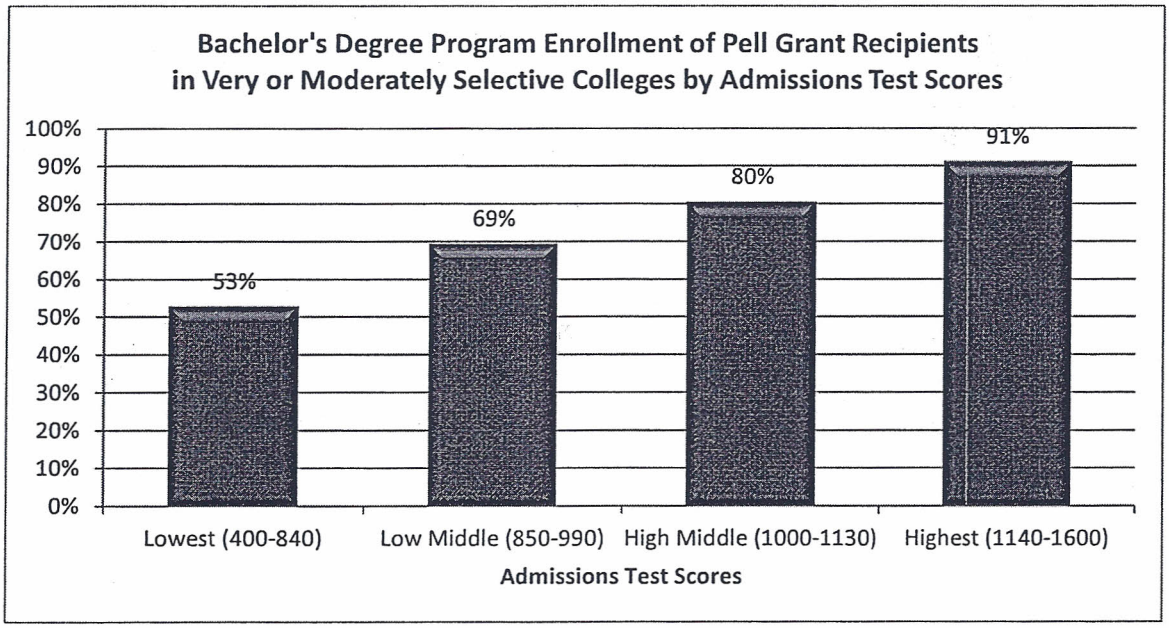
High School GPA BPS:04/09 (Pell Grant Recipients)	0.5-1.9 (D- to C)	2.0-2.4 (C to B-)	2.5-2.9 (B- to B)	3.0-3.4 (B to A-)	3.5-4.0 (A- to A)
Very Selective	0.8%	4.2%	5.5%	29.2%	60.3%
Moderately Selective	1.4%	6.0%	10.8%	42.6%	39.2%
Minimally Selective	1.7%	13.1%	15.1%	37.0%	33.2%
Open Admission	5.0%	19.1%	20.7%	27.8%	27.4%
Not Public or Non-Profit 4-Year	9.0%	18.8%	25.9%	33.2%	13.0%

Admissions Test Scores BPS:04/09 (Pell Grant Recipients)	Lowest (400-840)	Low middle (850-990)	High middle (1000-1130)	Highest (1140-1600)
Very Selective	11.0%	18.1%	26.3%	44.6%
Moderately Selective	20.6%	30.7%	27.4%	21.3%
Minimally Selective	32.7%	37.1%	19.8%	10.3%
Open Admission	55.0%	12.8%	25.2%	7.0%
Not Public or Non-Profit 4-Year	48.6%	34.6%	12.6%	4.2%

[12] The completion rates for Pell Grant recipients seeking Associate's degrees and Certificates do not differ by as wide a margin based on admissions test scores. Of those who intended to obtain an Associate's degree, the six-year completion rates were 23.7% for the Pell Grant recipients with above-average admissions test scores, compared with 20.1% for those with below-average admissions test scores. Of those intending to obtain a Certificate, the six-year completion rates were 39.9% and 38.1%, respectively.

The next two charts show the probability of a Pell Grant recipient in a Bachelor's degree program enrolling in a very selective or moderately selective college based on the student's high school GPA and admissions test scores. These charts demonstrate that students who perform better academically (and are more likely to graduate) are much more likely to enroll at one of the more selective colleges and universities.





Thus targeting Pell Grant funding according to college graduation rates may be little more than a proxy for awarding the grants based on academic merit.[13] Switching the Pell Grant program from need-based criteria to merit-based criteria will shift Pell Grant funding toward more selective colleges and away from students who have lower admissions test scores and high school GPA. It will also shift funding away from Associate's degree and Certificate programs and toward Bachelor's degree programs because Bachelor's degree programs tend to attract students with higher high school GPA and admissions test scores. Among Pell Grant recipients, 48.1% of those who intended to get a Bachelor's degree graduated with a Bachelor's degree within six years, compared with 18.9% for Associate's degrees (15.2% within three years) and 49.7% for Certificates (43.3% within two years). Such a fundamental change in the purpose of the Pell Grant program represents an abandonment of the basic principle that every student should have an equal opportunity to pursue a college education without regard to ability to pay.

Repurposing the Pell Grant program in service of completion will also take money away from higher-risk students, such as first generation college students, students who are single parents, independent students and the neediest of the needy. For example, the next table shows that while the Associate's degree and Certificate attainment rates are similar for dependent and independent students, Bachelor's degree attainment rates for independent students are less than half the rates for dependent students. Thus refocusing the Pell Grant program on completion may lead to a decline in Bachelor's degree attainment rates by independent students.

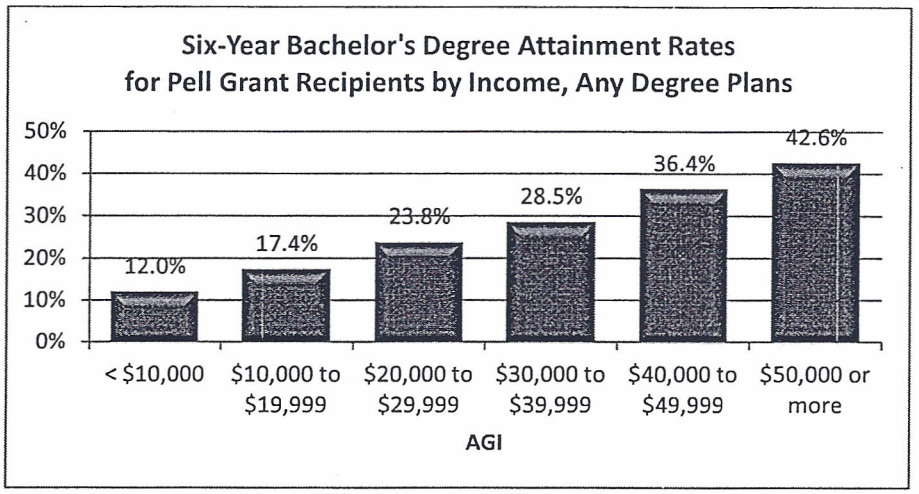
BPS:04/09	Six-Year Degree Attainment Rates		
Pell Grant Recipients	Bachelor's	Associate's	Certificate
Dependent	55.4%	19.9%	52.3%
Independent	20.8%	19.1%	47.5%

A similar phenomenon occurs with students who have a zero expected family contribution (EFC). Zero EFC students, who have exceptional financial need, are much less likely to graduate with a Bachelor's degree in six years.

BPS:04/09	Six-Year Degree Attainment Rates		
Pell Grant Recipients	Bachelor's	Associate's	Certificate
Zero EFC	38.6%	17.9%	47.4%
Non-Zero EFC	56.1%	20.7%	52.4%

Similarly, family income seems to differentiate graduation rates even among Pell Grant recipients. The next chart shows the six-year Bachelor's degree attainment rates for Pell Grant recipients (without regard to the student's initial degree plans) according to adjusted gross income (AGI). Even though the average Pell Grant tends to decrease with income, a policy that rewards higher graduation rates may directly or indirectly discourage colleges from admitting students who are among the poorest of the poor.

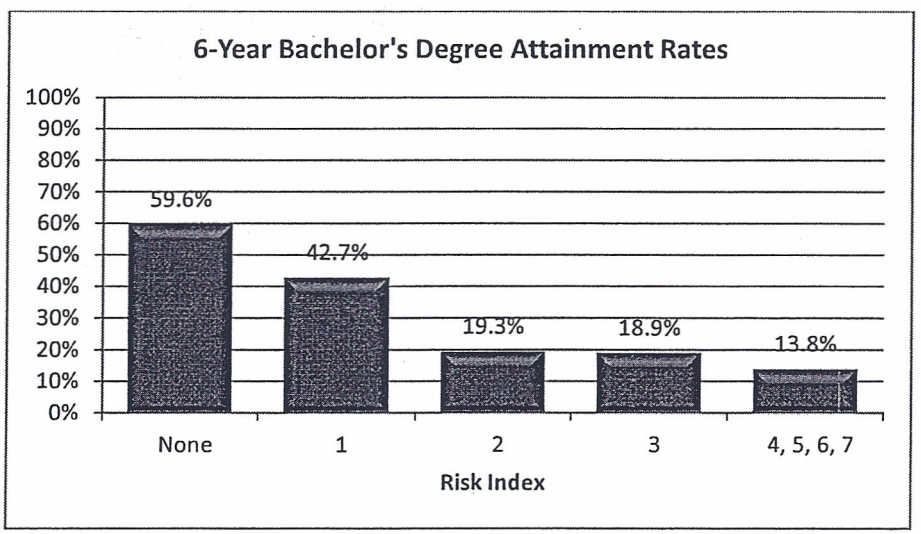
[13] Even if one has a goal of rewarding academic excellence, prior experience with the National SMART Grant demonstrates the potential for unintended consequences. The National SMART Grant was underutilized in part because STEM majors were perceived by students to be more challenging. The students were not concerned about their ability to maintain the 3.0 GPA required to retain eligibility for the National SMART Grant, but rather about their ability to maintain the 2.0 GPA required to retain eligibility for the Pell Grant and other student financial aid.



IMPACT OF DEMOGRAPHIC RISK FACTORS ON GRADUATION RATES

A previous paper showed that 60% of the difference in default rates between for-profit and non-profit colleges is due to demographic risk factors, such as students who are single parents, lack a high-school diploma, have low income, work full-time while enrolled and enroll part-time.[14] Unfortunately, the graduation rate data for Pell Grant recipients is too sparse to permit a similar analysis of the contribution of demographic risk factors to differences in graduation rates. Still, the available data does suggest that some of the difference in performance may be due to differences in the distribution of demographic risk factors according to the type of college.

The next chart is based on an analysis of BPS:04/09 data for Pell Grant recipients who intended to obtain a Bachelor's degree. It demonstrates that six-year Bachelor's degree attainment rates decrease with increases in the risk index.



[14] Mark Kantrowitz, Calculating the Contribution of Demographic Differences to Default Rates, April 5, 2010. www.finaid.org/educators/20100507demographicdifferences.pdf

The next table shows that for-profit colleges have a higher risk mix of students than public colleges and private non-profit colleges. 11.0% of students at non-profit colleges and 16.1% of students at public colleges have a risk index of 2 or greater, compared with 40.9% of students at for-profit colleges.

BPS:04/09	Risk Index 2003-04				
Prevalence	None	1	2	3	4, 5, 6, 7
Public	68.8%	15.1%	6.0%	2.5%	7.6%
Non-Profit	78.2%	10.8%	3.3%	3.3%	4.5%
For-Profit	46.0%	13.2%	9.2%	5.7%	25.9%

The next table shows that the more selective colleges have a lower risk mix of students than less selective colleges. Only 2.9% of students at very selective colleges and 6.9% of students at moderately selective colleges have a risk index of 2 or greater, compared with 30.8% of students at minimally selective colleges, 35.6% of students at open admissions colleges and 38.6% of students at other colleges.

BPS:04/09	Risk Index 2003-04				
Prevalence	None	1	2	3	4, 5, 6, 7
Very Selective	87.4%	9.6%	1.6%	1.0%	0.3%
Moderately Selective	82.8%	10.3%	2.8%	1.3%	2.8%
Minimally Selective	54.9%	14.3%	13.3%	3.9%	13.6%
Open Admission	47.8%	16.6%	14.6%	11.1%	9.9%
Not Public or Non-Profit 4-Year	35.8%	25.6%	7.8%	6.3%	24.5%

Data sparseness prevents calculating six-year graduation rates corresponding to either set of prevalence statistics when disaggregated by degree level. However, the data sparseness can be addressed by reducing the number of risk index categories to two, one for Pell Grant recipients with a risk index of 0 or 1 and one for students with a risk index of 2 or greater. With such an approach, 18.3% of the difference in graduation rates for Pell Grant recipients at for-profit and non-profit colleges is due to demographic differences. But this result may vary significantly by degree level, since students in Bachelor's degree programs are much more likely to have a lower risk index, as demonstrated by the next table.

BPS:04/09	Risk Index 2003-04	
Degree Level	None or 1	2 or More
Certificate	30.5%	69.5%
Associate's Degree	46.6%	53.4%
Bachelor's Degree	86.2%	13.8%

When the data is disaggregated by degree level, 10.0% of the difference in Bachelor's degree attainment rates for Pell Grant recipients at for-profit and non-profit colleges and 11.8% of the difference in Bachelor's degree attainment rates at for-profit and public colleges is due to demographic differences.

The next table demonstrates that Bachelor's degree attainment rates for Pell Grant recipients at for-profit colleges are less than half of the Bachelor's degree attainment rates at public and non-profit colleges. However, the Associate's degree and Certificate attainment rates among Pell Grant recipients at for-profit colleges are greater than at public and non-profit colleges, despite a generally higher risk mix of students.

BPS:04/09	Degree Attainment Rate			Prevalence of Risk Index 2 or Greater		
Pell Grant Recipients	Bachelor's	Associate's	Certificate	Bachelor's	Associate's	Certificate
Public	48.8%	18.1%	42.2%	16.1%	52.0%	73.3%
Non-Profit	59.9%	21.2%	42.0%	11.0%	41.6%	52.5%
For-Profit	22.6%	23.6%	52.2%	40.9%	64.1%	68.3%

FLAWED FOCUS ON INCREASING GRADUATION RATES

Another flaw in the proposed repurposing of the Pell Grant program is that it emphasizes increases in graduation *rates* as opposed to increases in the *number* of college graduates.

There is a tension between access and completion. One of the easiest and quickest ways for a college to improve its graduation rates is to become more selective in the students it admits. As noted previously, Pell Grant recipients in Bachelor's degree programs who have an A-average high school GPA are almost twice as likely to graduate within six years as students with a B-average high school GPA (72.3% vs. 37.9%). Similarly, Pell Grant recipients with the highest admissions test scores are more than twice as likely to graduate in six years as students with the lowest admissions test scores. Redirecting Pell Grant program funding toward colleges with greater graduation rates will thus lead to a severe decline in college access by financially incentivizing colleges to become more selective and reduce the number of admitted higher-risk students.[15] Higher-risk students, by definition, are less likely to graduate and will require more financial aid to finish than lower risk students. Increasing graduation rates by excluding higher-risk students from the denominator does not increase the number of graduating students in the numerator.

A shift in funding to better-performing colleges will not yield meaningful improvements in the number of low-income and high-risk students graduating from college. The graduation rate scorecard is not aligned with the steps necessary to improve student access and success. The proper way to increase college completion among high-risk students is to address and compensate for the risks, not abandon the students. One should improve the outputs from the education pipeline by fixing the leaks in the pipeline, not by filtering the inputs. For example, students who are single parents are less likely to graduate, in part because of the need to skip school when their babysitter is sick. The approach advocated by the reimagining Pell proponents would effectively exclude single parents from the student population by discriminating against them directly or indirectly. Cutting their grants will make it more difficult for them to afford quality childcare while they are enrolled in college. A better approach would address and compensate for the problems that prevent these students from graduating, such as by providing them with access to more reliable childcare.

The college completion agenda also assumes that shifting resources from lower-performing colleges to better-performing colleges will increase graduation rates. But basing the allocation of funding on a college's past performance is not necessarily predictive of the college's future performance because such an absolute metric does not correlate changes in funding with corresponding changes in performance. Providing more money to better-performing colleges will not increase graduation rates by much, since the wealthy and academically talented students at these elite institutions are already likely to graduate.[16] There's much more room for improvement at colleges that have lower graduation rates.

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[15] 21.3% of first-time students in Bachelor's degree programs at very selective colleges were Pell Grant recipients in 2007-08, compared with 27.6% of students at moderately selective colleges, 33.6% of students at minimally selective colleges, 41.5% of students at open admissions colleges and 43.2% of students at colleges that were not public or non-profit 4-year colleges. Only about 10% of students at Ivy League institutions are Pell Grant recipients.

[16] It is also unknown the extent to which extra federal funding at the better-performing colleges will supplement instead of supplanting the institution's own grants. Even if the increased in federal Pell Grant funding is used to supplement the institution's own grants, it is possible that the colleges could redirect the institutional grants from need-based aid to merit-based aid. After all, money is fungible. Even if there were a statutory requirement that the increase in federal need-based grant funding supplement and not supplant the institution's need-based grant

Moreover, to the extent that the proposals to reimagine the Pell Grant involve shifting funding from one college to another, as opposed to increasing overall funding, one must also consider the offsetting decline in college graduation rates at the colleges that lose funding, not just the improvement in college graduation rates at the colleges that gain additional funding. The better-performing colleges would have to improve performance beyond the average graduation rate at the lower-performing colleges for there to be a net improvement in the number of students who graduate. For example, if one were to shift funding from colleges that have a six-year graduation rate under 20% to those with a graduation rate of 20% or more, the improvement in graduation rates at the better-performing colleges must exceed the 13% average graduation rate at the 12% of colleges that lose the funding. This is a very big hurdle.

It is better to give the money to students for whom it will make the most difference, where the extra money will be most effective in increasing the graduation rates. Based on BPS:04/09 data, six-year graduation rates are 45% for low-income students for whom total grants cover less than a quarter of college costs, compared with 68% for low-income students whose grants cover more than three quarters of college costs. For middle-income students the graduation rate increases from 65% to 88%. But high-income students demonstrate only minimal improvement, increasing graduation rates from 78% to 79%.

COMPLETION SHIFTS FUNDING FROM COMMUNITY COLLEGES TO 4-YEAR COLLEGES

Another flaw in the proposed repurposing of Pell Grant funding in service of completion is that it will shift billions of dollars of funding from community colleges to 4-year colleges, in conflict with the priorities of the current administration and the priorities of some of the proponents of reimagining the Pell Grant program. For example, a 20% graduation rate threshold on institutional Pell Grant eligibility would cut overall Pell Grant funding at community colleges by more than $5 billion, based on 2010-11 IPEDS and Pell Grant disbursement data. While 4-year for-profit colleges would also lose nearly $1 billion, the for-profit sector as a whole would experience a net gain of more than $500 million in Pell Grant funding. About 2.8 million (30%) Pell Grant recipients would lose their grants, with 74% enrolled at community colleges and 17% at 4-year for-profit colleges.[17] While the average graduation rate for Pell Grant recipients would increase by 8.5 percentage points, there would be a net 1% decrease in the number of college graduates.

The next table shows the impact of various graduation rate thresholds on net changes in Pell Grant funding by type of college.[18] It demonstrates that setting a minimum graduation rate threshold on institutional Pell Grant eligibility will shift significant amounts of funding from community colleges to public and non-profit 4-year colleges.

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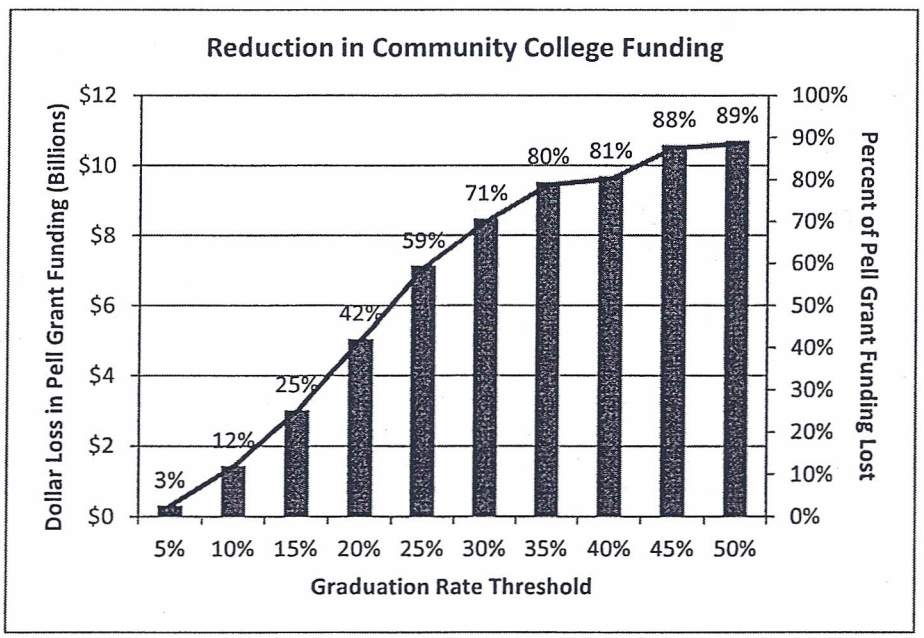
funding, such a mandate will be ineffective, since the colleges could devote the increases in institutional grants to merit-based aid.

[17] Community colleges represent 70% of the affected colleges and 4-year for-profit colleges represent 11% of the affected colleges. 71% of the affected Pell Grant funding would be lost by community colleges and 20% by 4-year for-profit colleges. Community colleges would lose 42% of their Pell Grant funding and 4-year for-profit colleges would lose 21% of their Pell Grant funding, while other types of colleges would experience average gains of 22% to 37%.

[18] This table assumes that the Pell Grant funding is redistributed from the colleges that lose funding to all colleges in proportion to their share of Pell Grant funding among colleges that satisfy the graduation rate threshold. It assumes that the Pell Grant recipients who were enrolled at institutions that lost Pell Grant funding do not migrate to the institutions that gain funding, since those institutions lack the capacity to absorb such a significant increase in enrollment. Instead, it models the impact of the increase in Pell Grant funding per recipient at the institutions that gain funding on college completion rates at those institutions.

2010-11 IPEDS	Graduation Rate Threshold				
Sector	5%	10%	20%	33%	50%
Public 4-Year	$193,035,226	$698,304,732	$3,309,891,004	$5,282,292,682	$3,549,234,915
Public 2-Year	($316,896,257)	($1,428,057,697)	($5,009,294,310)	($9,230,439,542)	($10,625,133,655)
Public < 2-Year	$4,451,311	$17,764,926	$87,445,778	$188,426,797	$481,651,826
Non-Profit 4-Year	$26,313,344	$260,761,666	$968,786,558	$1,815,242,027	$2,818,484,417
Non-Profit 2-Year	$3,252,215	$14,402,033	$69,619,622	$82,423,639	$124,606,435
Non-Profit < 2-Year	$2,373,327	$8,762,084	$41,898,478	$87,021,362	$220,412,490
For-Profit 4-Year	$10,590,057	$117,599,298	($928,948,646)	($889,892,225)	($2,505,513,660)
For-Profit 2-Year	$48,109,369	$195,601,239	$895,045,807	$1,502,296,749	$3,202,813,061
For-Profit < 2-Year	$28,771,408	$114,861,719	$565,555,708	$1,162,628,512	$2,733,444,170
4-Year Total	$229,938,627	$1,076,665,696	$3,349,728,917	$6,207,642,484	$3,862,205,672
2-Year Total	($265,534,673)	($1,218,054,424)	($4,044,628,881)	($7,645,719,154)	($7,297,714,159)
< 2-Year Total	$35,596,046	$141,388,729	$694,899,964	$1,438,076,670	$3,435,508,487
Public Total	($119,409,719)	($711,988,039)	($1,611,957,528)	($3,759,720,064)	($6,594,246,913)
Non-Profit Total	$31,938,886	$283,925,783	$1,080,304,659	$1,984,687,029	$3,163,503,342
For-Profit Total	$87,470,834	$428,062,256	$531,652,869	$1,775,033,035	$3,430,743,571
Gross Shift ($)	$739,914,923	$2,586,845,149	$9,780,240,675	$15,986,691,103	$24,306,995,063
Gross Shift (%)	2.0%	7.3%	27.5%	44.9%	68.3%
Net Shift ($)	$316,896,257	$1,428,057,697	$5,938,242,955	$10,120,331,768	$13,130,647,315
Net Shift (%)	0.9%	4.0%	16.7%	28.5%	36.9%
Colleges < Threshold (%)	1.6%	4.3%	12.3%	25.1%	41.5%
Avg. Grad. Rate < Threshold	3.6%	7.3%	12.8%	18.8%	27.8%
Students Losing Grants (#)	223,547	787,760	2,833,767	4,573,373	6,738,507
Students Losing Grants (%)	2.3%	8.2%	29.5%	47.6%	70.2%

Regardless of the graduation rate threshold, community colleges are always hit the hardest. The next chart shows the impact of various graduation rate thresholds on the reductions in Pell Grant funding at community colleges.

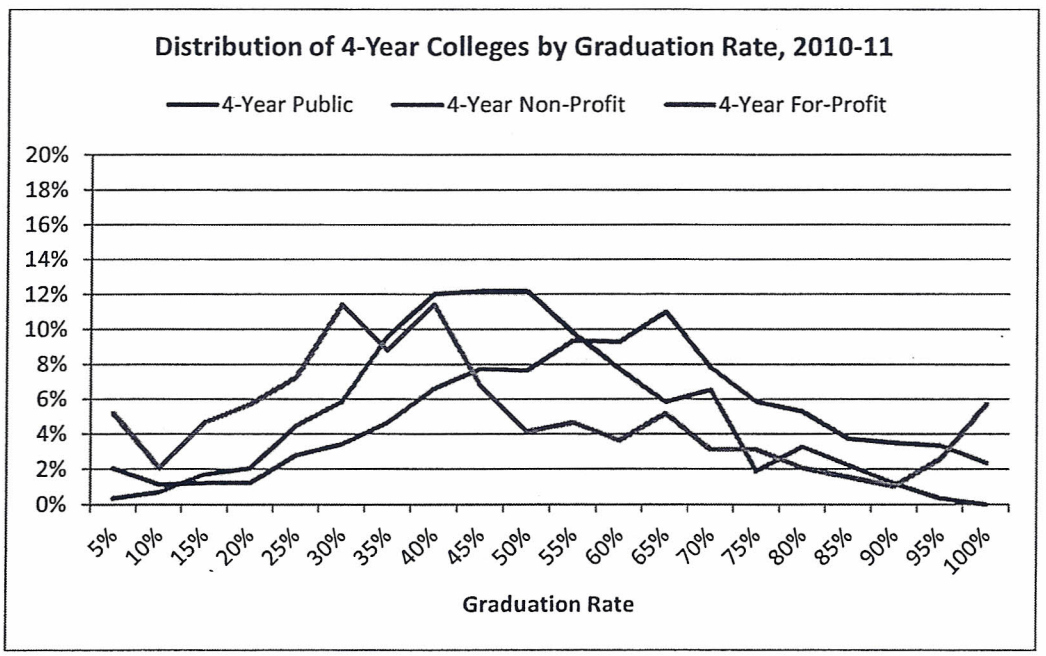


If the shifts in funding were restricted to occurring within the same level of institution, as opposed to shifting among all types of colleges, at a 20% graduation rate threshold the funding would shift mostly from 4-year for-profit colleges to 4-year public colleges and from community colleges to 2-year for-profit colleges. As noted previously, the Bachelor's degree attainment rate for Pell Grant recipients at for-profit colleges is less than half that at public and non-profit colleges, but the Associate's degree and Certificate attainment rates for Pell Grant recipients at for-profit colleges exceed those at public and non-profit colleges.

If the shifts in funding were restricted to occurring within the same control of institution, at a 20% graduation rate threshold the funding would shift from community colleges to 4-year public colleges, from 4-year non-profit colleges to 2-year and less-than-2-year non-profit colleges, and from 4-year for-profit colleges to 2-year and less-than-2-year for-profit colleges.

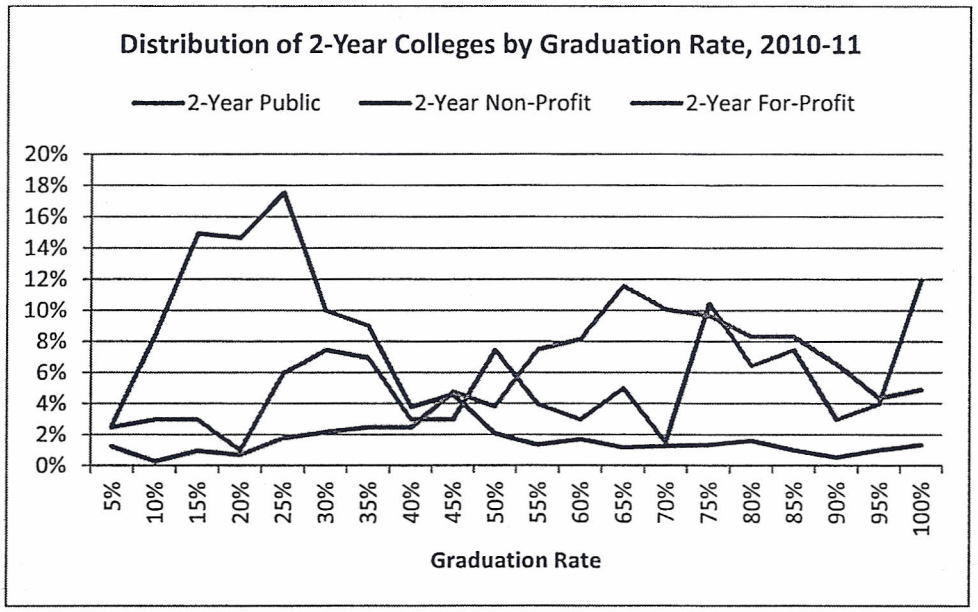
A detailed examination of the distribution of graduation rates by type of college explains the reason for the shift in funding away from community colleges. The next three charts show the distribution of colleges by graduation rate according to 2010-11 IPEDS data.

The first chart shows the performance of 4-year colleges. Public, non-profit and for-profit 4-year colleges demonstrate mostly normal distributions in terms of graduation rates, but with the non-profit college distribution offset to the right of the public college distribution and the for-profit college distribution offset to the left of the public college distribution. This is reflected in the average graduation rates, which are 42% for 4-year for-profit colleges, 47% for 4-year public colleges and 55% for 4-year non-profit colleges. Any threshold on graduation rates at 4-year colleges will favor non-profit and public colleges over for-profit colleges.

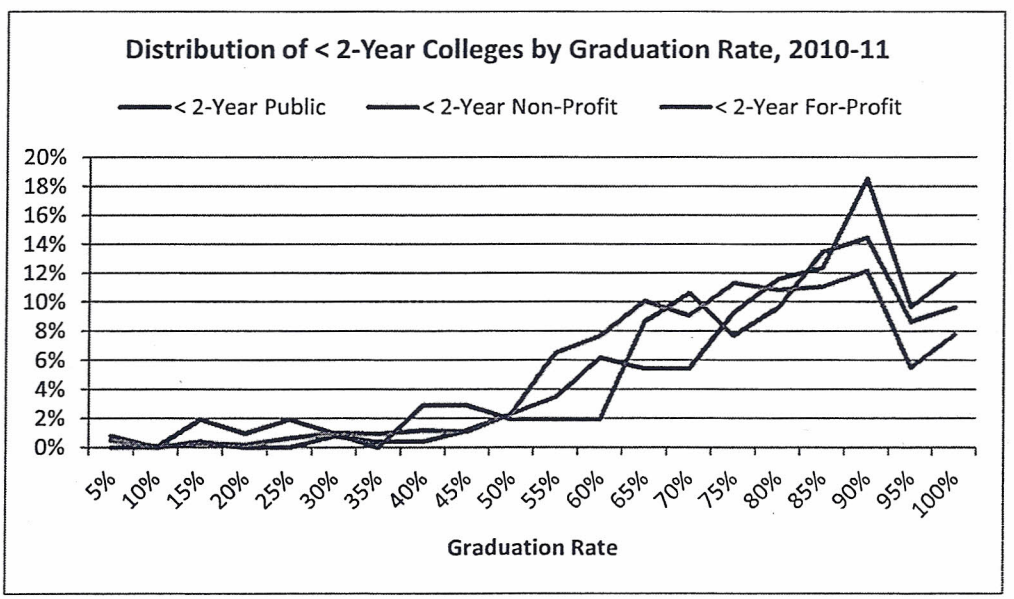


The second chart, however, shows a much different story with 2-year colleges. The distribution of graduation rates at community colleges is shifted toward the lower end of the spectrum. This is reflected in the average graduation rates, which are 64% for 2-year for-profit colleges, 57% for 2-year non-profit

colleges and 28% for 2-year public colleges. Any threshold on graduation rates at 2-year colleges will shift funding away from community colleges.



The third chart demonstrates similar performance at all types of less-than-2-year colleges. The distribution of graduation rates at all three types of colleges are skewed to the right. The average graduation rates are 72% for less-than-2-year for-profit colleges, 73% for less-than-2-year non-profit colleges and 77% for less-than-2-year public colleges. Any threshold on graduation rates at less-than-2-year colleges will have about the same impact on public, non-profit and for-profit colleges.



INADEQUATE TESTING AND EVALUATION OF PROPOSALS

Another concern is that there appears to be a rush to implement a shift in Pell Grant funding from access to completion without adequately evaluating the effectiveness of the proposals or the unintended consequences of such changes. Assertions that the Pell Grant program is "broken" are also unsupported by evidence, as are claims concerning the benefits of some of the proposed "solutions".[19] There has been little if any consideration of the potential for harm from a redesign of the Pell Grant program. There has also been very little empirical testing of proposals through randomized case-controlled prospective studies. The Pell Grant program is big enough and important enough that one should be cautious about making sweeping "improvements" in the program without careful testing of the changes.

Perhaps putting the Pell Grant program in service of completion can be accomplished without sacrificing access. Perhaps not. But the current knowledge about what works and what does not work is rather limited. There is not enough evidence yet to justify an aggressive push toward redesigning the Pell Grant program. But there is enough data to demonstrate the need for caution. Tinkering with the Pell Grant program is very risky and has the potential to harm both college access and college completion.

The Consolidated Appropriations Act of 2012 cut eligibility for the Pell Grant program to address a funding shortfall.[20] Most of the cuts were focused on minimizing the potential impact on graduation rates. These included reductions in the number of semesters of Pell Grant eligibility for 18 to 12, reducing the maximum EFC threshold on Pell Grant eligibility and eliminating eligibility from students who pass an ability-to-benefit test. But the auto-zero-EFC income threshold was reduced from $32,000 to $23,000. This reduces the Pell Grant for about 13.5% of recipients by about $1,100 to $1,700, enough of a cut to significantly affect the number of low-income students graduating from college.

This paper does not evaluate whether a shift in funding toward the poorest of the poor and/or higher-risk students would lead to an overall increase in the number of college graduates. It would be worthwhile to investigate whether increasing the Pell Grants of zero EFC students would yield an improvement in outcomes. The table on the right demonstrates increases in graduation rates with increases in the Pell Grant, perhaps an indication that the Pell Grant program is underfunded.[21]

BPS:04/09	Degree Attainment Rate		
Pell Grant	Bachelor's	Associate's	Certificate
$1 to $1,399	45.2%	16.1%	33.6%
$1,400 to $2,399	46.9%	15.2%	49.0%
$2,400 to $3,999	50.9%	21.2%	48.4%
$4,000 or more	48.2%	25.4%	61.6%

However, these statistics might be partially due to changes in college choice that are enabled by the higher Pell Grant amounts. The table on the right shows a partial shift in enrollment toward more advanced degrees with greater amounts of Pell Grant funding.

BPS:04/09	Degree Program Enrollment		
Pell Grant	Bachelor's	Associate's	Certificate
$1 to $1,399	19.7%	50.9%	25.2%
$1,400 to $2,399	23.9%	45.5%	26.2%
$2,400 to $3,999	19.8%	41.0%	33.5%
$4,000 or more	29.8%	28.4%	39.1%

[19] The lack of effectiveness of a program is often asserted, without proof, as justification for a decision to cut the program's funding, but only after the decision to cut funding has already been made. Moving the goal posts is another approach to making a successful program appear to fail. The Pell Grant program is also inadequately funded by at least half, so arguments about effectiveness are to some extent straw man arguments.

[20] Mark Kantrowitz, *Summary of Student Financial Aid Cuts in the Consolidated Appropriations Act of 2012*, December 16, 2011. http://www.finaid.org/educators/20111216fy2012aidcuts.pdf

[21] The author of this student aid policy analysis paper has advocated for an immediate doubling of the maximum Pell Grant.

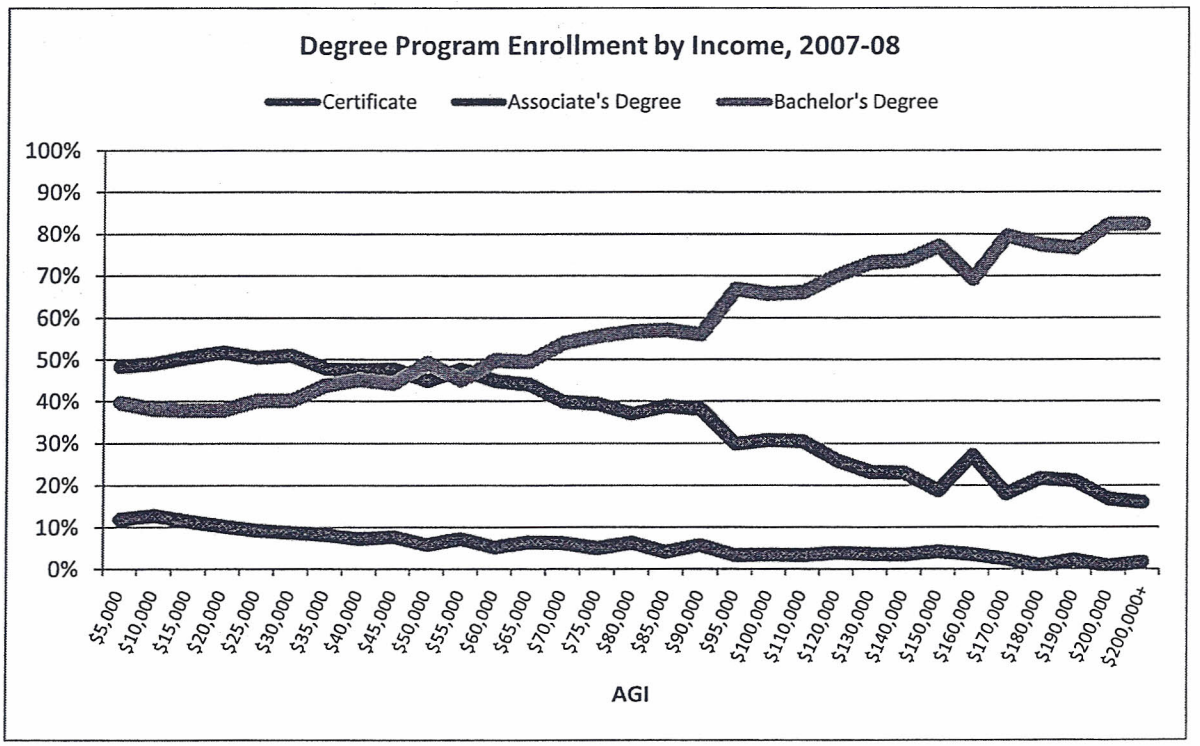
But the first table restricts degree attainment rates based on the first year degree plans of the student and so would not be influenced by the shift away from Associate's degrees. On the other hand, the next table shows a clearer shift toward more selective institutions.

BPS:04/09	Selectivity				
Pell Grant	Very	Moderately	Minimally	Open	Not 4-Year P or NP
$1 to $1,399	4.1%	14.9%	6.0%	1.3%	73.7%
$1,400 to $2,399	4.3%	14.8%	4.9%	3.2%	72.7%
$2,400 to $3,999	6.4%	17.7%	6.0%	3.4%	66.4%
$4,000 or more	8.4%	20.6%	6.8%	2.8%	61.4%

Still, the next table demonstrates that low-income students are more than twice as likely as high-income students to be pursuing an Associate's degree or Certificate, as opposed to a Bachelor's degree. Low-income students do not have the same postsecondary educational opportunities as high income students. Doubling or even tripling the average Pell Grant funding per recipient would help address this inequity by reducing or closing the gap between the cumulative net price of a Bachelor's degree and a Certificate or Associate's degree as a percentage of total family income.

2007-08 NPSAS			Associate's	Bachelor's	
AGI	Sample Size	Certificate	degree	degree	C + A
< $50,000	11,195,600	9.9%	49.2%	40.9%	59.1%
$50,000 to $99,999	5,418,800	5.4%	39.9%	54.7%	45.3%
$100,000 or more	3,053,200	3.1%	24.1%	72.8%	27.2%

The next chart illustrates how reductions in family income correlate with a shift in enrollment from Bachelor's degrees to Associate's degrees and Certificates.



While such an approach needs further study, directing increased funding to students with exceptional financial need could be implemented by allowing the EFC to go negative, as was proposed by the author in a 2007 op-ed in the Chronicle of Higher Education.[22] Senator Kennedy introduced legislation as part of the Strengthening Student Aid for All Act (110 S. 2815) in 2008 that would have allowed the EFC to go negative and would have increased the Pell Grant by up to $750 for these students who live below the poverty line. However, this proposal was ultimately dropped from the Ensuring Continued Access to Student Loans Act of 2008 (P.L. 110-227).

This paper also does not evaluate ideas for modifying the amount of the Pell Grant without shifting funding among colleges. Some public policy advocates have suggested that the amount of the Pell Grant should be increased the closer the student gets to graduation. This is similar to an idea proposed by Bob Shireman to attach a bounty on the graduation of Pell Grant recipients.[23] However, while there is less risk that a student will drop out as they approach the finish line, lower Pell Grants in the earlier years may make it more difficult for poor students to enroll and persist. This proposal may assign credit for completion to the effect instead of the cause, just as misdirected as efforts to improve completion rates by excluding higher-risk students instead of enabling them. It is also unclear how one would adjust the Pell Grant for shorter-term academic programs such as Associate's degrees and Certificates.[24] Research by MDRC on performance-based scholarships suggests that a tighter feedback loop between academic performance and increases in the amount of need-based grants may yield improvements in outcomes.[25] However, this work is still ongoing and evaluates the impact of increasing grants, not the impact of reductions or shifts in grants. Part of the improvement in student performance is due to increases in the amount of grant funding received by the students.

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[22] Leo Kornfeld and Mark Kantrowitz, *A New 'Independence' Day for Student Financial Aid*, Chronicle of Higher Education 53(23):B11-B12, February 9, 2007. http://chronicle.com/article/A-New-Independence-Day-for/33412

[23] Robert Shireman, *What Would Higher Education Do With $6 Billion a Year?*, Chronicle of Higher Education 50(41):B17, June 18, 2004. http://chronicle.com/article/What-Would-Higher-Education/13553/

[24] Public policy advocates often have graduated from selective colleges with more advanced degrees and so may have an implicit bias toward dependent students enrolled full-time in Bachelor's degree programs at non-profit colleges and universities. Some of the proposals for increasing completion rates seem to have an unstated assumption that the student is enrolled at a 4-year college.

[25] http://www.mdrc.org/project_31_91.html