



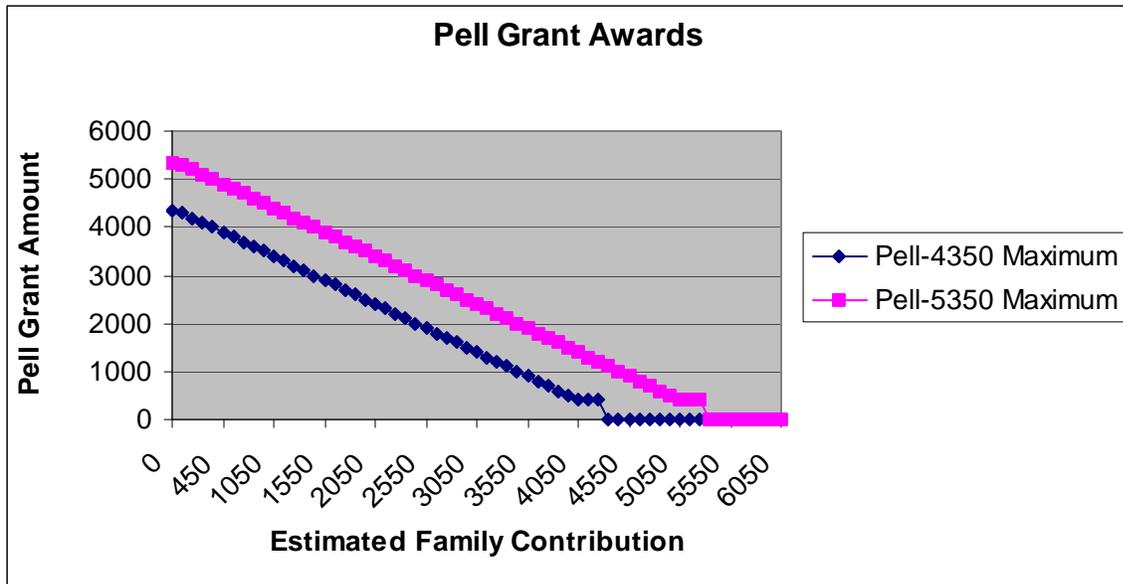
## Targeting Pell Grant Dollars: Why the Implementation of a Negative EFC Makes Sense

Under current Pell Grant award rules, the amount of the Pell Grant award is essentially the Pell Grant maximum minus the Expected Family Contribution (EFC). Therefore, any increase to the maximum Pell Grant award provides the same dollar increase to virtually all recipients who received an award at the pre-increase level and adds a few more recipients at the higher income end of the recipient distribution. This leads to three effects:

- A boost in aid is provided to all Pell Grant recipients,
- The pool of eligible students increases; and,
- Relatively higher income students receive small awards.

“These small awards are an important resource to defray costs for students from middle-income families. However, raising the maximum Pell Grant award, by itself, does not reach the policy goal of targeting increased grant support to the lowest income students. Increasing the maximum award delivers the same dollar increase in grant aid to all Pell Grant recipients. Moreover, increasing the maximum award may prove difficult in times of tight budgets.”<sup>1</sup>

As an example, if the Pell Grant maximum were to be increased from \$4,350 to \$5,350, a recipient with an EFC of "0" who formerly received an award of \$4,350 would then receive \$5,350. Similarly, a recipient with an EFC of \$3,550 who would have received an award of \$800 with a maximum award of \$4,350 would then receive an award of \$1,800 when the maximum is increased to \$5,350. Both recipients receive the same dollar increase.



In this example, students in an EFC range of \$4,151 through \$5,100--who formerly did not receive a Pell Grant when the maximum was \$4,350--would receive an award when the maximum award is increased to \$5,350.

<sup>1</sup> From pg. 17 of *Window of Opportunity: Targeting Federal Grant Aid to Students with the Lowest Incomes*, by Courtney McSwain with assistance from Alisa F. Cunningham, Wendy Erisman, PH.D., and Jamie P. Merisotis, February 2008.



### **Implementing a Negative EFC**

“Currently, need analysis rules stipulate that a student’s EFC cannot equal less than zero. A negative number is frequently derived from the EFC formula, however. At present, a family’s contribution from their available resources can be as low as minus \$750. In instances when a negative number is derived, the amount is converted to zero by the Pell Grant processor.

Allowing a student to have a negative EFC would be a targeted and effective way to increase the Pell Grant for the lowest income recipients. If, for example, a negative \$750 EFC were allowed for those who qualify, the calculation of the maximum appropriated award minus the EFC would result in an additional \$750 of aid flowing directly to students with the most limited resources. This would be a significant benefit for the poorest students.”<sup>2</sup>

If a negative EFC were implemented using the current calculation of up to negative \$750 EFC (which is now currently converted to zero), additional grants of up to \$750 could be provided, dependent upon the student’s EFC.

### **Distributing Federal Aid in Targeted Ways**

In the same way that federal education tax credits and deductions are proportionately distributed based on income to middle and upper-middle class students, increases to the Pell Grant maximum award should be proportionately distributed among low and middle-income students. In addition, more grant aid directed at the lowest income students will help stabilize the credit markets by decreasing the amount of loans used by lower income students who are considered “riskier” by lenders. The implementation of a negative EFC would better target Pell funding to the students who need it the most; just as tax credits proportionally benefit different income levels of students attending various cost institutions<sup>3</sup>.

For example, the lowest income students who attend colleges with generally low tuitions, do not receive the same benefit from tax credits as their higher income peers, and under the current Pell formula do not proportionately benefit from increases to the Pell maximum. Contrast this to middle income families who could receive the benefit of an increase in the Pell Grant maximum and a tax benefit, and at higher income levels where students may not qualify for Pell awards, but do qualify for the full benefit of the tax credits and deductions.

### **The Cost of a Negative EFC**

Currently, there are approximately 2.7 million “0” and below EFC recipients. It would take an estimated \$1.2 billion to fund the negative EFC concept. CPI updates to the -750, would cost an additional \$30 million more each year. Compare this to the cost of funding a \$750 increase to the maximum across the board of about \$3 billion. There would be significant targeting of federal funds with the implementation of a negative EFC, providing a proportional boost in Pell awards to the families that demonstrate the most need.

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<sup>2</sup> From pg. 18 of *Window of Opportunity: Targeting Federal Grant Aid to Students with the Lowest Incomes*, by Courtney McSwain with assistance from Alisa F. Cunningham, Wendy Erisman, PH.D., and Jamie P. Merisotis, February 2008.

<sup>3</sup> “Tax credits and deductions are less likely than other forms of student aid to benefit the lowest income students because they are available only to students and families who have positive tax liabilities. In addition, they cover only tuition and fee expenses net of grant aid, not room and board or other education-related expenses. These policies also provide larger subsidies to students paying higher tuition and fees than to those enrolled in the lowest price institutions.” p. 25, *Trends in Student Aid 2007*, the College Board