101: PELL GRANT RAINY DAY FUND

higher learning ADVOCATES

WHAT IS THE PELL GRANT PROGRAM?

The Pell Grant program is a federal means-tested program that offers postsecondary aid in the form of a grant to be used for tuition, fees, and related expenses. Operated by the U.S. Department of Education's (ED) Office of Financial Student Aid (FSA), the Pell Grant program is available on a sliding scale to individuals based on financial need, cost of attendance and part- or full-time status.
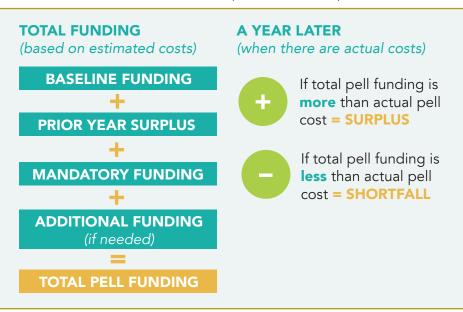
WHY THE PELL GRANT MATTERS

The finances of today's students should not preclude anyone from accessing and obtaining a high-quality degree or credential. Research shows that individuals with postsecondary degrees or credentials earn significantly more over their lifetimes compared to their peers with only a high school diploma. The Pell Grant program is an evidence-backed tool to help today's students pay for higher education and earn meaningful degrees and other credentials.

> **DID YOU KNOW?**
>
> ## 33%
>
> **OF STUDENTS RECEIVE A PELL GRANT**[1]

CALCULATING PELL GRANT FUNDING

The Pell Grant program is funded through a combination of yearly mandatory and yearly discretionary appropriations. Notably, the federal government funds the Pell Grant program before students actually receive their Pell Grants. Each year, Congress and the Administration, based on the previous year's spending and future

projections, estimate the amount of funding necessary to award a Pell Grant to each eligible student. The actual demand for Pell Grants in any given year may differ from this initial estimate. If less funding is needed to provide Pell Grants to all eligible students, the program generates a surplus. If more is needed, the program can operate in a "shortfall." If a shortfall occurs, then the subsequent year's appropriations must make up the difference.
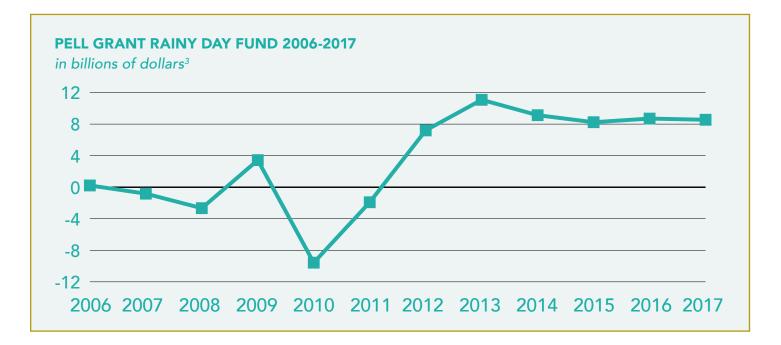
TOTAL FUNDING
(based on estimated costs)

BASELINE FUNDING
+
PRIOR YEAR SURPLUS
+
MANDATORY FUNDING
+
ADDITIONAL FUNDING
(if needed)
=
TOTAL PELL FUNDING

A YEAR LATER
(when there are actual costs)

+ If total pell funding is **more** than actual pell cost **= SURPLUS**

− If total pell funding is **less** than actual pell cost **= SHORTFALL**

[1] https://trends.collegeboard.org/student-aid/figures-tables/undergraduate-enrollment-and-percentage-receiving-pell-grants-over-time

THE PELL GRANT RAINY DAY FUND

In times of surplus, the program accrues a "rainy day fund" or insurance bucket. While the Pell "surplus" has at times been used to finance other federal programs, leaving it within the Pell Grant program insures against any potential upcoming shortfalls and pre-pays rising costs in the program, such as costs caused by more students receiving Pell Grants or getting larger Pell Grants. If no surplus exists, then continued shortfalls could eventually require Congress to provide additional funding to cover the program's finances.

As of April 2018, the Pell surplus was approximately $7.4 billion[2], but this has not always been the case. In 2010, the Pell Grant program faced a shortfall of nearly $10 billion, and Congress had to appropriate additional Federal funds to shore up the program's finances.

PELL GRANT RAINY DAY FUND 2006-2017
in billions of dollars[3]

LOOKING AHEAD

As policymakers continue to work toward goals to increase postsecondary attainment and completion, as well as to strengthen our workforce, adequate funding for the Pell Grant program should be sustained to help meet those goals. The Pell Grant rainy day fund insures the program against fluctuations in demand for financial aid. Cutting the current surplus amounts to cutting the Pell Grant program, potentially leaving it high and dry in a time of future need. Additionally, continuing to raid funds from the Pell surplus—especially to fund other budget items unrelated to today's students—has the potential to create unfavorable scenarios for both policymakers and today's students, and as such, the Pell surplus should be left untouched to allow it to act as it was intended—as a rainy day fund. Maintaining the Pell surplus is the most prudent and responsible choice available for policymakers concerned about fiscal discipline.

[2]https://www.cbo.gov/sites/default/files/recurringdata/51304-2018-04-pellgrant.pdf
[3]ibid.

For more information about higher learning advocates, please contact **Emily Bouck**, Policy & Advocacy Director, at **ebouck@higherlearningadvocates.org**, and visit **www.higherlearningadvocates.org** to learn more about our work.

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