

2000
Status Report
on the
Pell Grant
Program

2000 Status Report on the Pell Grant Program

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American Council on Education

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Foreword

Paradoxically, the Pell Grant program has perhaps never been more important to individual students and our national future than in this period of unprecedented economic prosperity. One in five undergraduates now receives a Pell Grant each year, helping open the opportunity to pursue a college education. Everything we know about the effects of higher education suggest that Pell Grant recipients not only will be better prepared than their low-income peers for the new “knowledge economy” and, as a result, will earn more—but they also will be more likely to participate actively in their communities.

Given the rapidly changing nature of the global economy and our increasing reliance on technology, the gap between those who are prepared to thrive in this new order and those who are not will only grow larger. In addition, if, as some critics charge, technology creates a sense of personal isolation and separation from one’s community, our national life will need all the more individuals who are fully committed to civic engagement. The Pell Grant is an essential tool for ensuring that all Americans can gain access to higher education and share in

the intellectual, cultural, and personal rewards that college has to offer.

The American Council on Education’s *2000 Status Report on the Pell Grant Program* provides a comprehensive picture of the history and current state of the program. ACE offers this report as part of our ongoing commitment to the Pell Grant program and the larger goal of opening access to high-quality higher education. Using data from various federal sources, this report tracks key indicators of the growth and distribution of Pell Grants over the program’s history and describes how these grants fit into the overall college financing scheme of low-income students. We intend to update it on a regular basis, and we welcome comments and suggestions for improving future editions.

Stanley O. Ikenberry
President
American Council on Education

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Highlights

Historical Trends in the Pell Grant Program

- Since 1973, the Pell Grant program has grown to provide a projected \$8 billion in assistance to almost 4 million students, or one-quarter of the undergraduate population in academic year 2000–01.
- Expenditures for the Pell Grant program increased by 75 percent in inflation-adjusted terms between 1976–77, the first year in which undergraduates at all class levels could participate, and 1998–99, the most recent year for which information on actual expenditures is available.
- The maximum grant reached its highest value of \$4,205 in 1975. It dipped as low as \$2,500 in real terms in the mid-1990s, and has rebounded to \$3,300 for 2000–01.
- In 1979–80, the maximum grant covered 99 percent of the average price of tuition, fees, and on-campus room and board at a public two-year institution, 77 percent of these prices at a public four-year institution, and 36 percent of these prices at a private college or university. Today, the maximum grant covers 65 percent, 39 percent, and 15 percent of these prices, respectively.
- Although the number of applicants to the Pell Grant program has grown from 3.4 million in 1976–77 to 8.3 million in 1998–99, the number of recipients has not increased so precipitously, in large part because of the generally prosperous state of the economy during most of the 1990s.
- In 1976–77, the two major federal grant programs (Pell Grants and Supplemental Educational Opportunity Grants [SEOG]) accounted for 43 percent of all Title IV student aid. By 1998–99, because of slow growth in these programs and expanded eligibility for federal student loans leading to dramatically increased loan volume, Pell Grants and SEOG together accounted for only 18 percent of Title IV assistance.
- The average income of families in the lowest income quintile has not changed since the early 1970s in real terms. As a result, paying for college now requires a larger share of low-income families' annual income than it did when the Pell Grant program began. At the same time, Pell Grants substitute for a smaller proportion of the income required to pay college prices.
- The total number of institutions participating in the Pell Grant program is the same today as in 1980. However, the mix of institutions has changed

substantially. After growing to almost half of all participating schools, for-profit institutions now number almost exactly as many as they did in 1980. Today, there are 390 fewer private, nonprofit institutions participating in the program and more than 300 additional public institutions.

- Students at for-profit institutions are more likely to receive Pell Grants than students at other types of institutions. Conversely, students at community colleges are somewhat less likely to receive Pell Grants than students at other types of institutions, even though community college students make up a large proportion of Pell Grant recipients and receive a substantial share of program funds. This discrepancy is due to differences in the average income of students and in the average price of attendance at for-profit institutions and community colleges, as well as to differences in the attendance patterns of students at these types of institutions.
- While there have been some temporary increases and decreases in the median income of Pell Grant recipients, it changed very little between the late 1970s and the early 1990s. Since the mid-'90s, there have been significant changes in the median income of Pell Grant recipients, especially among independent students. The median income of independent Pell Grant recipients is now 31 percent higher than it was in 1976-77. For dependent Pell Grant recipients, median income grew by only 5 percent in real terms between 1976-77 and 1998-99.
- While median income has grown for all recipients, median income of maxi-

mum award recipients actually is lower today than it was in 1976, in inflation-adjusted terms. Among dependent recipients of the maximum Pell Grant, median income dropped from \$12,493 in 1976-77 to \$12,280 in 1998-99. Among independent recipients of the maximum Pell Grant, median income declined from \$6,570 in 1976-77 to \$5,745 in 1998-99, a change of 13 percent in real terms.

- In 1976-77, the first year in which undergraduates at all class levels were eligible to participate in the Pell Grant program, dependent students represented 62 percent of Pell Grant recipients. By 1992, that proportion had switched; independent students constituted 62 percent of Pell Grant recipients. Revisions to the definition of independent student status enacted in 1992 have resulted in a distribution of Pell Grant recipients by dependency status that now matches the general undergraduate population.

Characteristics and Financing Choices of Pell Grant Recipients and Other Undergraduates

- The following groups of students are most likely to qualify for a Pell Grant: students who are separated from their spouse, single parents, African-American students, independent students with dependents, American Indian students, Hispanic students, students who speak a language other than English in their home, and students whose parents have no college experience.
- The average income of Pell Grant recipients is \$14,232, compared to an average family income of \$50,124 among all other undergraduates. The

average family income of Pell Grant recipients is about one-third the average for all other students, regardless of dependency status. The average expected family contribution of Pell Grant recipients is \$443, compared to \$9,931 for all other undergraduates.

- Students at for-profit institutions are more likely to receive Pell Grants than students at other types of institutions. Conversely, students at community colleges are somewhat less likely to receive Pell Grants than students at other types of institutions, even though community college students make up a large proportion of Pell Grant recipients and receive a substantial share of program funds. This discrepancy is due to differences in the average income of students and in the average price of attendance at for-profit institutions and community colleges, as well as to differences in the attendance patterns of students at these types of institutions.
- The percentage of students receiving a Pell Grant at the major types of institutions ranges from 16 percent at community colleges to 49 percent at for-profit institutions.
- Students who attend on a full-time basis are more likely to receive Pell Grants than other undergraduates.
- When attendance and living situation are taken into account, the total budget for Pell Grant recipients is higher than for all other students at public two- and four-year institutions. Pell Grant recipients at these institutions are more likely to attend on a full-time basis than their peers, resulting in larger total budgets. At

private and for-profit institutions, there is no significant difference between the adjusted total budget of Pell Grant recipients and all other students.

- One in five Pell Grant recipients receives no other aid; the rest are awarded some combination of grants, loans, and work-study in addition to a Pell Grant. The most common type of package is a combination of federal grants and student loans. Nevertheless, half of Pell Grant recipients receive aid from states, institutions, or other sources. The percentage of Pell Grant recipients receiving only federal assistance varies widely, from 25 percent at private institutions to more than 66 percent at for-profit institutions.
- Even though Pell Grant recipients make up 22 percent of the undergraduate population, they receive the bulk of aid from most of the major student aid programs. Pell Grant recipients receive over half of funds from the SEOG (94 percent), Stafford subsidized loan (52 percent), Perkins loan (59 percent), work-study (60 percent), and state student aid (58 percent) programs. They receive a disproportionate share (but not the majority) of Stafford unsubsidized loan (30 percent) and institutional grant (32 percent) funds. The only major types of aid from which they receive a disproportionately small share of funds are employer aid (7 percent) and federal loans to parents (15 percent).
- Pell Grant recipients are four times more likely to borrow subsidized Stafford loans and twice as likely to borrow unsubsidized loans than other students. As a result, they are

twice as likely as all other graduating seniors to have student loan debt. Almost 90 percent of Pell Grant recipients who completed a bachelor's degree in 1995-96 graduated with student loan debt. In contrast, 44 percent of all other bachelor's degree recipients finished college with some student loan debt. Further, Pell Grant recipients who borrow to complete a bachelor's degree graduate with an average debt of \$14,383, which is 30 percent more than the \$11,140 average debt accrued by their peers.

- At each type of institution, aid from all sources substantially reduces Pell Grant recipients' total price and need. Aid reduces the total price by 42 to 68 percent, depending on type of institution. Aid reduces Pell Grant recipients' need by a similar percentage, but a substantial amount of unmet need remains at each type of institution. Pell Grant recipients faced an average unmet need in 1995-96 that ranged from

\$2,557 at public four-year colleges and universities to \$5,229 at for-profit institutions. At each type of institution, this amount is substantially higher than the average unmet need of other undergraduates.

- Despite having higher unmet need, Pell Grant recipients are somewhat less likely than other undergraduates to work while they are enrolled. Seventy percent of Pell Grant recipients work, versus 81 percent of all other students. Pell Grant recipients who work are somewhat more likely than their peers to work part-time and are much less likely to maintain a full-time work schedule.
- Pell Grant recipients who worked while enrolled earned an average of \$5,850 in 1995-96. This amount is adequate to meet their average amount of unmet need. This does not explain, however, how the 30 percent of Pell Grant recipients who did not work met their unmet need.

Introduction

The Pell Grant, enacted by Congress as the Basic Educational Opportunity Grant in 1972, is the foundation program of federal student financial aid. It is the largest single grant program in the United States, providing vital assistance to millions of low- and moderate-income undergraduates each year. For many years, the American Council on Education (ACE) produced regular status reports on the Pell Grant program. The last such report was produced in 1992. This volume revives this tradition and expands on the type and amount of information ACE produces to inform policy makers and campus leaders about this important program. ACE plans to issue regular updates to this report.

Organization of the Report

While this report can be read cover to cover, it is intended as a reference to which the reader may return regularly. As such, most of the information is presented in the form of tables and figures, with minimal text to support and explain the data.

The report is divided into two main sections. The first section examines historical trends in the Pell Grant program, with particular attention to the 1990s. The second section concentrates on data for a single year, comparing Pell Grant recipients to other undergraduate students in terms of demographic characteristics and financing choices.

Data and Limitations

The data for this report come primarily from two sources. The annual Pell Grant end-of-year reports, produced by the Policy, Planning, and Innovation Branch of the Department of Education's Office of Postsecondary Education, provide summary information on the program. Most of the data in the "Historical Trends" section come from these reports. The most recent year for which data are available is 1998-99.

Most of the data in the "Characteristics and Financing Choices" section come from the 1995-96 National Postsecondary Student Aid Study (NPSAS), produced by the U.S. Department of Education's National Center for Education Statistics (NCES). This sample-based survey, which is conducted every four years, provides detailed information on the demographic characteristics of Pell Grant recipients and on how Pell Grants fit into these students' college financing schemes. It also allows for comparisons between Pell Grant recipients and other undergraduates. An important limitation of the NPSAS data is its age. The most recent year for which data are available is 1995-96. When ACE updates this report, data will be included from the 1999-2000 NPSAS, which NCES currently is completing.

Important Terms

Several specialized financial aid terms appear throughout this report. Some of

these terms are commonly employed in financial aid, while others have been defined specifically for this report. The definitions for these terms are listed below.

Expected Family Contribution

(EFC): The result of a formula that determines, based on a family's income and assets, how much they can be expected to spend annually on the post-secondary education of a family member. There are several formulas for determining EFC. This report uses the results of the federal formula.

Total Student Budget: Tuition and fees for a full-time/full-year student plus on-campus room and board charges or the institution's estimate of the average price for off-campus rent, utilities, and food, as well as the institution's estimates of average annual expenses for books and supplies, transportation, and other living expenses.

Adjusted Student Budget: The total student budget, adjusted for the student's attendance status.

Need: The difference between the adjusted student budget and the EFC.

Net Price: The adjusted student budget less student aid received.

Unmet Need: The adjusted student budget less both aid and EFC.

Excess Resources: Any amount greater than unmet need less earnings from an academic-year job. When students earn more than they require to cover their unmet need, the remainder is labeled "excess resources" in this report.

Resource Gap: Any amount of unmet need not met by earnings from an academic-year job. When students earn less than they require to cover their unmet need, this amount is labeled a "resource gap" in this report.

Historical Trends in the Pell Grant Program

Pell Grants were authorized in the Education Amendments of 1972, which amended the Higher Education Act of 1965. The statute set the basic formula that the U.S. Department of Education still uses to determine Pell Grant awards:

$$\text{Maximum Pell Grant} - \text{Expected Family Contribution (EFC)} = \text{Pell Award}$$

The 1972 amendments authorized a maximum grant of \$1,400 and set the minimum award at \$200. Since 1972, both Congress and the Department of Education have made many alterations to the formula for determining EFC, but the program continues to concentrate its resources on the lowest-income students because of the “maximum grant – EFC” award formula. **Table 1** (next page) summarizes key statistics on the Pell Grant program since 1973. This program has grown to provide a projected \$8 billion in assistance to almost 4 million students, or approximately one-quarter of the undergraduate population, in 2000–01.

The Pell Grant program is unusual in that it is structured as an entitlement but is funded through annual appropriations. Under the program’s original design, the maximum award is set in statute when Congress reauthorizes the program (which occurs every five to six years). In practice, Congress determines the maximum award during the annual appropriations process based on estimates of the number of qualified applicants and the amount of funding that is available to

provide grants to all eligible students. The higher education amendments of 1976, 1980, 1986, 1992, and 1998 each have called for substantial increases for the authorized maximum grant, but appropriations have been insufficient to fund those award levels. For example, in 1998–99 the authorized maximum grant was \$4,500 and the actual maximum was \$3,000. Throughout the remainder of this report, the term “maximum grant” will refer to the actual—not authorized—award level.

Because appropriations are based on projections of the number of eligible students, as well as the funding decisions of policy makers, the program never spends exactly what is appropriated (see **Figure 1**). In some years, appropriations

FIGURE 1

Appropriations and Expenditures in the Pell Grant Program, in Constant 1999 Dollars, FY 73 to FY 00

Sources: U.S. Department of Education, Pell Grant End-of-Year Reports.

exceed expenditures and the program runs a surplus. This money is then available to the program when demand is higher than projected. However, the surplus is also available to fund other

programs as well. As a result, running a substantial deficit and having to deny awards to eligible students is a perennial concern in the Pell Grant program.

TABLE 1
Pell Grant Funding History

	Appropriation (000s)	Expenditure (000s)	Maximum award	Average award	Recipients	Max as a % of public four-year price	Max as a % of private four-year price
FY 73 (AY 73–74)	\$122,000	\$47,589	\$452	\$270	176,000	28%	14%
FY 74 (AY 74–75)	\$475,000	\$358,353	\$1,050	\$628	567,000	64%	31%
FY 75 (AY 75–76)	\$840,200	\$925,998	\$1,400	\$761	1,217,000	78%	38%
FY 76 (AY 76–77)	\$1,325,800	\$1,475,444	\$1,400	\$759	1,944,000	72%	35%
FY 77 (AY 77–78)	\$1,903,900	\$1,524,340	\$1,400	\$758	2,011,000	69%	33%
FY 78 (AY 78–79)	\$2,140,000	\$1,540,995	\$1,600	\$814	1,893,000	75%	35%
FY 79 (AY 79–80)	\$2,341,000	\$2,357,222	\$1,800	\$929	2,537,875	77%	36%
FY 80 (AY 80–81)	\$2,157,000	\$2,387,117	\$1,750	\$882	2,707,932	69%	31%
FY 81 (AY 81–82)	\$2,604,000	\$2,299,718	\$1,670	\$849	2,709,076	58%	26%
FY 82 (AY 82–83)	\$2,419,040	\$2,420,517	\$1,800	\$959	2,522,746	56%	25%
FY 83 (AY 83–84)	\$2,419,040	\$2,979,057	\$1,800	\$1,014	2,758,906	52%	23%
FY 84 (AY 84–85)	\$2,800,000	\$3,052,999	\$1,900	\$1,111	2,747,100	52%	22%
FY 85 (AY 85–86)	\$3,862,000	\$3,597,380	\$2,100	\$1,279	2,813,489	54%	21%
FY 86 (AY 86–87)	\$3,579,716	\$3,460,007	\$2,100	\$1,301	2,659,507	51%	21%
FY 87 (AY 87–88)	\$4,187,000	\$3,754,329	\$2,100	\$1,303	2,881,547	48%	20%
FY 88 (AY 88–89)	\$4,260,430	\$4,475,693	\$2,200	\$1,399	3,198,286	47%	19%
FY 89 (AY 89–90)	\$4,483,915	\$4,777,844	\$2,300	\$1,438	3,322,151	46%	19%
FY 90 (AY 90–91)	\$4,804,478	\$4,935,191	\$2,300	\$1,449	3,404,810	44%	17%
FY 91 (AY 91–92)	\$5,374,213	\$5,792,703	\$2,400	\$1,530	3,786,230	42%	17%
FY 92 (AY 92–93)	\$5,499,690	\$6,175,902	\$2,400	\$1,543	4,002,045	40%	16%
FY 93 (AY 93–94)	\$6,461,970	\$5,654,453	\$2,300	\$1,506	3,755,675	36%	14%
FY 94 (AY 94–95)	\$6,636,731	\$5,519,475	\$2,300	\$1,502	3,674,967	34%	14%
FY 95 (AY 95–96)	\$6,146,845	\$5,471,708	\$2,340	\$1,515	3,611,821	33%	13%
FY 96 (AY 96–97)	\$4,913,560	\$5,780,033	\$2,470	\$1,577	3,665,654	33%	13%
FY 97 (AY 97–98)	\$5,919,000	\$6,331,091	\$2,700	\$1,696	3,732,807	36%	14%
FY 98 (AY 98–99)	\$7,344,900	\$7,232,781	\$3,000	\$1,876	3,855,180	39%	15%
FY 99 (AY 99–00)	\$7,704,000	\$7,385,809	\$3,125	\$1,933	3,808,269	39%	15%
FY 00 (AY 00–01)	\$7,770,000	\$8,057,217	\$3,300	\$2,070	3,880,448	39%	15%

Sources: U.S. Department of Education, Pell Grant End-of-Year Reports and *Digest of Education Statistics: 1999*; The College Board, *Trends in College Pricing: 2000*. Note: AY 99–00, 00–01 expenditure, average award, and recipient data are estimates from the Department of Education Pell Grant Cost Estimation Model. Price includes tuition, fees, and on-campus room and board. Appropriations and expenditures are expressed in thousands.

Expenditures for the Pell Grant program increased by 75 percent in inflation-adjusted terms between 1976–77, the first year in which undergraduates at all class levels could participate, and 1998–99, the most recent year for which information on actual expenditures is available. One reason for this growth is, of course, increases in the maximum grant. However, costs continued to rise even during periods when the maximum grant changed very little because of increases in the number of grant recipients. Throughout the history of this program, Congress has acted to expand the group of students who may benefit from Pell Grants. The “Recipient Income” section discusses this trend in further detail.

Another part of the explanation is the growth in higher education enrollments during this period. When the Pell Grant program began in 1973, 8.3 million undergraduates were enrolled in American colleges and universities. By 1997, that number had swelled to 12.3 million. In addition, the ranks of American undergraduates now include more students of color and more older, nontraditional students; both of these groups include a large number of low-income students. Each of these trends—increases in the maximum award, liberalizing of eligibility criteria, enrollment growth, and the rising number of low-income college students—has contributed to growth in the cost of the Pell Grant program.

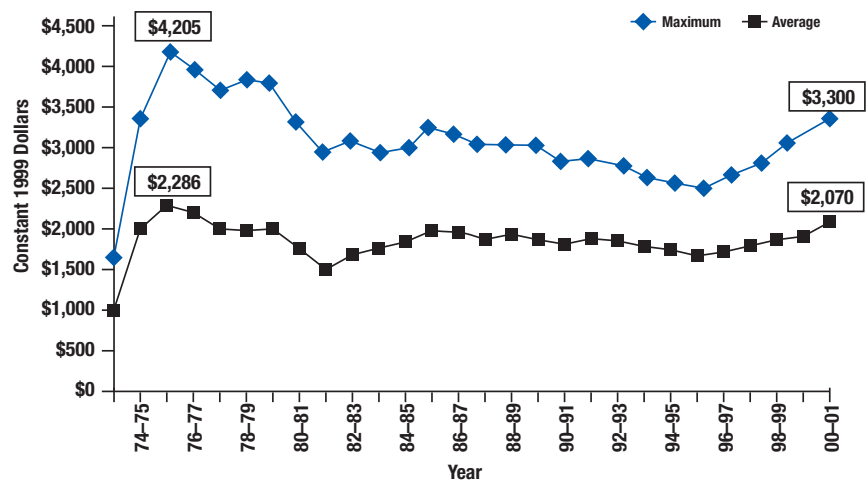
Changes in the Maximum and Average Grant

Not only has the maximum grant not increased to authorized levels, it also has not kept up with inflation or the price of college. **Figure 2** tracks both the maximum and the average Pell Grant in inflation-adjusted terms from the program’s inception to today. The maximum grant reached its highest value of

\$4,205 in 1975. It dipped as low as \$2,500 in real terms in the mid-1990s and has rebounded to \$3,300 in 2000–01. Because of changes in the award rules for the program, which allow more recipients to qualify for larger awards, the average grant is worth almost as much today as it was at its peak in 1975. The average grant projected for 2000–01 will be worth approximately \$200 less in real terms than the 1975 average.

Because of both slow growth in the maximum grant and relatively rapid growth in college prices since 1980, the maximum grant now covers a much smaller percentage of the price of attending college than it did in the late 1970s (see **Figure 3**, next page). In 1979–80, the maximum grant covered 99 percent of the average price of tuition, fees, and on-campus room and board at a public two-year college,* 77 percent of these prices at a public four-year institution, and 36 percent of these prices at a private college or university. Today, the maximum covers 65 percent, 39 percent, and 15 percent of these prices, respectively.

FIGURE 2
Maximum and Average Pell Grant Awards, in Constant 1999 Dollars, 1973–74 to 2000–01



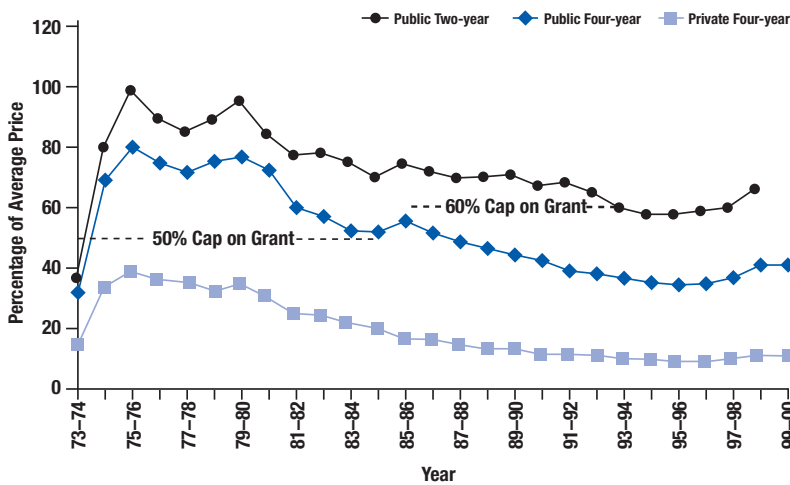
Source: U.S. Department of Education, Pell Grant End-of-Year reports.

* Most public two-year colleges do not offer on-campus room and board. However, these figures provide the best available proxy for the living expenses incurred by students who live off campus.

Until the 1992 reauthorization of the Higher Education Act, students at lower-priced institutions could only receive grants equivalent to no more than a certain percentage of college prices, regardless of whether or not they qualified for a larger grant under the basic eligibility formula. As shown in Figure 3, until the mid-1980s, students at all types of public institutions were affected by this cap. After 1985, when the cap was raised

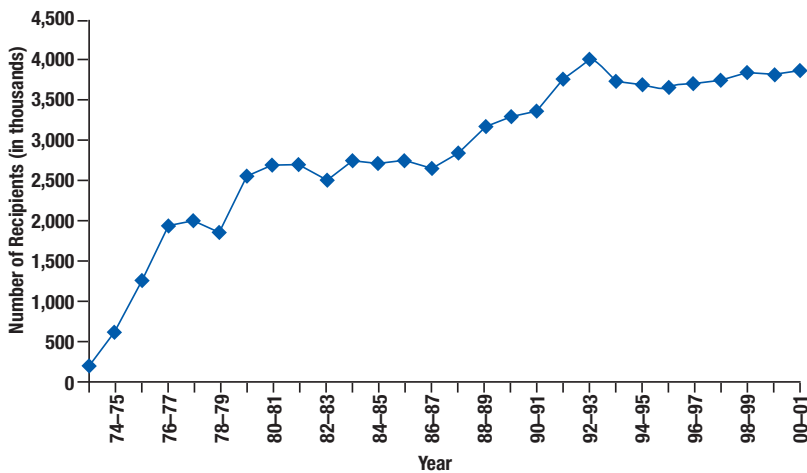
from 50 percent to 60 percent, only students at public two-year (and other similarly low-priced institutions) were affected. The 1992 reauthorization of the Higher Education Act revoked this limitation on the percentage of college costs covered by Pell Grants. Students at lower-priced institutions who qualify for the maximum Pell Grant may use any amount above and beyond institutional charges to pay for living expenses.

FIGURE 3
Maximum Pell Grant as a Percentage of Average Tuition, Fees, and On-campus Room and Board, 1973–74 to 1999–2000



Sources: The College Board, *Trends in Student Aid: 1999*; U.S. Department of Education, *Digest of Education Statistics*.

FIGURE 4
Number of Pell Grant Recipients, 1973–74 to 2000–01



Source: U.S. Department of Education, Pell Grant End-of-Year reports.
Note: Data for 1999–00 and 2000–01 are projections by the U.S. Department of Education Pell Grant Cost Estimation Model.

Number of Applicants and Recipients

The number of students applying for Pell Grants has increased dramatically since the program's inception, from 3.4 million in 1996–97 (the first year in which all undergraduates could participate) to 8.3 million in 1998–99. This increase is due in large part to tremendous growth in the number of students participating in higher education. It is also a reflection of growth in the proportion of students who choose to apply for financial aid.

The number of Pell Grant recipients also has increased, but not so precipitously. In 1976–77, 1.9 million students received a Pell Grant; by 1998–99, the number of recipients had doubled to 3.9 million (see Figure 4). Of course, the eligibility rules of the program influence the number of recipients, but perhaps the most important factor is the general state of the economy. For example, in the Higher Education Amendments of 1992, Congress liberalized the formula for calculating EFC by eliminating consideration of home equity. At the same time, the number of aid applicants continued to climb steeply. Logically, the number of Pell Grant recipients should have shot up. Instead, it declined and has been flat throughout the remainder of the 1990s. This is because the highly prosperous state of the American economy has resulted in fewer extremely low-

income applicants. Some students are simply doing better economically, and other low-income individuals who might have entered postsecondary education are doing well enough in the workforce that they have chosen not to enroll in college.

Because of the important role played by the economy, it is difficult to predict how many students might qualify for Pell Grants in the future. The U.S. Department of Education predicts that the undergraduate student population will grow by 11 percent between 1999–2000 and 2009–10.¹ If the current proportion of undergraduates apply for and receive grants, the number of Pell Grant recipients should grow to almost 4.3 million. A downturn in the economy could result in even larger growth over the coming decade. In addition, a recent report from the Educational Testing Service predicts that enrollment will grow by 2.6 million between 1995 and 2015 and that 80 percent of these additional students will be African American, Hispanic, or Asian American.² Given that people in these groups are far more likely to be low-income than whites, it is probable that the increased diversity of the student population will create additional demand for Pell Grants, increasing both the number and share of students who apply for and receive grants.

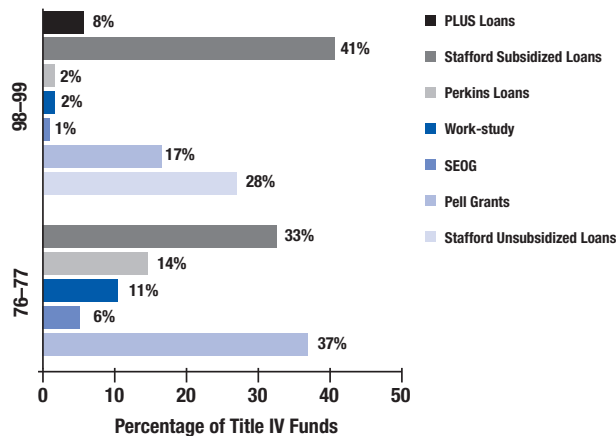
Pell Grants and Other Title IV Student Aid Programs

Pell Grants are the cornerstone of the federal student financial aid program, which also includes Stafford subsidized and unsubsidized student loans, PLUS parent loans, and the campus-based Supplemental Educational Opportunity Grant (SEOG), Perkins loan, and work-study programs.* In 1976–77, when Pell Grants were first available to all students, they accounted for 37 percent of all funds

awarded through the Title IV student aid programs (see Figure 5). When the SEOG program is included, grants accounted for 43 percent of all Title IV student aid. By 1998–99, Pell Grants and SEOG together accounted for only 18 percent of Title IV assistance.

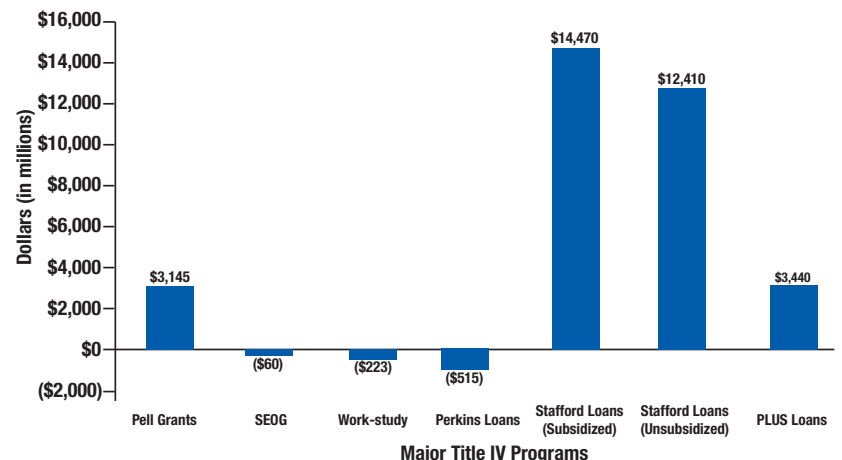
This change in the relative value of the major student aid programs has occurred for several reasons that are illustrated in Figure 6. First, the growth of the student loan programs has been dramatic. Since 1976, the amount borrowed

FIGURE 5
Distribution of Title IV Student Aid by Program, 1976–77 and 1998–99



Source: The College Board, *Trends in Student Aid: 1999*.
Note: Details may not add to 100 percent due to rounding.

FIGURE 6
Change in Aid Awarded Through the Major Title IV Programs, in Constant 1999 Dollars, 1976–77 to 1998–99

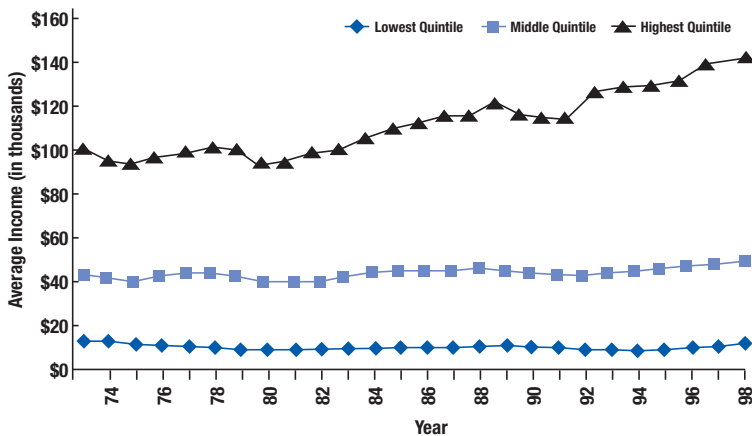


Source: The College Board, *Trends in Student Aid: 1999*.

* The Title IV program also includes the Leveraging Educational Assistance Program, or LEAP (formerly known as the State Student Incentive Grant). Because no more than \$75 million has ever been awarded through this program, it is excluded from this analysis.

FIGURE 7

Average Income of All U.S. Families, by Quintile, in Constant 1999 Dollars, 1973 to 1998



Source: U.S. Census Bureau, March Current Population reports.
 Note: Average income for highest quintile families in 1977 has been imputed.

annually under the Stafford subsidized program has grown by \$14.5 billion in inflation-adjusted terms. In addition, the Stafford unsubsidized and PLUS loan programs have grown to provide \$12.4 billion and \$3.4 billion, respectively, in 1998–99. At the same time that the major loan programs were expanding, funding for the three campus-based programs declined in real terms. These programs, which like Pell Grants target the neediest students, provide \$800 million less today in real terms than they did in 1976–77, a decline of almost 25 percent. Finally, while the Pell Grant program has grown over this period, its funding increases have been dwarfed by expansion in the major loan programs.

Family Income and College Affordability

Simultaneous with the relatively slow growth of the Pell Grant program and declines in the campus-based programs has been the widening of income disparity in the United States. **Figure 7** shows that the income of families in the lowest quintile has been essentially flat since the early 1970s; between 1973 and 1998 (the last date for which these fig-

ures are available), the average income of these families decreased by one-half of 1 percent. The income of families in the middle quintile also experienced little income growth until the late 1980s, when average income began to rise. Over the history of the Pell Grant program, middle-income families have seen their average income increase by 11 percent in inflation-adjusted terms. Only upper-income families have experienced dramatic income growth. Since 1973, the average income of families in the highest quintile has grown by 43 percent in inflation-adjusted terms.

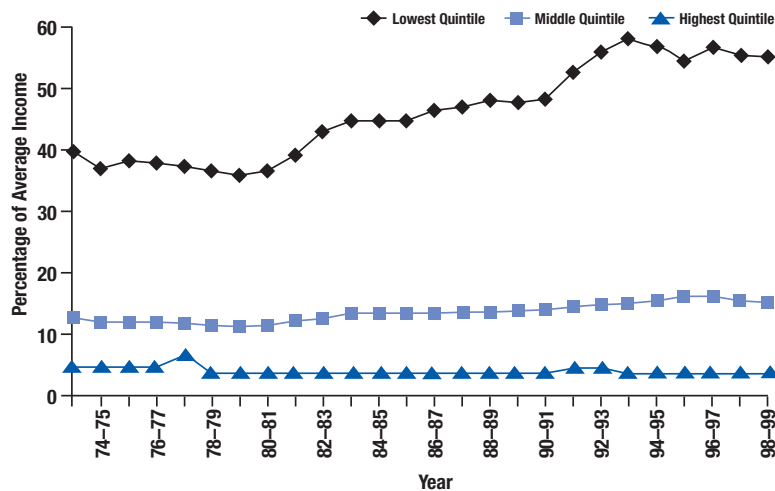
Because their income has not changed, low-income families have been hardest hit by increases in college prices. **Figure 8** tracks the percentage of income required to pay the average price of tuition, fees, and on-campus room and board at public four-year colleges or universities for families in the lowest, middle, and highest income quintiles. Room and board are used as a proxy for the living costs that all students incur regardless of whether they live on campus. Unfortunately, data on the costs students face when living off campus are not available for this period. Figure 8 shows that the price of tuition, fees, and on-campus room and board is equivalent to the same percentage of income for families in the highest quintile today as at the beginning of the Pell Grant program. The percentage of income required of middle-quintile families to meet this price has grown modestly, from 13 percent in 1973 to 15 percent in 1998. In marked contrast, paying the average fixed price for tuition, fees, and on-campus room and board at a public four-year college or university now requires a much larger share of income for families in the lowest quintile. In 1973, these prices represented 40 percent of annual income; by 1998, that

figure had grown to 57 percent—over half of annual income.

While the portion of income required to meet college prices has grown dramatically for low-income families, the capacity of the Pell Grant to substitute for that income has declined. **Figure 9** provides one measure of the effectiveness of the Pell Grant at improving college affordability for low-income families. It compares both public college prices and the Pell Grant maximum as a share of average income for families in the lowest quintile. Theoretically, if a student received no other aid, the difference between the two lines would be equal to the percentage of income that a family would have to contribute above and beyond what the Pell Grant already supplied. When the two lines are close to each other, the maximum Pell Grant substitutes for most of the share of income required to pay for college. In 1979–80, for example, tuition, room, and board at a public university would have required 34 percent of a lowest-quintile family’s annual income and the maximum Pell Grant was equivalent to 28 percent of family income. So, theoretically at least, the family would have had to contribute 6 percent of its income (the difference between 34 and 28) to pay the share not covered by the maximum Pell Grant. This percentage is roughly equivalent to the share of family income required of those in the highest income quintile. By 1998, the difference between the percentage of income required by college prices and the share covered by the maximum Pell Grant had ballooned to 32 percent. In other words, if a low-income family received the maximum grant (and no other aid), the family still would have had to devote one-third of its annual income to meeting the average price of tuition, fees, and on-campus room and board at a public university.

FIGURE 8

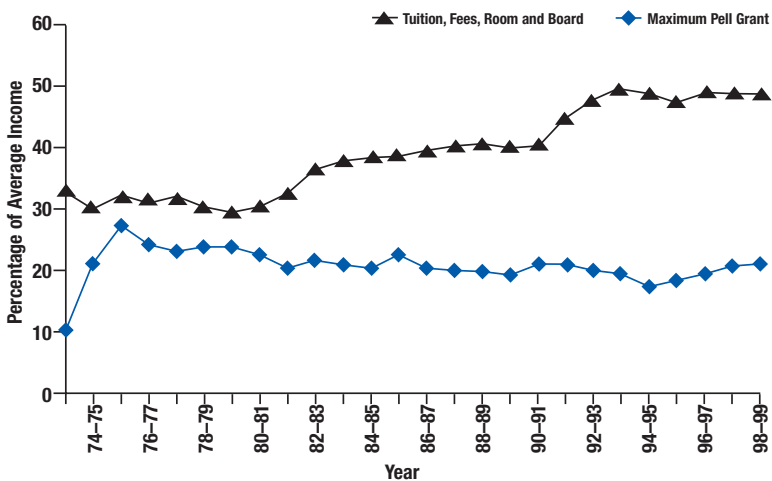
Average Tuition, Fees, and On-campus Room and Board at Public Four-year Institutions, as a Percentage of Average Family Income, 1973–74 to 1998–99



Sources: U.S. Census Bureau, March Current Population reports; U.S. Department of Education, *Digest of Education Statistics: 1999*; The College Board, *Trends in College Pricing: 1999*.

FIGURE 9

Maximum Pell Grant and Average Tuition, Fees, and On-campus Room and Board at Public Four-year Institutions, as a Percentage of Average Income for Families in the Lowest Quintile, 1973–74 to 1998–99



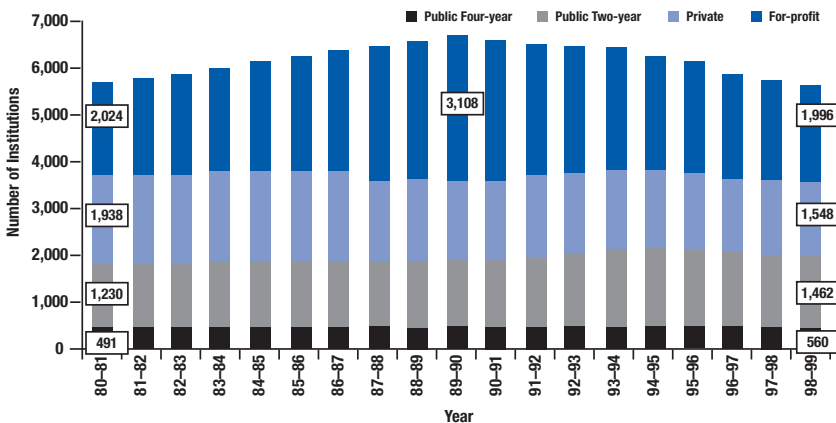
Sources: U.S. Census Bureau, March Current Population reports; U.S. Department of Education, *Digest of Education Statistics: 1999*; The College Board, *Trends in College Pricing: 1999*; U.S. Department of Education, Pell Grant End-of-Year reports.

Institutional Participants and Shares of Program Funds

The total number of institutions participating in the Pell Grant program is the same today as in 1980 (these data are not available for prior years). However, the mix of institutions has changed substantially, as illustrated in **Figure 10**. After growing to almost half of all participating institutions, for-profit institutions now number almost exactly as many as

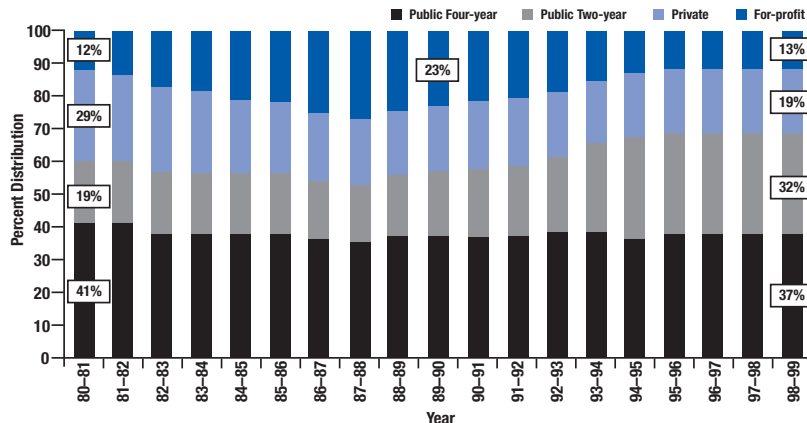
they did in 1980. There are 390 fewer private, nonprofit institutions participating in the program and over 301 additional public institutions. In some cases, these changes are due to institutions opening, closing, or consolidating branch campuses during this period. In others, institutions may have lost their eligibility to participate in the program because the Department of Education determined that the institution was not meeting the conditions of its program participation agreement.

FIGURE 10
Number of Institutions Participating in the Pell Grant Program, by Sector, 1980–81 to 1998–99



Source: U.S. Department of Education, Pell Grant End-of-Year reports.
Note: The data for 1991-92 and 1992-93 are estimates.

FIGURE 11
Distribution of Funds in the Pell Grant Program, by Sector, 1980–81 to 1998–99



Source: U.S. Department of Education, Pell Grant End-of-Year reports.
Note: Details may not add to 100 percent due to rounding.

Figure 11 illustrates the changing share of Pell Grant funds flowing to the four major sectors of postsecondary education. Following the same pattern seen in Figure 10, the for-profit sector's share of funds increased dramatically before returning to its 1980 level. The private, nonprofit share decreased as the for-profit sector's share increased, but then did not rebound to its earlier levels. Instead, the community college sector now receives a far larger share of program funds than it did during the 1980s. This shift is most likely due to a legislative change in the program's structure. As discussed above, prior to 1992, students could not receive a grant worth in excess of 60 percent of institutional charges. This provision primarily affected students at low-priced community colleges, keeping the share of funds flowing to this sector relatively low compared to the number of low-income students enrolled at these institutions. After 1992, when this provision was repealed, the share of funds going to community college students increased from 25 percent of Pell Grant expenditures to 30 percent. The community college share now stands at 32 percent. Four-year public colleges saw their share of funds decrease slightly in the early 1980s then remain quite stable through the 1990s.

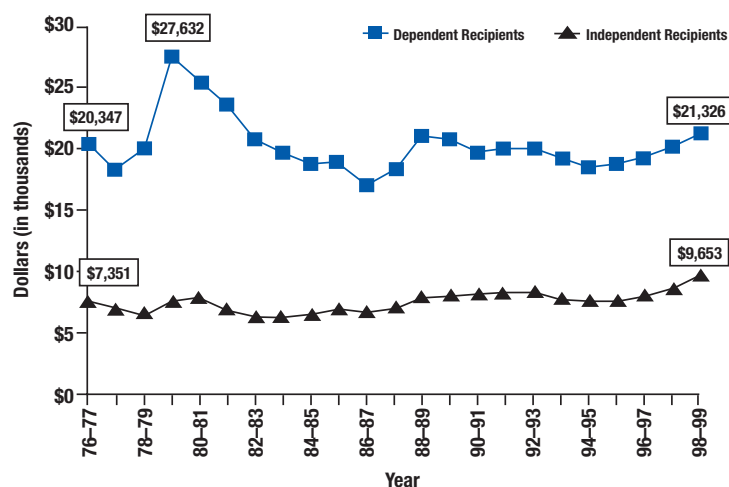
Recipients' Income

While there have been some temporary increases and decreases in the median income of Pell Grant recipients, **Figure 12** reveals that recipients earn only a slightly higher median income today than in the 1970s, in inflation-adjusted terms. This is not because the program has not changed substantially over the course of its history. Rather, changes enacted by Congress that would have pushed the median income of recipients upward have been nullified by the slow growth of the maximum grant, by conservative Department of Education policies for administering the program, and by the changing nature of the student population. Congress has made substantial changes to the formula for determining students' Pell Grant eligibility three times: 1) in 1978, through the Middle Income Student Assistance Act, or MISAA, which was repealed in 1981, 2) in the 1986 higher education amendments, and 3) in the 1992 higher education amendments. Each time, Congress liberalized the EFC formula, allowing more students to qualify for Pell Grants. With the exception of MISAA, which temporarily caused a dramatic upswing in the median income of dependent recipients before it was repealed, none of these changes seems to have had a powerful effect on the median income of Pell Grant recipients.

MISAA dramatically expanded access to Pell Grants for middle-income families by changing the rate at which discretionary income was assessed in the EFC formula. In 1977, 1.9 million students received a Pell Grant; by 1980, that number had increased to 2.7 million. As a result, the median income of dependent Pell Grant recipients spiked to \$27,632. With the arrival of the Reagan administration and its early zeal for budget cutting, the effects of MISAA were quickly reversed. The median income of dependent students

FIGURE 12

Median Income of Pell Grant Recipients, in Constant 1999 Dollars, 1976–77 to 1998–99



Source: U.S. Department of Education, Pell Grant End-of-Year reports.

dipped to its all-time low in the 1980s because of efforts by the Reagan administration to curtail the program's costs by focusing grants on the lowest-income students. The administration was able to accomplish this change because many elements of the EFC formula were established in regulation rather than in statute.

In 1986, Congress wrested this control away from the administration, establishing key elements of the formula in statute so that they could not be changed by the executive branch. Congress also made many technical changes to the formula in 1986 that contributed to the liberalization of award criteria. The effect of these changes can be seen in the trend line for dependent recipients; 1986 marks the end of the downward trend in median income for these students. It is important to note that these changes did not affect independent students. The median income of these Pell Grant recipients showed very little variation until the mid-1990s. Congress made additional revisions to the EFC formula in 1992, most notably eliminating the consideration of home equity, but these changes targeted families that generally are too affluent to qualify for Pell

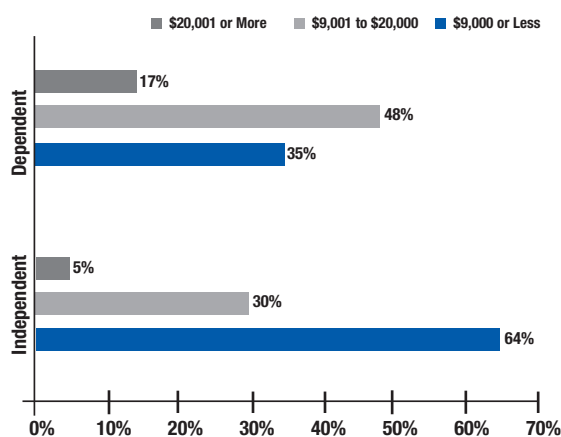
Grants and therefore show little impact on the trend lines in Figure 12.

Since the mid-1990s, comparatively dramatic increases in the maximum grant have resulted in an increase in Pell Grant recipients' median income, especially among independent students. The median income of independent Pell Grant recipients is now 31 percent

higher than it was in 1976-77. For dependent Pell Grant recipients, the effect has been more modest; this group's median income grew by 5 percent in real terms between 1976-77 and 1998-99.

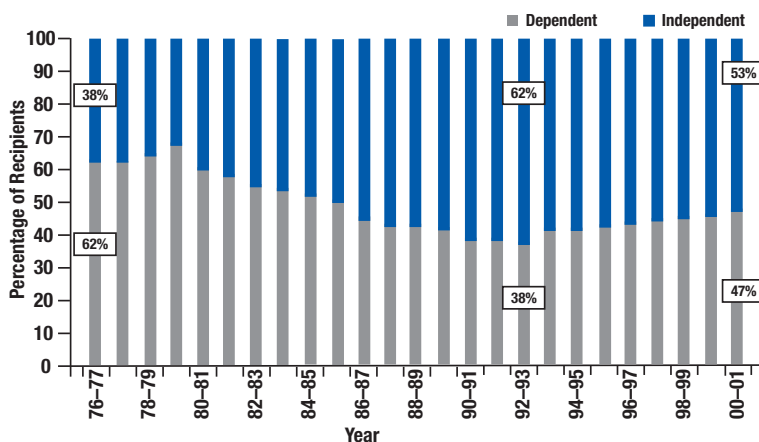
Figure 13 demonstrates that, despite the liberalization of the EFC formula and recent increases in the maximum grant, the maximum Pell Grant is still highly concentrated among low-income students; 83 percent of dependent recipients of the maximum grant and 94 percent of independent recipients have a family income of \$20,000 or less. The median income of both dependent and independent maximum award recipients is less today than it was in 1976, in inflation-adjusted terms. Among dependent recipients of the maximum Pell Grant, median income was \$12,493 in 1976-77 and \$12,280 in 1998-99. Among independent recipients of the maximum Pell Grant, median income declined from \$6,570 in 1976-77 to \$5,745 in 1998-99, a change of 13 percent in real terms.

FIGURE 13
Distribution of Maximum Pell Grant Recipients, by Dependency Status and Family Income, 1998-99



Source: U.S. Department of Education, Pell Grant End-of-Year reports.
Note: Details may not add to 100 percent due to rounding.

FIGURE 14
Distribution of Pell Grant Recipients, by Dependency Status, 1976-77 to 2000-01



Source: U.S. Department of Education, Pell Grant End-of-Year reports.
Note: Data for 1999-00 and 2000-01 are projections by the U.S. Department of Education Pell Grant Cost Estimation Model.

Recipient Dependency Status

In its early years, the Pell Grant program primarily served traditional-aged, dependent students. In 1976-77, the first year in which undergraduates at all class levels were eligible to participate, dependent students represented 62 percent of Pell Grant recipients (see **Figure 14**). By 1992, that proportion had switched; independent students constituted 62 percent of recipients. This change occurred largely because of shifts in the broader student population over this period. The end of the baby boom brought a reduction in the number of traditional-aged college students, and older students—many of them low-income—began enrolling in post-secondary education. Other contributing

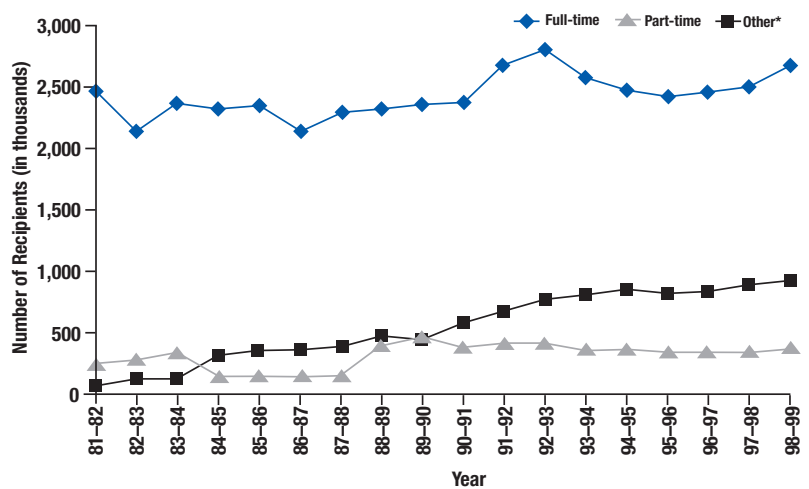
factors were the growth of the for-profit sector, whose programs attracted many working adults, and relatively lax standards for determining independent student status. After the 1992 amendments, the proportion of independent Pell Grant recipients declined modestly. This is most likely because the 1992 legislation restricted the definition of independence for undergraduates to only those students who are aged 24 or older, are married, or have dependents. Prior to the 1992 amendments, students under age 24 were considered independent if they had not been claimed on their parent's federal income taxes for four years. The proportion of independent and dependent students in the Pell Grant population now is equivalent to the proportions in the general undergraduate student population.

Recipient Attendance Status

The number of full-time students receiving Pell Grants has fluctuated around 2.5 million since 1981-82, the first year in which the Department of Education reported data on students' attendance status (see Figure 15). The number of part-time students receiving Pell Grants grew to 500,000 but has since declined to approximately 350,000. Part-time students remain a small percentage of Pell Grant recipients because most of these students work full time and either make too much to qualify for a grant or assume that they would not qualify and do not apply. The fastest growing share of the Pell Grant population is students who either (1) change attendance status during the year, (2) attend institutions using the clock-hour system (typically for-profit institutions), or (3) are grant recipients for whom the U.S. Department of Education does not have attendance status information. This group has grown from less than

50,000 in 1981-82 to almost 1 million in 1998-99. Unfortunately, the Department of Education is not yet able to disaggregate these students into these three categories, so it is impossible to determine the size of each group.

FIGURE 15
Number of Pell Grant Recipients, by Attendance Status, 1981-82 to 1998-99



Source: U.S. Department of Education, Pell Grant End-of-Year reports.
* The "other" category includes students who changed attendance status during the academic year, students who attend institutions on the clock-hour system, and students for whom the attendance status is unknown.

Characteristics and Financing Choices of Pell Grant Recipients and Other Undergraduates

Demographic Characteristics

Unlike Pell Grant program data, which were used in the first half of this report, the National Postsecondary Student Aid Study (NPSAS) includes information on all students—those who did and did not receive a Pell Grant. As a result, NPSAS allows for comparisons between Pell Grant recipients and all other undergraduates. This data set also makes it possible to estimate the share of students receiving Pell Grants. According to the most recent study, 22 percent of undergraduates received a Pell Grant in 1995–96.

Table 2 lists the percentage of students in various categories who received a Pell Grant in that year. It shows that the following groups were most likely to have qualified: students who are separated from their spouse (NPSAS counts divorced students with those who never married), single parents, African-American students, independent students with dependents, American Indian students, Hispanic students, students who speak a language other than English in their home, and students whose parents have no college experience. Of course, there is overlap among some of these categories. For example, a student who is a single parent also is, by definition, an independent student with dependents. Nonetheless, this list suggests that the students who are most likely to receive a Pell Grant are those who have family responsibilities, are first-generation

college attendees, or come from minority groups that are underrepresented in higher education.

TABLE 2
Percentage of Undergraduates with Various Characteristics Who Received a Pell Grant, 1995–96

	Percentage with a Pell Grant
All Students	22
Age	
24 or younger	23
25 or older	20
Gender	
Male	18
Female	24
Dependency Status	
Dependent	18
Independent, no dependents	19
Independent with dependents	36
Race/Ethnicity	
White	17
African American	39
Hispanic	33
Asian American	24
American Indian	34
Primary Language Spoken in Home	
English	20
Other	30
Parents' Highest Education Level	
Less than a high school diploma	31
High school graduate	30
Some college/associate's degree	20
Bachelor's degree (4–5 years)	15
Graduate degree	10
Person with a Disability	
No	21
Yes	25
Marital Status	
Not married	22
Married	18
Separated	55
Single Parent	
No	19
Yes	45

Source: U.S. Department of Education, *National Postsecondary Student Aid Study: 1995–96*.

Table 3 compares the distribution of Pell Grant recipients to the distribution of all other undergraduate students on the same list of demographic characteristics. It shows that the same major groups—parents, students of color, and first-generation college attendees—make up a significantly larger share of Pell Grant recipients than they do in the rest of the undergraduate population. For example, only 7 percent of students who did not receive a Pell Grant are single parents. The proportion of single parents among Pell Grant recipients is 21 percent—triple the share in the rest of the undergraduate population. Similarly, 40 percent of Pell Grant recipients are inde-

pendent students with dependents, versus 20 percent of those who did not receive a Pell Grant. Two out of five Pell Grant recipients are African American, Hispanic, or American Indian; students from these racial/ethnic groups make up only one out of five students who did not receive a Pell Grant.

Income and EFC

Students use many different resources to pay for college. They begin with a certain amount of family resources, which for most students appears primarily in the form of income, and they choose institutions that vary in how much they charge and how much grant aid is avail-

TABLE 3
Distribution of Undergraduates, by Various Demographic Characteristics and Pell Grant Recipient Status, 1995–96

	Pell Grant Recipients (%)	All Other Students (%)	All Undergraduates (%)
Age			
24 or younger	62	58	59
25 or older	38	42	41
Gender			
Male	37	46	44
Female	63	54	56
Dependency Status			
Dependent	42	51	49
Independent, no dependents	18	29	27
Independent with dependents	40	20	24
Race/Ethnicity			
White	55	76	71
African American	21	9	12
Hispanic	16	9	10
Asian American	6	5	5
American Indian	1	1	1
Other	1	0	1
Primary Language Spoken in Home			
English	83	90	88
Other	17	10	12
Parents' Highest Education Level			
Less than a high school diploma	12	7	8
High school graduate	50	33	37
Some college/associate's degree	17	19	18
Bachelor's degree (4-5 years)	14	22	20
Graduate degree	7	19	16
Person with a Disability			
No	95	94	94
Yes	5	6	6
Marital Status			
Not married	77	75	75
Married	18	24	23
Separated	5	1	2
Single Parent			
No	79	93	90
Yes	21	7	10

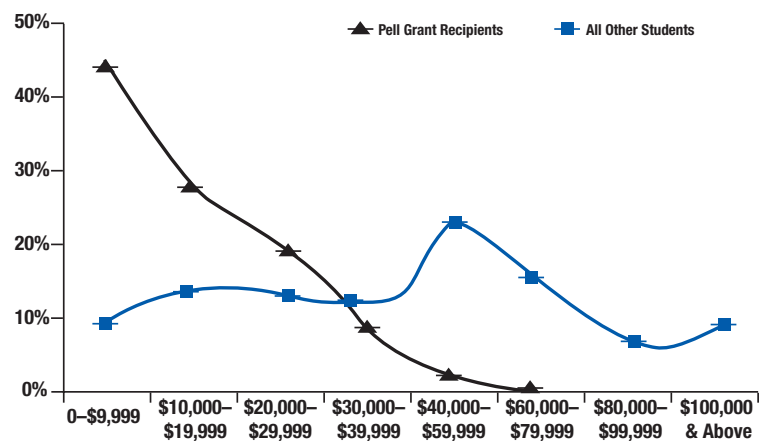
Source: U.S. Department of Education, *National Postsecondary Student Aid Study: 1995–96*.

able. Students also make choices that determine their living expenses, such as whether to live on campus or at home. Then, they make up whatever difference exists between their total student budget (adjusted for their attendance pattern and living situation, net any grant aid they may have received) and their family's resources through a combination of work, loans, and, increasingly, credit cards. The NPSAS data describe the different means and financing patterns of Pell Grant recipients and other students.

Figure 16 plots the distribution of Pell Grant recipients and all other students by family income. It shows that, consistent with the program's intent and structure, Pell Grant recipients are heavily concentrated among students with low family income. The income distribution for all other students looks more like a classic bell curve, with the largest group of students coming from families with an annual income of between \$40,000 and \$60,000. These very different income distributions are reflected in the average income of Pell Grant recipients and all other students. The average income of Pell Grant recipients is \$14,232, compared to an average family income of \$50,124 among all other undergraduates. This basic pattern is the same for both dependent and independent students. The average family income of Pell Grant recipients is about one-third the average for all other students, regardless of dependency status.

The difference in EFC between Pell Grant recipients and all other undergraduates is even more dramatic than the difference in income. The average EFC of Pell Grant recipients is \$443, compared to \$9,931 for all other undergraduates. The difference in EFC is larger than the difference in income for two principal reasons. First, EFC is derived from both income and assets.

FIGURE 16
Distribution of Undergraduates, by Family Income and Pell Grant Recipient Status, 1995–96



Source: U.S. Department of Education, *National Postsecondary Student Aid Study: 1995–96*.

Since those with higher income are more likely to have savings and other assets, the contribution from assets will have a greater effect on the EFC of higher-income students. Second, the EFC formula uses a marginal tax rate structure to calculate a family's contributions from both income and assets. The formula assumes that higher-income families can contribute a larger portion of their income and assets than lower-income families.

Institutional Type and Total Student Budget

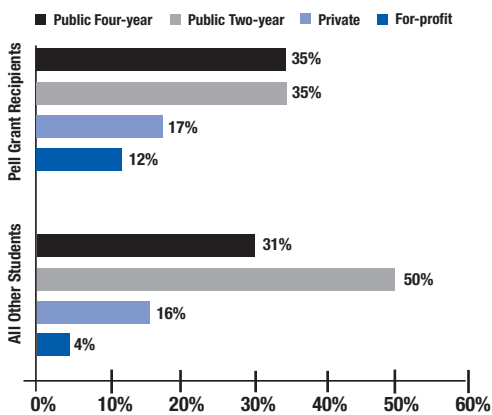
Pell Grant recipients are more likely than their peers to attend for-profit institutions, but they are less likely to attend community colleges (see **Figure 17**, next page). As noted in **Figure 15**, Pell Grant recipients tend to be full-time students because they are less likely to have substantial earnings from work and are more likely to apply for financial aid than students who only attend part time. In 1995–96, 29 percent of students who attended on a full-time basis received Pell Grants, compared to just 14 percent of those who studied part time. Because a large proportion of Pell Grant recipi-

ents attend on a full-time basis, they are more likely than other students to attend institutions where full-time attendance is the norm. This is the case at many for-profit institutions, where a large number of students complete short-term programs of one year or less on a full-time basis. In addition, these institutions enroll a high proportion of low-income students. As a result, 49 percent of students at for-profit institutions receive Pell Grants. At community

colleges, most students study part time and only 16 percent of students receive Pell Grants. Even though community college students make up a large proportion of Pell Grant recipients and receive a substantial share of Pell Grant funds (see Figure 11), they still are less likely to attend these institutions than other undergraduates. The percentage of students attending private and public four-year institutions does not differ significantly between Pell Grant recipients and all other students. At these institutions, about one-quarter of students received Pell Grants in 1995–96.

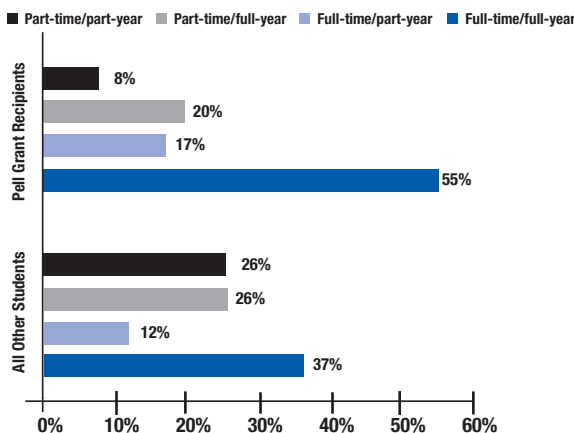
The total student budget includes institutional charges for tuition, fees, and on-campus room and board as well as institutions' estimates of expenses for such items as books and supplies, transportation, and rent and food for students who live off campus. There is little difference between Pell Grant recipients and all other undergraduates in the average total budget for full-time/full-year students at each type of institution. The only exception is private institutions; the average total student budget for Pell Grant recipients attending private institutions is lower than the average for all other students (\$16,376 versus \$18,993).

FIGURE 17
Distribution of Undergraduates, by Institution Type and Pell Grant Recipient Status, 1995–96



Source: U.S. Department of Education, *National Postsecondary Student Aid Study: 1995–96*.
Note: Details may not add to 100 percent due to rounding.

FIGURE 18
Distribution of Undergraduates, by Attendance Status and Pell Grant Recipient Status, 1995–96



Source: U.S. Department of Education, *National Postsecondary Student Aid Study: 1995–96*.
Note: Details may not add to 100 percent due to rounding.

Attendance Status, Living Arrangements, and Adjusted Student Budget

Other factors influencing the prices students pay are whether they attend on a full- or part-time basis, for either a full- or partial academic year, and whether they live on campus, off campus, or with their parents. As discussed above, Pell Grant recipients are more likely than other undergraduates to attend on a full time/full-year basis than other students and are less likely to attend on a part-

time/part-year basis (see **Figure 18**). Attending full time may result in higher annual costs, but it also can shorten time-to-degree, resulting in lower total expenses over a college career. In addition, research has consistently shown that students who attend college on a full-time basis are more likely to complete a degree than those who attend part time.³ In terms of living arrangements, Pell Grant recipients make the same choices as all other undergraduates: 15 percent live on campus, 60 percent live off campus, and the remaining 25 percent live with their parents.

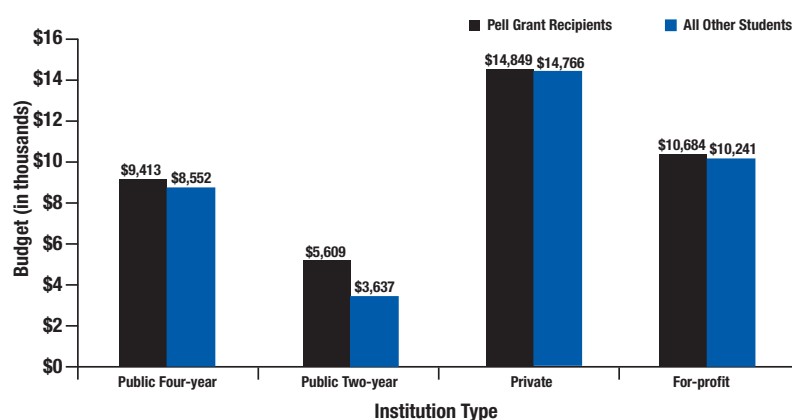
When attendance and living situation are taken into account, the adjusted student budget for Pell Grant recipients is higher than for all other students at public two- and four-year institutions (see **Figure 19**). This difference is particularly large at public two-year institutions. Because Pell Grant recipients are more likely than other students at these institutions to attend full time, their average total budget is almost \$2,000 higher. At private and for-profit institutions, there is no significant difference between the adjusted total budgets of Pell Grant recipients and all other students.

Student Aid

One in five Pell Grant recipients receives no other aid; the rest are awarded some combination of grants, loans, and work-study in addition to a Pell Grant to help defray the price of attendance. The most common type of package for Pell Grant recipients, except at public two-year and private institutions, combines Pell Grants with other grants and student loans (see **Figure 20**). At community colleges, most Pell Grant recipients receive only that grant or a Pell Grant in combination with other grant assistance. At private colleges, 33

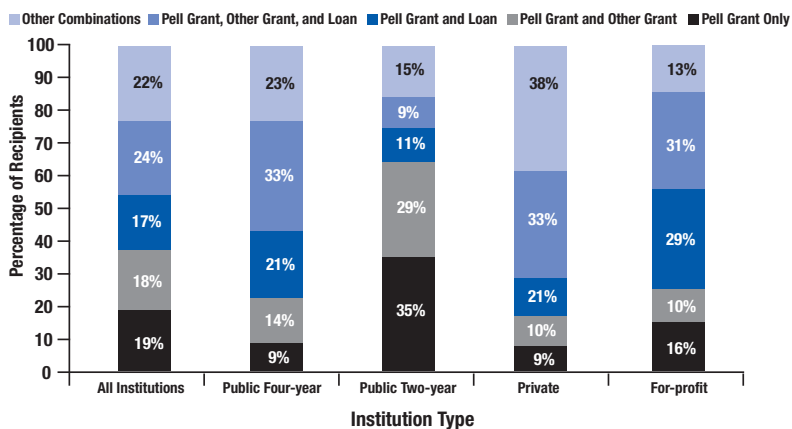
percent of students receive grants and loans, but almost 40 percent receive other combinations of aid that may include work-study as well as grants and loans. Because Pell Grant recipients are likely to be awarded other types of grants, half of them receive aid from states, institutions, or other sources.

FIGURE 19
Average Adjusted Student Budget, by Institution Type and Pell Grant Recipient Status, 1995–96



Source: U.S. Department of Education, *National Postsecondary Student Aid Study: 1995–96*.

FIGURE 20
Distribution of Pell Grant Recipients, by Financial Aid Package and Institution Type, 1995–96



Source: U.S. Department of Education, *National Postsecondary Student Aid Study: 1995–96*.
Note: Details may not add to 100 percent due to rounding.

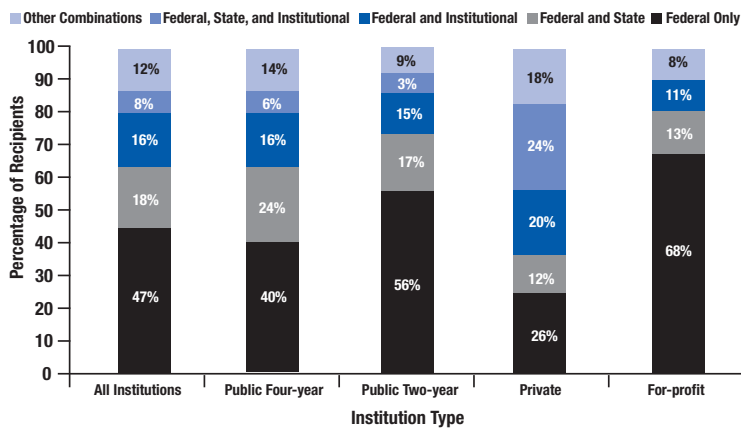
Figure 21 demonstrates that the proportion of Pell Grant recipients receiving only federal assistance varies widely, from one-quarter at private institutions to over two-thirds at for-profit institutions, in large part because the likelihood of receiving institutional aid varies considerably by type of institution.

Table 4 compares the percentage of Pell Grant recipients receiving aid from

the largest sources and programs to the same percentages for all other students. It shows that Pell Grant recipients are far more likely than other students to receive most major forms of aid. Pell Grant recipients are less likely than other students to receive employer aid, but this is logical because employer aid generally is only available to full-time employees who often earn too much to qualify for a Pell Grant.

Even though Pell Grant recipients make up 22 percent of the undergraduate student population, they receive the bulk of aid from most of the major programs. **Table 5** shows that Pell Grant recipients receive over half of funds from the SEOG, Stafford subsidized loan, Perkins loan, work-study program, and state student aid programs. They receive a disproportionate share (but not the majority) of Stafford unsubsidized loans and institutional grant funds awarded to undergraduates. The only major type of aid from which Pell Grant recipients receive a disproportionately small share

FIGURE 21
Distribution of Pell Grant Recipients, by Source of Financial Aid and Institution Type, 1995–96



Source: U.S. Department of Education, *National Postsecondary Student Aid Study: 1995–96*.
Note: Details may not add to 100 percent due to rounding.

TABLE 4
Percentage of Undergraduates Receiving the Major Types of Student Aid, by Institution Type and Pell Grant Recipient Status, 1995–96

	SEOG	Stafford Loan (Subsidized)	Stafford Loan (Unsubsidized)	Perkins Loan	PLUS Loan	Work-study	State Aid	Institutional Grants	Employer Aid
All Institutions									
All Students	5	22	10	4	4	4	11	15	9
Pell Grant Recipients	24	53	15	10	12	12	30	25	2
All Other Students	0	14	8	2	2	2	6	12	11
Public Four-year									
All Students	6	31	13	6	5	5	14	14	5
Pell Grant Recipients	22	69	15	15	13	13	36	25	3
All Other Students	0	19	13	3	2	2	8	11	6
Public Two-year									
All Students	3	7	3	0	1	1	6	7	10
Pell Grant Recipients	18	23	6	1	8	8	23	18	2
All Other Students	0	4	3	0	0	0	3	5	12
Private									
All Students	10	39	14	10	14	14	22	41	13
Pell Grant Recipients	38	72	17	22	27	27	46	53	4
All Other Students	1	29	13	7	10	10	14	37	16
For-profit									
All Students	13	51	32	4	0	0	12	6	4
Pell Grant Recipients	26	65	35	5	1	1	14	9	1
All Other Students	0	37	30	2	0	0	9	4	7

Source: U.S. Department of Education, *National Postsecondary Student Aid Study: 1995–96*.

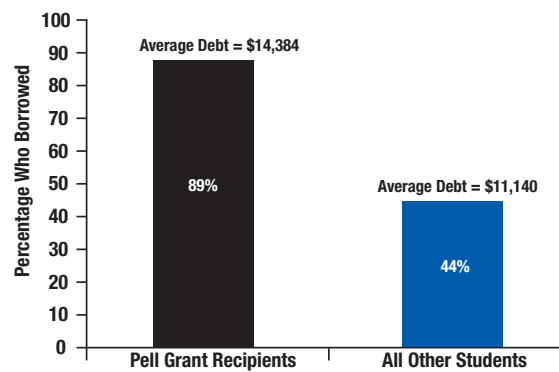
of funds are employer aid and PLUS loans. Employer aid was discussed. PLUS loans are unique in that the borrower is the parent rather than the student and there are no pre-set annual borrowing limits. Parents may borrow up to the total student budget each year. Although Pell Grant recipients borrow a disproportionately small share of PLUS funds, they are more likely than other students to take advantage of this program (see Table 4).

Table 4 shows that Pell Grant recipients are four times more likely to borrow subsidized Stafford loans and twice as likely to borrow unsubsidized loans than other students. The amount that a student may borrow annually under the Stafford subsidized and unsubsidized student loan programs varies based on the student's academic level and dependency status. The limits for undergraduates range from \$2,625 for dependent freshmen to \$10,500 for independent seniors. Most Pell Grant recipients who took out loans in 1995-96 borrowed less than the annual maximum, but they were still twice as likely to borrow the maximum than other students; 15 percent of Pell Grant recipients borrowed the

annual maximum versus 7 percent of all other students.

The effect of Pell Grant recipients' heavy reliance on loans is that these students are far more likely to graduate with student loan debt than other students and amass far larger cumulative debt amounts. **Figure 22** compares the cumulative student loan debt of graduating seniors who received a Pell Grant to all other graduating seniors. It shows that Pell Grant recipients are twice as likely as all other graduating seniors to have student loan debt. Almost 90 percent of

FIGURE 22
Percentage of B.A. Recipients Who Borrowed, and Average Cumulative Debt, by Pell Grant Recipient Status, 1995-96



Source: U.S. Department of Education, *National Postsecondary Student Aid Study: 1995-96*.

TABLE 5
Total Aid Awarded Through Major Programs and Distribution of Aid to Undergraduates, by Pell Grant Recipient Status, 1995-96

Program (dollars in millions)	Total Amount Awarded	Distribution of Aid Among Undergraduates	
		Pell Grant Recipients*	All Other Students**
SEOG	\$583	94%	6%
Stafford Subsidized Loan	\$16,422	52%	48%
Stafford Unsubsidized Loan	\$8,703	30%	70%
Perkins Loan	\$1,029	59%	41%
PLUS Loan	\$2,731	15%	85%
Work-study	\$764	60%	40%
State Aid	\$3,000	58%	42%
Institutional Grants	\$9,437	32%	68%
Employer Aid	N/A	7%	93%

Sources: U.S. Department of Education, *National Postsecondary Student Aid Study: 1995-96*; The College Board, *Trends in Student Aid: 1999*.

Note: Total amount awarded is based on program records and includes funds awarded to graduate and professional students. These figures are provided to describe the size of each major program. Data are for 1995-96 and are not adjusted for inflation. The distribution among undergraduates is based on a sample of 1995-96 undergraduate students only.

N/A: Not available.

* 22 percent of undergraduates received Pell Grants.

** 78 percent of undergraduates did not receive Pell Grants.

Pell Grant recipients who completed a bachelor's degree in 1995–96 graduated with student loan debt. In contrast, 44 percent of all other bachelor's degree recipients finished college with some student loan debt. Further, Pell Grant recipients leave college with an average debt that is \$3,000 more than the debt accrued by other students.

Need, Net Price, and Unmet Need

Need typically is defined as the difference between the adjusted student budget for an institution and a student's EFC. **Table 6** describes the average need of Pell Grant recipients and all other students by type of institution attended. It demonstrates that Pell Grant recipients have much higher need than their peers at all types of institutions. Table 6 also includes two sets of indices of how adequately financial aid reduces the student budget and meets student need. The first set of indicators (labeled "Net Price I" and "Unmet Need I") concentrate on federal grants, almost all of which come

from the Pell Grant program. On average, federal grants reduce the adjusted student budget by 12 to 22 percent and reduce student need by 14 to 27 percent for Pell Grant recipients, depending on type of institution. After federal grants are taken into account, Pell Grant recipients still face an average net price of \$7,739 and an average unmet need of \$7,296. Because federal grants flow almost exclusively to Pell Grant recipients, there is no change in either need or net price for all other students.

The second indicators of net price and unmet need are calculated by reducing the adjusted student budget and student need by all aid received, including student loans. This represents the total out-of-pocket costs faced by students. Student aid reduces the adjusted student budget by 7 to 35 percent, depending on type of institution, for students who do not receive a Pell Grant. Financial aid meets between 14 and 54 percent of need for these students, again depending on type of institution. Aid meets a larger percentage of need at more expensive institutions where students who may not qualify for a Pell Grant still demonstrate considerable financial need. For

example, at private institutions, students who were too well-off to qualify for a Pell Grant had an average need of \$7,263. These students received enough aid from federal loans, institutional grants, and other sources to reduce their need by 54 percent, leaving \$3,325 in unmet need.

At each type of institution, aid from all sources substantially reduces Pell Grant recipients' total price and need. Aid reduces total price by 42 to 68 percent, depending on type of institution. Aid reduces Pell Grant recipients' need by a similar percentage, but a substantial amount of unmet need remains at each type of institution. Pell Grant recipients faced an average unmet need in 1995–96

TABLE 6
Average Need, Net Price, and Unmet Need of Pell Grant Recipients and All Other Undergraduates, by Institution Type, 1995–96

	Need Adjusted Student Budget Less EFC	Net Price I Adjusted Budget Less Federal Grants	Unmet Need I Adjusted Budget Less EFC and Federal Grants	Net Price II Adjusted Budget Less All Aid	Unmet Need II Adjusted Budget Less EFC and All Aid
All Institutions					
All Students	\$3,959	\$7,301	\$3,600	\$5,123	\$1,876
Pell Grant Recipients	\$9,005	\$7,739	\$7,296	\$3,676	\$3,276
All Other Students	\$2,638	\$7,187	\$2,633	\$5,502	\$1,509
Public Four-year					
All Students	\$4,243	\$8,413	\$3,814	\$5,797	\$1,807
Pell Grant Recipients	\$9,022	\$7,753	\$7,235	\$3,002	\$2,557
All Other Students	\$2,753	\$8,619	\$2,747	\$6,669	\$1,573
Public Two-year					
All Students	\$1,613	\$3,785	\$1,394	\$3,354	\$1,114
Pell Grant Recipients	\$5,486	\$4,372	\$4,010	\$3,226	\$2,881
All Other Students	\$940	\$3,683	\$940	\$3,377	\$807
Private					
All Students	\$8,935	\$14,447	\$8,441	\$8,495	\$3,508
Pell Grant Recipients	\$14,567	\$13,002	\$12,473	\$4,595	\$4,124
All Other Students	\$7,263	\$14,876	\$7,244	\$9,653	\$3,325
For-profit					
All Students	\$7,655	\$9,758	\$6,912	\$6,342	\$3,974
Pell Grant Recipients	\$10,416	\$9,181	\$8,857	\$5,536	\$5,229
All Other Students	\$5,144	\$10,282	\$5,143	\$7,076	\$2,832

Source: U.S. Department of Education, *National Postsecondary Student Aid Study: 1995–96*.
Note: Averages are for all students, including those who did not apply for or receive aid.
EFC: Expected Family Contribution.

that ranged from \$2,557 at public four-year colleges and universities to \$5,229 at for-profit institutions. At each type of institution, this amount is substantially higher than the unmet need of other undergraduates.

Employment

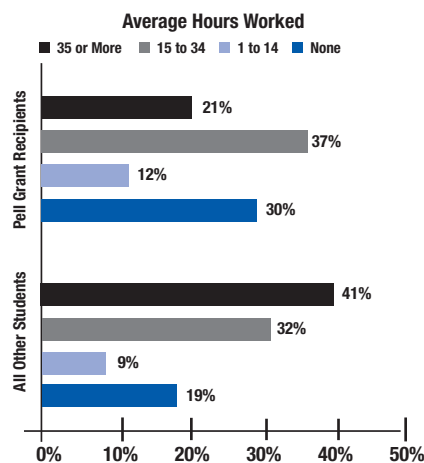
One of the ways in which students meet their unmet need is by working while they are enrolled. Despite having greater unmet need, Pell Grant recipients are somewhat less likely than other undergraduates to work while they are enrolled. Seventy percent of Pell Grant recipients work, versus 82 percent of all other students (see **Figure 23**). Pell Grant recipients who do work are more likely than other working undergraduates to say that their primary role is being a student rather than being an employee; 78 percent of working Pell Grant recipients classify themselves as “students who work to meet college expenses” rather than “employees who also study,” compared to 60 percent of other employed students. Consistent with this definition, Pell Grant recipients are somewhat more likely than their peers to work part time and are much less likely to maintain a full-time work schedule.

As a result, Pell Grant recipients who work spend fewer hours on the job each week than their peers. Pell Grant recipients work an average of 26 hours per week, and all other undergraduates work an average of 31 hours per week. Even after separating students by their self-described primary role, Pell Grant recipients work fewer hours on average than other working students (see **Figure 24**). Among “students who work,” Pell Grant recipients average 23 hours per week on the job; all other students in this category spend an average of 26 hours per week working. Similarly, Pell Grant

recipients who classify themselves as “employees who study” work an average of 34 hours per week, while their peers work an average of 39 hours per week.

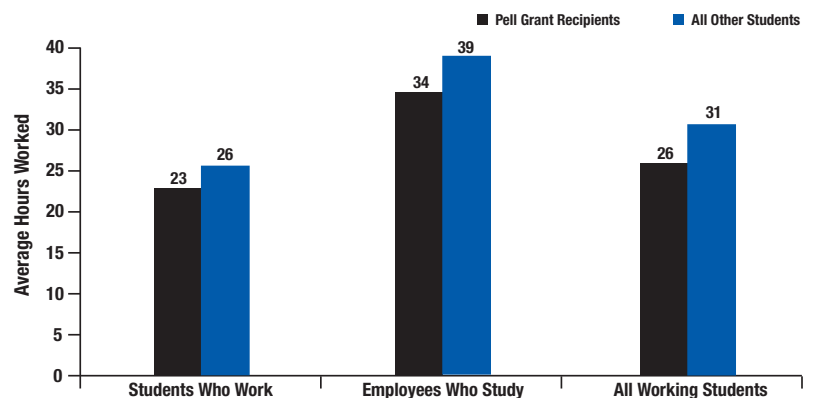
Because many Pell Grant recipients come from low-income towns and neighborhoods where elementary and secondary schools often are ill-equipped to prepare students for college, it is especially important that these students devote a significant proportion of their

FIGURE 23
Distribution of Undergraduates, by Average Number of Hours Worked per Week and Pell Grant Recipient Status, 1995–96



Source: U.S. Department of Education, *National Postsecondary Student Aid Study: 1995–96*.
Note: Details may not add to 100 percent due to rounding.

FIGURE 24
Average Number of Hours Worked per Week, by Pell Grant Recipient Status and Primary Role, 1995–96



Source: U.S. Department of Education, *National Postsecondary Student Aid Study: 1995–96*.

time to studying. It is impossible to say whether receiving a Pell Grant enables these students to work fewer hours than their peers or whether other responsibilities, such as child-rearing, limit the amount of time Pell Grant recipients can spend at work. Nevertheless, it is clear that Pell Grant recipients are working less than their peers and, as a result, may have additional time to devote to academics. At the same time, it is important to note that research has consistently shown that working 20 hours per week or more has a negative effect on both grades and persistence.⁴ The average number of hours worked by both Pell Grant recipients and all other working students exceeds this limit.

College Prices and Total Financial Resources

Pell Grant recipients who worked while enrolled earned an average of \$5,850 in 1995–96. This amount is adequate to meet the average amount of unmet need listed in Table 6. Pell Grant recipients

who worked earned enough in 1995–96 to cover the average unmet need at each type of institution listed in Table 6. This does not explain, however, how the 30 percent of students who did not work met their unmet need.

Table 7 captures, in summary, the financing picture for all students—those who worked and those who did not. It shows that, after earnings from work while enrolled are deducted from unmet need, Pell Grant recipients had “excess resources” of \$319 in 1995–96. In other words, on average, Pell Grant recipients earned enough from work to cover their unmet need, plus a small surplus. Of course, averages often mask significant variation within a group; some students did not work at all and others may have worked enough to have significant resources in excess of their unmet need. There is also considerable variation by type of institution. Pell Grant recipients at community colleges earned enough to amass an average of \$1,114 in excess resources. At for-profit institutions, the average unmet need of Pell Grant recipients was larger than at other types of institutions, and the average earnings were less, resulting in a “resource gap” of \$2,226. This large resource gap may be the result of student aid packaging policies at many for-profit institutions that restrict aid awards to institutional charges, awarding no aid to cover living expenses. These institutions often offer programs of less than one year and assume that their students can manage their own living expenses during that short period.

In contrast, because undergraduates who do not receive Pell Grants have an average EFC that is so much greater than Pell Grant recipients and because they tend to earn more from working while enrolled, their excess resources far exceed their unmet need. The average

TABLE 7
Average Unmet Need, Earnings, and “Excess Resources” of Undergraduates, by Pell Grant Recipient Status and Institution Type, 1995–96

	Unmet Need Adjusted Student Budget Less EFC and All Aid	Earnings From Work While Enrolled	“Excess Resources” Earnings Less Unmet Need
All Institutions			
All Students	\$1,876	\$7,765	\$5,889
Pell Grant Recipients	\$3,276	\$3,596	\$319
All Other Students	\$1,509	\$8,939	\$7,430
Public Four-year			
All Students	\$1,807	\$5,947	\$4,139
Pell Grant Recipients	\$2,557	\$3,462	\$905
All Other Students	\$1,573	\$6,732	\$5,159
Public Two-year			
All Students	\$1,114	\$9,491	\$8,378
Pell Grant Recipients	\$2,881	\$3,995	\$1,114
All Other Students	\$807	\$10,599	\$9,793
Private			
All Students	\$3,508	\$7,465	\$3,957
Pell Grant Recipients	\$4,124	\$3,528	(\$596)
All Other Students	\$3,325	\$8,635	\$5,310
For-profit			
All Students	\$3,974	\$5,165	\$1,191
Pell Grant Recipients	\$5,229	\$2,963	(\$2,266)
All Other Students	\$2,832	\$7,346	\$4,515

Source: U.S. Department of Education, *National Postsecondary Student Aid Study: 1995–96*.
Note: Averages are for all students, including those who did not apply for or receive aid and those who did not work.

excess resources among undergraduates who did not receive a Pell Grant ranged from \$4,515 at for-profit institutions to \$9,793 at community colleges. It is unlikely that students with “excess resources” finished the academic year with extra cash in the bank. Rather, they most likely financed part of their EFC by working while enrolled, covered part of their EFC with student loans, or spent more on living expenses than the amount in the student budget established by their institution. In the case of many students, two or three of these conditions may exist.

Pell Grant recipients with “excess resources” most likely used those funds to substitute for what little they may have been expected to contribute, made a small contribution to the income of their families, or used the funds to purchase goods and services above and beyond their student budget. Pell Grant recipients with a resource gap probably economized on their living expenses, spending less than allowed by the institutional student budget, and may have secured additional funds from relatives or friends.

Summary

The Pell Grant program provides assistance to almost one-quarter of undergraduates. These students are concentrated among those with very low family income; the median income of Pell Grant recipients was \$14,668 in 1998–99. Pell Grant recipients are more likely to be single parents and to come from minority groups that are underrepresented in higher education. The Pell Grant program has grown to serve almost 4 million students, but the value of the grant has declined relative to both inflation and college prices. At the same time, there has been no change in the average income of families in the lowest quintile in the United States. As a result, college prices take up

a much larger share of low-income families' resources today than 20 years ago and the Pell Grant makes up for less than that share of income.

While there have been many policy changes over the course of the Pell Grant program's history, it continues to serve the neediest students. There has been little real change in recipients' median income since grants were first awarded in the early 1970s. Most students who receive Pell Grants also benefit from other student aid programs and work while attending college, but Pell Grant recipients still are far more likely to graduate with student loan debt and amass more debt while they are in college than other students.

ENDNOTES

- ¹ U.S. Department of Education, *Projections of Education Statistics to 2009* (Washington, DC: Government Printing Office, 1999).
- ² Anthony P. Carnevale and Richard A. Fry, *Crossing the Great Divide* (Princeton, NJ: Educational Testing Service, 2000).
- ³ Ernest T. Pascarella and Patrick T. Terenzini, *How College Affects Students* (San Francisco: Jossey-Bass, 1991).
- ⁴ *Ibid.*

APPENDIX

Pell Grant Historical Summary Data—Part I

FY	Appropriations		AY	Expenditures		Maximum Award		Average Award		Institutions
	Current \$	Constant \$		Current \$	Constant \$	Current \$	Constant \$	Current \$	Constant \$	
73	122,000	466,908	1973-74	47,589	170,019	452	1,615	270	965	
74	475,000	1,651,552	1974-75	358,353	1,152,553	1,050	3,377	628	2,020	
75	840,200	2,646,511	1975-76	925,998	2,781,333	1,400	4,205	761	2,286	
76	1,325,800	3,929,046	1976-77	1,475,444	4,187,512	1,400	3,973	759	2,154	
77	1,903,900	5,316,717	1977-78	1,524,340	4,054,022	1,400	3,723	758	2,016	
78	2,140,000	5,582,937	1978-79	1,540,995	3,747,317	1,600	3,891	814	1,979	
79	2,341,000	5,535,816	1979-80	2,357,222	5,057,805	1,800	3,862	929	1,993	
80	2,157,000	4,490,811	1980-81	2,387,117	4,590,292	1,750	3,365	882	1,696	5,683
81	2,604,000	4,880,120	1981-82	2,299,718	4,070,580	1,670	2,956	849	1,503	5,771
82	2,419,040	4,221,967	1982-83	2,420,517	4,107,974	1,800	3,055	959	1,628	5,835
83	2,419,040	4,078,801	1983-84	2,979,057	4,875,419	1,800	2,946	1,014	1,659	5,982
84	2,800,000	4,534,857	1984-85	3,052,999	4,808,257	1,900	2,992	1,111	1,750	6,077
85	3,862,000	6,032,470	1985-86	3,597,380	5,506,818	2,100	3,215	1,279	1,958	6,190
86	3,579,716	5,457,627	1986-87	3,460,007	5,181,456	2,100	3,145	1,301	1,948	6,401
87	4,187,000	6,205,987	1987-88	3,754,329	5,398,553	2,100	3,020	1,303	1,874	6,462
88	4,260,430	6,064,787	1988-89	4,475,693	6,151,731	2,200	3,024	1,399	1,923	6,619
89	4,483,915	6,093,064	1989-90	4,777,844	6,267,922	2,300	3,017	1,438	1,886	6,675
90	4,804,478	6,218,383	1990-91	4,935,191	6,138,739	2,300	2,861	1,449	1,802	6,578
91	5,374,213	6,621,780	1991-92	5,792,703	6,981,630	2,400	2,893	1,530	1,844	N/A
92	5,499,690	6,578,106	1992-93	6,175,902	7,218,038	2,400	2,805	1,543	1,803	N/A
93	6,461,970	7,501,499	1993-94	5,654,453	6,441,745	2,300	2,620	1,506	1,716	6,525
94	6,636,731	7,507,307	1994-95	5,519,475	6,112,737	2,300	2,547	1,502	1,663	6,295
95	6,146,845	6,763,323	1995-96	5,471,708	5,899,351	2,340	2,523	1,515	1,633	6,067
96	4,913,560	5,259,285	1996-97	5,780,033	6,058,896	2,470	2,589	1,577	1,653	5,817
97	5,919,000	6,170,912	1997-98	6,331,091	6,520,283	2,700	2,781	1,696	1,747	5,667
98	7,344,900	7,534,497	1998-99	7,232,781	7,322,161	3,000	3,037	1,876	1,899	5,566
99	7,704,000	7,754,041	1999-00	7,385,809	7,385,809	3,125	3,125	1,933	1,933	
00	7,770,000	7,770,000	2000-01	8,057,217	8,057,217	3,300	3,300	2,070	2,070	

Note: AY 99-00 and 00-01 expenditure, average award, and recipient data are estimates from the Department of Education Pell Grant Cost Estimation Model, Update 2000.

Note: Appropriations and expenditures are expressed in thousands. Constant dollars are for calendar year 1999.

N/A: Not available.

APPENDIX

Pell Grant Historical Summary Data—Part II

AY	Applicants	Recipients	Grant Rate	Dependency Status		Distribution of Grant Funds			
				Dependent	Independent	Public 2	Public 4	Private	For-profit
1973-74	482,331	176,000	36.5	86.7	13.3				
1974-75	1,114,084	567,000	50.9	78.1	21.9				
1975-76	2,178,696	1,217,000	55.9	70.2	29.8				
1976-77	3,408,718	1,944,000	57.0	61.7	38.3				
1977-78	3,621,641	2,011,000	55.5	61.5	38.5				
1978-79	3,401,428	1,893,000	55.7	63.3	36.7				
1979-80	3,868,429	2,537,875	65.6	66.2	33.8				
1980-81	4,475,762	2,707,932	60.5	59.4	40.6	18.6	41.1	28.8	11.5
1981-82	4,614,590	2,709,076	58.7	58.1	41.9	18.7	40.7	27.1	13.5
1982-83	4,709,225	2,522,746	53.6	54.1	45.9	18.1	38.7	26.6	16.5
1983-84	4,955,775	2,758,906	55.7	52.5	47.5	18.5	38.0	24.6	18.8
1984-85	4,981,357	2,747,100	55.1	51.4	48.6	18.4	37.7	23.0	20.8
1985-86	5,205,492	2,813,489	54.0	49.6	50.4	18.8	37.0	21.9	22.1
1986-87	5,535,734	2,659,507	48.0	46.1	53.9	18.7	35.7	20.8	24.8
1987-88	5,714,194	2,881,547	50.4	42.5	57.5	18.5	34.8	20.1	26.6
1988-89	5,913,224	3,198,286	54.1	42.1	57.9	19.7	35.6	20.2	24.5
1989-90	6,165,309	3,322,151	53.9	41.0	59.0	21.1	35.8	20.0	23.1
1990-91	6,455,099	3,404,810	52.7	38.9	61.1	22.6	35.5	19.8	22.1
1991-92	6,983,636	3,786,230	54.2	38.5	61.5	24.3	35.5	19.6	20.7
1992-93	7,365,243	4,000,000	54.3	37.9	62.1	25.7	36.3	19.5	18.5
1993-94	8,518,710	3,755,675	44.1	40.8	59.2	30.0	35.9	18.8	15.3
1994-95	7,777,169	3,674,967	47.3	40.7	59.3	32.7	35.1	19.0	13.2
1995-96	7,935,336	3,611,821	45.5	41.5	58.5	32.7	36.0	18.8	12.5
1996-97	8,064,889	3,665,654	45.5	42.4	57.6	33.0	36.0	18.5	12.5
1997-98	8,216,685	3,732,807	45.4	43.4	56.6	32.8	36.4	18.6	12.2
1998-99	8,309,645	3,855,180	46.4	44.7	55.3	32.2	36.7	18.6	12.5
1999-00	8,356,120	3,808,269	45.6	46.3	53.7		69.7	18.6	11.7
2000-01	8,474,217	3,880,448	45.8	47.1	52.9		69.9	18.5	11.6

Note: AY 99-00 and 00-01 expenditure, average award, and recipient data are estimates from the Department of Education Pell Grant Cost Estimation Model, Update 2000.

Note: Appropriations and expenditures are expressed in thousands. Constant dollars are for calendar year 1999.

N/A: Not available.

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