

Beyond Pell:

A Next-Generation Design for Federal Financial Aid



**The Reimagining Aid Design and Delivery (RADD)
Consortium for Higher Education Grants and Work-Study Reform**
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#BEYONDPELL

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Supporting Papers:

Daniel J. Hurley, Thomas L. Harnisch, and Barmak Nassirian, “A Proposed Federal Matching Program to Stop the Privatization of Public Higher Education,” (Washington, D.C.: American Association of State Colleges and Universities, January 2014)

Michael Dannenberg and Mary Nguyen Barry, “Tough Love: Bottom-Line Quality Standards for Colleges” (Washington, D.C.: The Education Trust, June 2014)

Ben Miller, “Breaking with Tradition: Making Federal Grant Aid Work for Today’s Students,” (Washington, D.C.: New America Foundation, July 2014)

Rory O’Sullivan and Reid Setzer, “A Federal Work-Study Reform Agenda to Better Serve Low-Income Students,” (Washington, D.C.: Young Invincibles, September 2014)

About the Consortium

The Grants and Work-Study Consortium is a partnership of four organizations concerned with college affordability, access, and completion for low-income and modest-income individuals. They are:

The Education Trust, a national nonprofit that promotes high academic achievement for all students at all levels, pre-K through college. Its goal is to close the gaps in educational opportunity and academic achievement that consign far too many young people — especially those from low-income families or who are black, Latino, or American Indian — to lives on the margins of the American mainstream. www.edtrust.org

The New America Foundation, a nonprofit, nonpartisan public policy institute that invests in new thinkers and new ideas to address the next generation of challenges facing the United States. The Education Policy Program uses original research and policy analysis to solve the nation's critical education problems, serving as a trusted source of objective analysis and innovative ideas for policymakers, educators, and the public at large. www.edcentral.org

Young Invincibles, a national organization committed to amplifying the voices of young people, ages 18 to 34, and expanding economic opportunity for our generation. Young Invincibles ensures that young adults are represented in today's most pressing societal debates through cutting-edge policy research and analysis, and innovative campaigns designed to educate, inform, and mobilize our generation. www.younginvincibles.org

The American Association of State Colleges and Universities, a Washington-based higher education association of more than 400 public colleges, universities, and systems whose members share a learning- and teaching-centered culture, a historic commitment to underserved student populations, and a dedication to research and creativity that advances their regions' economic progress and cultural development. www.aascu.org

The consortium is funded by the Bill & Melinda Gates Foundation as part of its Reimagining Aid Design and Delivery (RADD) project.

About This Paper

This year, each organization has published its own ideas and strategies for better targeting financial aid, work-study dollars, and other funding in a more effective way for students and taxpayers. This publication represents the shared agreement among The Education Trust, New America Foundation's Education Policy Program, and Young Invincibles on these proposals for reforming the dissemination of grants and work-study.

Beyond Pell:

A Next-Generation Design for Federal Financial Aid

Fueled by returning veterans and GI Bill benefits, Americans flocked to colleges and universities following World War II. The post-war economy contributed to the flux, but so did a sense of the growing importance of higher education to the nation's prosperity. College enrollment reached nearly 7 million students in 1968, more than double the enrollment of a decade prior and four times that of 1940.¹ Accordingly, the number of institutions of higher education expanded — thanks, in part, to continued financial support from states.

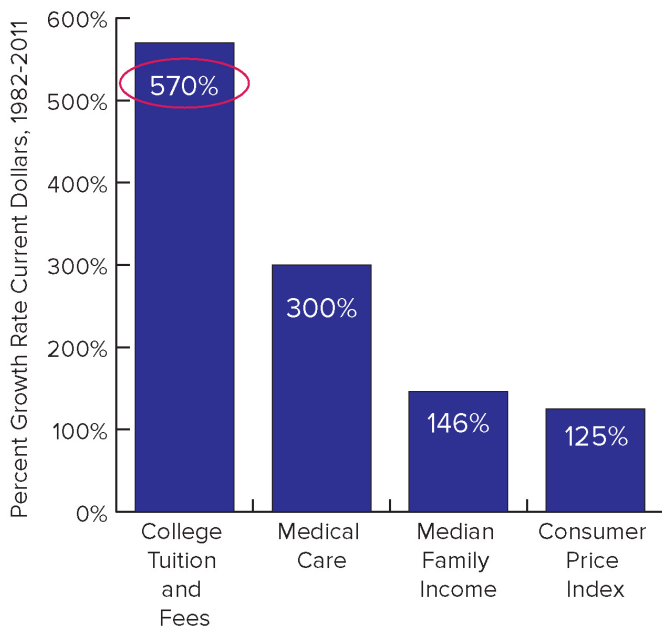
But soon after the World War II generation exhausted its GI Bill benefits, it became apparent that postsecondary education was returning to a socially stratified set of institutions catering to the elite class of affluent Americans. By 1970, students from families with incomes above \$92,000 (in 2012 dollars) were more than four times as likely to attend college full-time as students from families with incomes below \$18,000.² Unable to afford the cost, students from lower income families were largely left out of the post-war education boom.

U.S. Sen. Claiborne Pell sought to change that. The Rhode Island statesman spent much of his 36-year Senate career working to expand access to higher education for financially needy students. Ultimately, it would become his legacy. In what has been called “one of the great legislative battles of the late 20th century,” Pell doggedly advanced an expanded and redesigned federal student financial aid system.³ Pell's plan, which sought to allocate grant aid to students from financially needy families, faced heavy opposition from the university associations famously located at One Dupont Circle in Washington, D.C., and the leader of the House education committee, because it distributed federal dollars directly to students, instead of institutions for locally tailored purposes. After two months in conference committee in the spring of 1972, Pell won, establishing what is known today as the Pell Grant program. The country has benefitted mightily.

Since 1972, the percentage of low-income students attending higher education has more than doubled.⁴ More than 9 million working-class and low-income students, including 63 percent of African American undergraduates and 51 percent of Latino undergraduates, receive Pell Grants each year.⁵ The gap between low-income and upper-income students' college access rates has narrowed by 27 percent.⁶ The Pell Grant does what its founder intended; it enables more students with limited means to access colleges across the country.

But more than 40 years later, we are increasingly seeing the limits of the Pell Grant program and the federal financial aid system more generally. Public college tuition has risen much faster than inflation or wage growth, mostly as a result of the steep declines in state support for higher education coupled with sizeable increases in college expenditures⁷ (*Figure 1*). In the past 25 years, states have cut higher education funding per full-time equivalent student by 30 percent, while enrollment surged to 11.5 million (a 62 percent growth).⁸ Colleges have backfilled the loss in state support by deflecting those cuts onto students and families and by ratcheting up tuition. As a result, the Pell Grant, once the cornerstone of the federal financial aid system, has slipped from covering nearly three-quarters of the cost of attendance at a four-year public college to

FIGURE 1: College Costs Have Increased at 4.5 Times the Rate of Inflation



Source: Bureau of Labor Statistics, Annual Average CPI Index, 2011: <http://www.bls.gov/cpi/cpid11av.pdf>; Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2012; Table F-6.

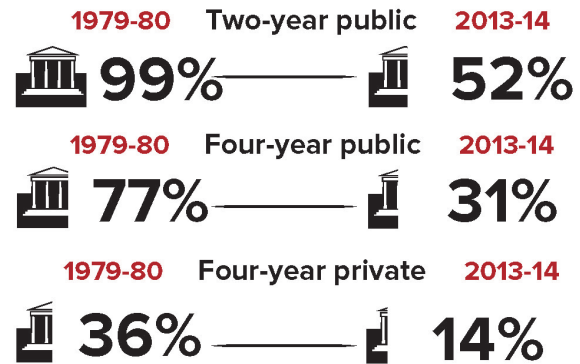
barely one-third (*Figure 2*). Students from poor families that have no funds to contribute to the cost of college are thus shut out of higher education.

Gaps in higher education opportunity and attainment remain, and an even deeper wedge in college affordability between the haves and have-nots is emerging. Today, students from low-income families are still more than 40 years behind their upper-income peers when it comes to higher education access: 52 percent of low-income students enroll in college today as compared with 64 percent of high-income students *four decades ago*.⁹ Moreover, our aid system places a disproportionately large burden on families at the bottom of the income scale. Families in the lowest income quintile are asked to come up with an amount equal to 80 percent of their annual income to pay the net price (i.e., price after all grant and scholarship aid) for one year of education at a public, four-year college or university (*Figure 3*). That's more than five times the percentage of income high-wealth families are asked to contribute for higher education — hardly, an equitable share of the cost burden.¹⁰ The result? Rather than operating as engines of opportunity and social mobility, all too often higher education is calcifying existing inequities, shifting back toward the extreme stratification that mainly serves the elite.

This is not the way the Pell system is supposed to work. The current way the federal government finances higher education presumes a shared responsibility among key stakeholders where students attend moderately priced institutions of higher education that are well supported by states. It assumes that a reasonable amount of family savings, plus grants or modest loans, will be sufficient to allow any family to cover tuition and other expenses. But these assumptions are no longer supported by facts. Few four-year colleges of any sort charge a total price (room and board included) for low-income and even hard-pressed, middle-income families that can be covered solely with a combination of savings, income, grants, and a reasonable amount of loan debt. (Many of the few that do enroll a disproportionately large number of wealthy students.) Regardless, the federal government has never, in any sustained way, explicitly required states to do their share, to adequately maintain their contributions to higher education in order to help keep costs affordable.

What's needed is a next-generation design for federal financial aid — a design that builds on the hard lessons of Sen. Pell's victory without discarding its successes. The federal financial aid system needs a modernization that removes inefficiencies, brings it up-to-date with the realities of today's college climate, maximizes

FIGURE 2: The Pell Grant Program Helps Poor and Working-Class Students Afford College, But Its Purchasing Power Is Falling.
Maximum Pell Grant Award as Proportion of Total Cost of Attendance



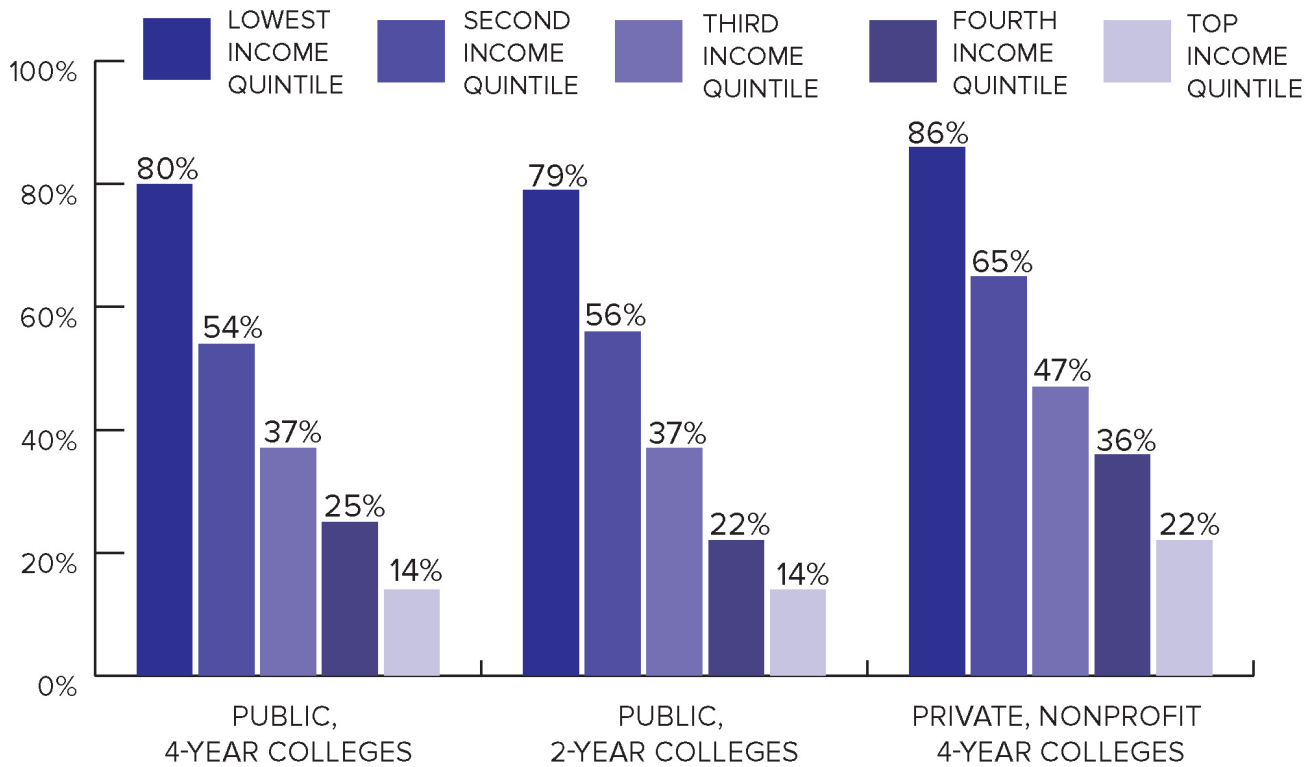
Source: "Trends in Student Aid 2013," (Washington, D.C.: The College Board, 2013).

its power to rein in escalating costs, and helps create a supportive, accountable system of higher education.

Pitfalls in Our Existing Grant Aid System

Significant reductions in state funding for postsecondary education are the main driver of dysfunction in our higher education finance system. While some institutions of higher education can undoubtedly do a better job controlling cost increases, these cuts have forced public colleges and universities to adopt strategies to keep themselves afloat that aren't always in the best interest of students or even in keeping with their institutional mission. Some public universities, for example, have shifted financial aid away from need-based grant aid to non-need-based enticements designed to recruit upper-income applicants likely to cover a larger share of published tuition and fees on their own. In fact, many public institutions give priority to full-paying, out-of-state and international students in the name of drawing in more tuition dollars. One recent example is the University of California system, which has lifted out-of-state enrollment caps for its campuses and declared a desire to recruit more international students.¹¹ But the University of California is hardly the only example.

Colleges get away with practices that harm the very students they are supposed to be serving because they can: Nobody demands otherwise. States largely leave colleges free to compensate for cuts in whatever way they can. And the federal government, which provides \$180 billion in Title IV funding (grants, loans, work-study) and tax benefits every year, doesn't ask

FIGURE 3: Percentage of Income Families Devote to Higher Education

Source: The Education Trust analysis of NPSAS:12 using PowerStats; results based on full-time, full-year, one-institution undergraduates attending in-state public colleges and private four-year colleges.

states or colleges to keep the cost of tuition affordable, nor does it leverage its investment to assure quality, improve graduation rates, or encourage students to complete on time.¹² Despite mountains of evidence showing that colleges are moving resources away from need-based aid, the federal grant aid system remains anchored in the idea that colleges themselves are doing whatever they can to help low-income and hard-pressed, middle-income students. The consequences are dire: Many such students and families end up borrowing huge amounts to go to college or don't go to college at all.

Compounding this problem is another one that causes its own damage: the sheer opacity of the overall higher education finance system when it comes to consumer price and financial aid benefits. Despite recent pushes to make costs and fees more transparent and comparable among institutions, families and students (particularly first-generation students) can't get clear information about the purchasing value of financial aid benefits or their likely out-of-pocket costs. As a result, most American families wildly overestimate college costs and underestimate financial aid, which can dash aspirations before students even reach high school.

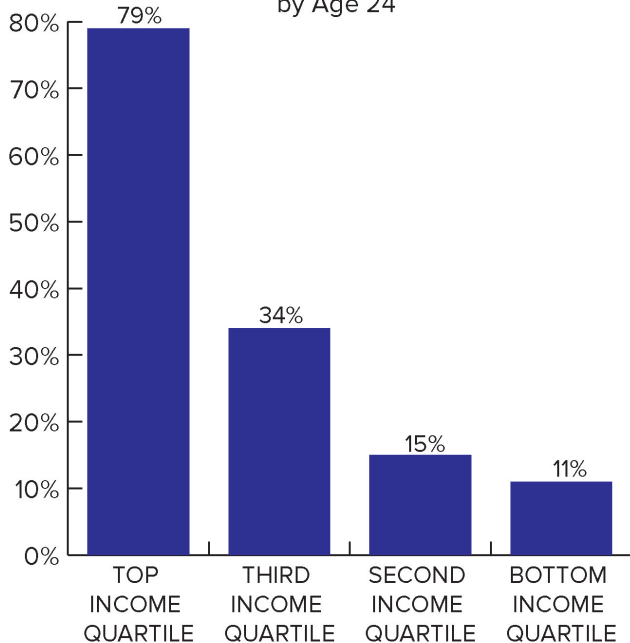
In addition, many of the federal aid programs beyond the Pell Grant are poorly designed. For example, the federal work-study program, which pays students a stipend in return for work, is inequitably distributed and ineffectively targeted. Institutions with higher costs of attendance and those that have been involved in the program for longer get larger shares of federal work-study funds regardless of the number of low-income students they enroll or institutional wealth.¹³ Private Columbia University (published cost of attendance: \$64,144)¹⁴ receives more than three times as much in work-study allocations as public Florida State University (published cost of attendance: \$21,684),¹⁵ though Florida State has almost four times as many total undergraduates¹⁶ and many more undergraduates who receive Pell Grants.¹⁷ Of the top 15 institutions in work-study revenue in 2012-13, 12 were four-year, nonprofit and for-profit, private schools; and four-year, nonprofit private schools received more money than any other type of institution.¹⁸

Perhaps the biggest transparency problem, though, stems from the federal financial aid system's reliance on its expected family contribution calculation. EFC, as it is commonly called, is the amount of money a student's family is "expected" to dedicate toward college

expenses based on income and other factors recorded in the Free Application for Federal Student Aid (FAFSA). But because colleges are not bound to ensure that families pay no more than their EFC, many families end up with out-of-pocket costs thousands of dollars above that figure.

The result of these various shortcomings is a confusing federal financial aid system that fails to curb or keep pace with rising college prices. Pell Grants no longer guarantee affordability. Low-income students, who cannot front the money for expensive tuition, increasingly rely on student loans to cover college costs. As a result, they are more likely than their wealthier peers to enroll in higher education part-time,¹⁹ more likely to enroll in less selective and less rigorous institutions,²⁰ and much less likely to earn a bachelor's degree²¹ (Figure 4).

FIGURE 4: Percent of Students With Bachelor Degrees by Age 24



Source: Tom Mortenson, “Bachelor’s Degree Attainment by Age 24 by Family Income Quartiles, 1970 to 2010,” Postsecondary Education Opportunity, 2012.

In addition to all of this, federal financial aid funds are distributed to institutions regardless of their ability to retain and support students through graduation. More than 100 institutions of higher education have six-year completion rates of less than 15 percent and yet continue to receive Pell Grant and other federal aid year after year.²² Typically when pressed about abysmal success rates, these “college dropout factories” point to their students’ academic under-preparation and low family incomes. But when they are compared with similar colleges with similar students, it is clear that demographics are not destiny in higher education: College dropout factories are not performing as well

as other institutions that serve the same kind of students (Figure 5).

In some federal aid programs, there are even features that get in the way of student success. The federal work-study program, for example, misallocates resources that could be used in a more meaningful way for students. The work-study statute stipulates that opportunities should complement and reinforce students’ educational program or career goals “to the maximum extent practicable,” but the statutory language is nebulous and broad.²³ As a result, institutions direct many students to campus-based positions, including office assistant and clerk jobs that bear little relation to the student’s course of study.²⁴ Lost is the opportunity to simultaneously help students financially and academically. A 2013 Pew Research survey asked students what they wish they had done differently in college to prepare them for the job they wanted, and 50 percent said they wish they had “gain[ed] more work experience.” That answer was well ahead of “studying harder” and “choosing a different major.”²⁵

Our federal financial aid system’s inefficiencies and inattentiveness to outcomes are short-changing opportunities for students — particularly those who are from low-income and working-class families — to pursue and complete a postsecondary education. But it doesn’t have to be this way. The system can work better, largely by leveraging grant aid and making better use of its existing resources.

An Agenda for Moving From Access Alone to Affordability and Success

I. Cap Student Loan Debt

Many low-income families don’t know that the federal government will provide their children with at least \$30,000 in federal aid for a four-year postsecondary education.ⁱ Program design changes can make that

ⁱ Low-income students are eligible to receive up to \$5,730 in Pell Grant assistance, the maximum award level for the 2014-15 school year. Since students can receive Pell Grants for a maximum of six years if enrolled in a four-year degree program, they can receive upward of \$34,000 in total Pell Grant assistance for their college education. Beyond Pell Grants, however, are up to \$4,500 in accrued interest from the in-school subsidy for Subsidized Stafford Loans (with a \$23,000 lifetime borrowing limit) and up to \$4,000 in annual assistance from the Tuition and Fees Deduction. Additionally, some students can receive an average of \$600 in assistance from the 3,800 institutions that participate in the Sup-

aid more transparent and more effective at supporting college affordability, completion, and post-enrollment success. How?

Currently, the federal government has in place an income-based repayment system (Pay As You Earn) that guarantees students (who choose to participate) will never pay more than 10 percent of their discretionary income in monthly college loan payments. That's the maximum limit identified by the federal government to be a reasonable level of debt. **We believe full-time students who are eligible for the maximum Pell Grant — those in families with \$23,000 in adjusted gross income and lower — should receive an analogous, up-front affordability guarantee: They should not have to pay or borrow each year an amount greater than 10 percent of their family's discretionary income.** Our attached cost estimate indicates that with careful design this is a reachable goal — and one very much in line with the expected contribution of upper-income families, who currently must devote an amount between 14 and 22 percent of their incomes to pay for one year of college (see *Appendix*).

The rationale is simple: Instead of focusing financial aid benefits on the period of time *after* students leave higher education (in the form of loan interest subsidies and forgiveness options) when it is too late to affect college-going behaviors, the federal government can and should refocus and grow financial aid benefits that will be felt at the *start* of college — limiting the amount of income that, at the very least, the poorest families are required to pay up front to enroll. Doing so would help eliminate the college price sticker shock that deters many from preparing for and enrolling in college and remove other potentially large barriers for many of our nation's neediest students and families, including net prices well in excess of what federal grant and loan aid can cover. If no student

plemental Educational Opportunity Grant Program (SEOG) and an average of \$1,700 from the 3,400 institutions that participate in the federal work-study program. See the President's Fiscal Year 2015 Budget Request and Congressional Budget Office, "Options to Change Interest Rates and Other Terms on Student Loans-Table 4" (Washington, D.C.: June 2013) for more details.

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should have to pay more than 10 percent of their discretionary income for higher education after they leave college, then students from the lowest income families shouldn't have to pay more than that to enter college in the first place. Should more resources become available, we would extend that 10 percent guarantee higher up the income scale to help working-class and hard-pressed middle-income families as well.

The federal government recognizes the importance of up-front reductions in costs, which is why its two largest sources of financial aid — Pell Grants and higher education tax credits — are delivered either right before enrollment occurs or in roughly the same academic year that a student incurs costs. These dollars help students offset immediate expenses. But the effectiveness of these programs, and especially

hard-fought increases in them, is undermined if there is no expectation around what they buy (not to mention the tuition increases and reductions in state or institutional financial aid that eat away at the purchasing power of these federal investments).

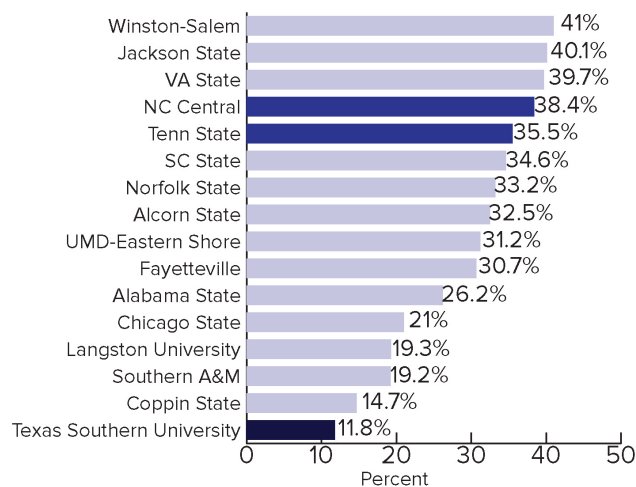
There are several general policy design options that would cap student loan debt and ensure full-time maximum Pell Grant-eligible students do not pay more than 10 percent of their families' income to access a college education. Each of these options, described below,

ranges in the level of requirements attached to states and institutions of higher education in exchange for federal matching dollars. Our consortium as a whole, however, agrees that, at a minimum, some form of a state play is essential to improve the effectiveness of federal grant aid.

Design Option One: A New Federal Block Grant Program

A strong federal-state partnership is essential to encourage states to boost operating support to public colleges and universities, which educate nearly three-quarters of all undergraduates. A federal-state funding match, where increases in federal Pell Grant funding are linked to state higher education invest-

FIGURE 5: Even Among Similar Colleges, Wide Variation in Graduation Rates Exist
Overall 6-Year Grad Rates, 2011



Source: College Results Online, 2013.

ment, would do just that. In the supporting paper, *A Proposed Federal Matching Program to Stop the Privatization of Public Higher Education*, the American Association of State Colleges and Universities proposes a \$15 billion matching program that would offer a federal grant to each state providing student operating support at a level equal to between 50 percent and 150 percent of the maximum Pell Grant award — on average, essentially a one-for-one, state-to-federal-grant-aid match. This program could be funded through better gatekeeping of institutional eligibility to participate in federal student aid programs, including the elimination of waste, fraud, and abuse in the for-profit sector; improved risk-sharing in federal student loan programs; changes to educational tax credits; and augmented federal investment. A partnership of this sort would provide incentives and expectations to states that they must contribute to their public higher education systems, rather than resorting to reducing state funding for higher education (and in turn, pushing students to increasingly draw on federal grant and loan aid) in order to balance state budgets irrespective of the impact on the federal purposes underlying student aid.

To be clear, this block grant design option would not include an explicit requirement for states or institutions to meet a 10 percent affordability guarantee. Rather, AASCU's proposed structure assumes that constituent demands and political pressure applied by public institutions of higher education would lay the foundation for increased postsecondary education affordability for all students and stem the tide toward privatization of our nation's public colleges.

However, to build upon AASCU's proposal and heighten the expected realization of our 10 percent affordability goal, we recommend that public colleges that charge full-time Pell Grant maximum students a net price exceeding the targeted 10-percent-of-family-discretionary-income cap be required to provide "a credit enhancement guarantee." In exchange for continued access to federal aid programs, these colleges would be responsible for meeting the education debt obligations of their former students if these young people cannot. Such a guarantee, at the very least, would provide a powerful incentive for public institutions to halt the shifting of traditional need-based, institutional aid to non-needy students.

Design Option Two: A Pell Grant Matching Program

One of the biggest drawbacks of the current Pell Grant program is that it doesn't guarantee recipients will be able to pay for college without assuming massive

levels of student loan debt. To address this problem, existing inefficient financial aid subsidies, such as the Stafford in-school interest subsidy, could be redirected to increase the Pell Grant program's total allocation. But rather than simply raising the existing Pell Grant program's dollar amount, a new, augmented full-time maximum Pell Grant award could be limited to institutions that include the 10 percent affordability guarantee. For full-time maximum Pell Grant recipients, institutions would have to guarantee that out-of-pocket expenses for tuition, fees, and all other academic expenses would be capped at no more than 10 percent of discretionary family income. Augmented spending on Pell Grants would help offset the cost of this guarantee for colleges and universities, and federal dollars would only supplement students already getting the maximum Pell Grant award; they would not make additional students eligible for Pell Grants.

Explicitly tying this requirement to an increased maximum Pell Grant award would create a clear link between increased federal investment in financial aid and expectations for those dollars (in terms of college affordability for the neediest students). It would operate within the existing Pell Grant program, lessening the need for additional administrative infrastructure. Families would get a clearer picture of costs of attending participating institutions and more dependability in what they can expect to pay. Because this provision could potentially encourage colleges to avoid enrolling maximum Pell Grant recipients, however, it must be paired with a requirement that participating institutions maintain a relatively consistent percentage or surpass some minimum enrollment standard of maximum Pell Grant recipients. Doing so would stop colleges from meeting this institutional matching requirement by enrolling fewer maximum Pell Grant students.

Many institutions of higher education may not be able to meet a new affordability requirement immediately, so an augmented Pell Grant change should carry a new, formal role for states: In exchange for increased Pell Grant money, states should have to sign a program participation agreement with the U.S. Department of Education pledging to provide sufficient aid (either in terms of operating subsidies or need-based financial aid) to assist their public colleges in meeting a 10 percent affordability condition for students who are eligible for the maximum Pell Grant.

Design Option Three: A New Flexible Federalism for Higher Education

A third potential design option — a hybrid of the two others — provides bulk federal education aid to states and requires that they guarantee full-time maximum

Pell Grant-eligible students would not have to pay more than 10 percent of discretionary income in a given year to attend a two- or four-year public college of their choice within their state. It leaves to states the question of how to meet the required affordability guarantee. For example, states could provide more financial aid to institutions to package as they see fit. They could simply mandate that public institutions redistribute existing operating funds to ensure need-based educational opportunity. They could supplement and grow their own Pell Grant-like, need-based financial aid programs, such as California's Cal Grant program or New York's Tuition Assistance Program. Or they could invest in new institutions, open education programs, courses, resources, or any other initiative they believe will help meet a required 10 percent affordability guarantee.

Regardless, a new flexible federalism for higher education would be funded with \$7.5 billion annually (derived from the existing federal in-school student loan interest subsidy, campus-based Supplemental Educational Opportunity Grant program, and other poorly targeted or ineffectively used federal higher education funding streams).ⁱⁱ Funds would be distributed to states with an attached one-to-one, state-match requirement, and states would be required to spend partnership funds — now a total of \$15 billion — on broadly defined college access, affordability, and completion activities to meet the 10 percent affordability outcome.

Work Expectation

Under options two and three, as a minimum condition to receive the 10 percent affordability guarantee, students would be expected to enroll full-time and pay for at least a portion of their own living expenses through work earnings — as students incur living expenses whether or not they are enrolled in college.ⁱⁱⁱ Even

ii The Congressional Budget Office estimates that eliminating the in-school student loan interest subsidy would save \$5 billion in funding, and the campus-based Supplemental Educational Opportunity Grant program cost \$0.7 billion in fiscal year 2013. We expect to find up to \$1.3 billion in other poorly targeted or ineffectively used federal education funding streams. See Congressional Budget Office, "Options to Change Interest Rates and Other Terms on Student Loans-Table 4" (Washington, D.C.: June 2013); Federal Student Aid, "2013 Annual Report" (Washington, D.C.: Dec. 2013); and Michael Dannenberg and Mamie Voight, "Doing Away With Debt: Using Existing Resources to Ensure College Affordability for Low and Middle-Income Families" (Washington, D.C.: The Education Trust, February 2013) for more details.

iii If students opt not to work an average of 15 hours per week and instead borrow the same amount in expected earnings (\$3,915) to cover living expenses, students who are eligible for the maximum Pell Grant still would not be burdened by excessive debt afterward, as the income-based repayment options cap monthly payments at 10 percent of income.

so, working to meet a portion of the cost of college expenses brings academic benefits. Research shows that working up to 15 hours per week promotes persistence and completion.²⁶ Work in excess of 15 hours a week, however, undermines completion.

The expected work contribution is meant to offset students' need to borrow. Students would have the freedom, however, to reduce the 15-hour work expectation or not work at all, and instead borrow up to the same amount they would have earned through work-study for nine months at federal minimum wage (\$3,915). But given that nearly half of low-income students already work more than 15 hours per week, we anticipate most maximum Pell Grant-eligible students will not need to make that choice; they're already meeting a work expectation.²⁷ In fact, under options two and three, most affected low-income students would likely have to work fewer hours to pay for their education and have more time to devote to their full-time studies.

Either way, we envision the current federal work-study program continuing to exist as a separate funding stream to help contribute to the overall supply of jobs for low-income students. But we encourage states, institutions, and the local business community to provide additional opportunities for students as well — especially those that align to students' course of study. All three entities should work together to adequately fund on-campus career offices and promote events that connect students with meaningful employment opportunities connected to their academic programs and career aspirations.

II. Cultivate a College Culture Centered on Completion

In addition to changes in higher education finance, the federal government can and should leverage grant aid in a way that cultivates a campus culture focused on student outcomes — and specifically timely completion. The typical bachelor degree recipient today earns a degree in five years. If those graduates completed in four years or even four and a half, they — and their states and institutions — would save thousands in college costs.

Currently, federal policy allows low-income students 12 semesters (or six academic years) of Pell Grants to complete their postsecondary education, but it places no requirement on institutions to help students do so. For example, institutions are not penalized when they fail to offer required courses frequently enough so that students can enroll in them in succession, staying on the shortest possible path toward a degree. The government does not help students whose K-12 education

hasn't adequately prepared them for college-level work, relegating them to pay for remedial (or developmental) courses that cover material students should have learned in high school for free. And the federal work-study program misses a large opportunity to provide academic and vocational training in a way that is mutually supportive.

Mapping Out — and Providing for — a Degree Completion Plan

While federal regulations require college students to maintain “satisfactory academic progress” to access federal financial aid, there are no corresponding expectations for institutions to put students in the position to fulfill those requirements. This seems critically important to all members of our consortium, but we disagree on how best to achieve this change. Some members believe that clear expectations for institutions to improve student success should be sufficient to spur institutions to do the internal work necessary to bring about that progress. Others think that more intrusive federal action is necessary to push institutions toward better practice.

What might such action look like? To address both the issue of course availability and help students get a better sense of their academic options, some members of our consortium believe that all colleges receiving federal student aid should be required to work with incoming students to construct a degree plan before they first enroll. Such a plan — as detailed in the supporting New America Education Policy paper, *Breaking with Tradition: Making Federal Grant Aid Work for Today's Students* — would include laying out a sequence of courses students would take for each term or learning period so that they could follow this guide each time they need to register for classes. Ideally, the plan would be auto-fed into the registration process, with students automatically enrolled in the courses they need unless they opt out. The degree plan would contain requirements for students and schools. For students, any desire to deviate from the agreed-upon plan, such as changing programs, would require meeting with an adviser and creating a revised plan. And institutions would have to guarantee that students would be able to take the classes listed on the degree plan in a manner consistent with on-time degree completion. For students who have not declared a major, the degree plan would need to cover required core courses. Certainly, we recognize that this requirement would impose implementation costs on colleges, but these are in line with best practice and are likely to save money in the long run by producing more degrees and less unnecessary credit accumulation.

Rethinking Remediation

More than one-quarter of college students nationwide must take remedial coursework before they begin their credit-bearing classes.²⁸ This is presumably because they did not receive the preparation and skills required for college while in high school. Certainly all students should be ready for college-level work before they begin it — to do otherwise sets students up for failure — but it's a disservice to students to ask them to use their limited financial aid eligibility on coursework that doesn't count toward a degree. A separate authorization and funding stream for remediation might better serve students in need of preparatory work, particularly those coming straight from high school. We propose a limited demonstration program, which would enable a select group of institutions to experiment with various options for students in need of remediation, including modular competency-based coursework and summer programs offered before enrollment as first-time postsecondary students. These efforts should be exempt from the many programmatic requirements of Title IV and aim to transition students as rapidly as appropriate to credit-earning coursework. We believe that — along with the growing body of evidence from course redesigns, including the Carnegie Foundation for the Advancement of Teaching's Statway and Quantway, the Dana Center's Mathway, and the Tennessee Board of Regents' SAILS initiative — the evidence collected through such a program can then serve as the basis for wholesale reform of remediation and how it should be offered and financed.

Modernizing Federal Work-Study

Little known is that campuses have the ability to steer a small portion of existing federal work-study dollars into Job Location and Development (JLD) programs, which allow off-campus employers to advertise jobs with campus career offices to all students, regardless of financial need.²⁹ Colleges that choose to participate must locate and develop jobs for work-study students, as well as those who don't qualify for the work-study program. Employers participating in a JLD program are responsible for paying the student's wage in its entirety; no work-study funds go toward student wages.

Under current law, colleges that wish to establish or expand JLD programs can only use 10 percent or a maximum of \$75,000 of their work-study allocation. The potential exists, however, for this program to be further expanded to more effectively engage outside employers to offer work-study opportunities. In fact, we would like employers to receive substantial subsidies for student employee compensation (capped by student work-study allotments). In the supporting

paper, *A Federal Work-Study Reform Agenda to Better Serve Low-Income Students*, the Young Invincibles proposes broadening these opportunities by removing the 10 percent cap on JLD programming to allow more employer outreach and by reserving a certain percentage of associated positions for low-income students who demonstrate financial need.

All work-study positions, off-campus and on-campus, should be relevant to students' studies or career interests as stipulated in the "course of study" requirements under the work-study statute. We do not recommend tight federal definitions, because institutions, academic programs, positions, and students vary widely. Instead, colleges and employers should agree upon a position description that indicates specific tasks or skills the student will perform within her placement. At the end of the semester or term of employment, the student can assess the nature of the position and verify its relevance to her studies and career interests. When the institution, employer, and student agree, the relevant position can be deemed within the course of study. Institutions of higher education — under this proposal by Young Invincibles — must ensure that a yet-to-be-determined percentage of work-study positions meet the course-of-study criteria. (A waiver will be available to institutions that experience unusual hardships in filling this requirement.) Absent that, however, the U.S. Department of Education should consider compliance during relevant program audits.

Finally, further revision of the work-study statute should support creation of a Career Internship program with for-profit employers. Federal work-study funds would reimburse employers 75 percent of the cost of hosting an internship if it meets the following criteria:

- Provides experiential learning
- Has entrance and exit interviews where goals are set and performance is evaluated
- Limits administrative work to less than 25 percent of total tasks
- Informs the student's course of study to the satisfaction of the student's institution so that academic credit can be rewarded
- Pays at least minimum wage.

The 75 percent rate is the same as the nonprofit and on-campus match rate, compared with the existing for-profit rate of 50 percent. Nonprofit employers would be eligible to participate under the existing 75 percent federal match.

These three changes to the work-study program would give students more agency to determine whether the

work experiences they participate in practically serve their needs, while also maintaining a level of flexibility for employers and institutions that enables them to place as many students as possible in quality work experiences.

III. Set New Minimum Standards for Institutional Eligibility

Last, we suggest that in exchange for receiving substantial amounts of various forms of Title IV federal funds, all colleges and universities — four-year, two-year, and less-than-two-year — must perform to at least minimum levels on access and affordability for low-income students, completion, and post-enrollment success standards. More than \$30 billion in Pell Grant aid alone is distributed each year to students attending colleges that offer a great value to students from low-income families, as well as those that charge 10 times as much and produce far worse results. Funds flow to colleges that graduate nearly all of their students and those that graduate none; to those whose students are able to repay their debt and to those whose students' lives are ruined by massive amounts of borrowing.

Establishing minimum performance standards and tying consequences to them is most feasibly done with colleges that focus on awarding bachelor's degrees, at least initially. Their missions are clear, and publicly available data on completion are reasonably strong. In contrast, two-year and certificate-granting institutions have a variety of missions, including preparing students for transfer to a four-year college, providing short-term job training, and offering non-degree program and lifelong learning opportunities. In the supporting paper, *Tough Love: Bottom-Line Quality Standards for Colleges*, The Education Trust delineates specific metrics applicable to only four-year institutions of higher education. Below are our broader, consensus positions.

Metric 1: Providing Access to and Supporting Low-Income Students

Beyond making themselves affordable by providing a 10 percent affordability guarantee to maximum-Pell-eligible students, four-year institutions should also have to make themselves fairly and fully accessible to the nation's neediest students.^{iv} Nationally, roughly 4 in 10

^{iv} Note that we have made a deliberate choice for the four-year sector in applying a threshold for the percentage of Pell Grant students enrolled in the freshman class (versus the percentage of Pell Grant students enrolled among all undergraduates). This was meant to capture a measure of access alone and to remove the success component from consideration because Pell Grant students tend to have higher withdrawal rates and are not well-rep-

freshmen enrolled at four-year colleges are Pell Grant recipients, but there are many colleges where fewer than half that national average are from low-income families.³⁰ Moreover, the data indicates underrepresentation of students from low-income families is an institutional choice divorced from merit. ACT data, for example, indicate that 1 in every 5 students scoring above the 90th percentile of all test-takers nationwide come from low-income families.³¹ In other words, elite colleges could boost their low-income student enrollment without fundamentally changing their admissions standards.³²

To receive institutional-directed federal benefits (campus-based aid, any future federal-state competitive grant program, TRIO, or GEAR UP), we propose that four-year institutions must enroll at least 20 percent Pell Grant recipients each year in order to demonstrate their service to low-income students.^v Most four-year institutions enrolling fewer than 20 percent Pell Grant recipients are selective, private, and wealthy — with a handful of others that meet these first and third characteristics. If their leaders wanted to, these institutions have the resources available to invest more in identifying, recruiting, and enrolling larger numbers of talented students from low-income families.³³

But our consortium also wants to be sure four-year institutions do not go on to enroll low-income students only to load them up with unmanageable levels of debt. To mitigate against this possible unintended consequence, we submit institutions must also meet a minimum “resource equity” threshold — dedicating the same proportion of need-based aid to non-need-based aid as does the federal government — in order to remain eligible to receive Title IV funds. That means institutions would have to dedicate at least 60 percent of their own grant aid based on student economic need.^{vi}

resented among upperclassmen. The alternative measure (the percent of Pell Grant students among all undergraduates), however, may be appropriate for two-year and less-than-two-year colleges as a broader metric of low-income diversity. It would also capture transfer students who may be low-income.

v Note that while The Education Trust has proposed a benchmark of at least 17 percent Pell freshmen enrollment, the consortium has agreed to round that proportion up to 20 percent.

vi According to the Education Trust’s calculations, 62.5 percent of federal grant and tax aid to students is need-based (\$42 billion), compared with 37.5 percent of non-need-based aid (\$25.2 billion). Need-based aid includes refundable American Opportunity Tax Credits (AOTC), Pell Grants, SEOG, federal work-study, and student loan interest deductions. For this analysis, need-based aid is defined as those types of financial aid whose recipients likely also receive Pell Grants. Non-need-based includes non-refundable AOTC, Exclusion Scholarship Income, Personal Exemption, LLC, Qualified Tuition Programs, and other (TEACH, Afghanistan Grants) aid.

Metric 2: Supporting Students Through Graduation

Providing at least a minimal level of access, however, is not enough to demand of institutions. Without guidance to navigate the rigorous path toward a degree and the support to manage challenges that arise along the way, access is nothing more than an open door — and an expensive one to pass through at that. Unlike the colleges that enroll few Pell Grant recipients, four-year colleges that graduate almost none of their students often serve larger percentages of low-income students and underrepresented minorities.^{vii} If first-time, full-time students attending a four-year institution of higher education are more than six times as likely to drop out or transfer as they are to graduate with a degree (i.e., fewer than 15 percent of students graduate within six years of initial enrollment), then those four-year institutions should lose access not only to federal institutional aid, but also the eligibility to receive all forms of federal direct student aid (including loans). Cutting off all federal benefits is critical to protecting prospective students from enrolling in these poor-performing institutions. Absent that policy, the federal government would be complicit in harming vulnerable students highly likely to be financially injured by these poor-performing institutions.

We submit that because graduation rates as currently measured by the federal government only account for first-time, full-time students, it’s important to allow four-year colleges that primarily enroll part-time or transfer students to provide evidence that they can meet the minimum performance benchmark under an alternative metric, such as degrees and transfers per 100 (full-time equivalent) students or some other measure. Examples of metrics that could be adapted include Complete College America’s Credit Accumulation Metric and the Maryland Degree Progress Analysis. Hopefully, future revisions to completion rates reported to the U.S. Department of Education through the Integrated Postsecondary Education Data System will increase the quality

vii Because low-income students are likely to also be first generation or students of color, some poor-performing institutions try to blame their dismal outcomes on the initial lack of preparation these students have when they come to campus, rather than their own lackluster academic standards and practices. But hundreds of colleges across the country demonstrate otherwise — that demographics don’t determine outcomes. Among colleges serving similar demographics of students, many serve low-income students and underrepresented minorities, and they do it well. Using peer group data from the Education Trust’s *College Results Online*, for example, we find that nearly 90 percent of four-year colleges graduating fewer than 15 percent of first-time, full-time freshmen perform worse than peer colleges serving similar students with similar characteristics. See Michael Dannenberg & Mary Nguyen Barry, “Tough Love: Bottom-Line Quality Standards for Colleges” (Washington, D.C., The Education Trust, 2014) for more details.

of nationally available measures. But let's be clear: First-time, full-time students are the most likely to complete a degree program. Better graduation rate data is warranted and welcome, but adequate data already exist to identify high-risk institutions for students and taxpayers alike.

Metric 3: Providing a Quality Education to Protect Students' Debt Investment

Student loans are, by far, the riskiest form of federal financial aid. Students who cannot meet their debt obligations either because they earn a degree with little economic value or because they drop out will face lifelong, damaging consequences — from diminished job opportunities to heightened difficulty obtaining an auto loan or home mortgage. That's why institutions must ensure that students are leaving with the knowledge and skills necessary to not only secure work, but also earn enough to pay down their debt. Even if all students graduate from an institution, churning out degrees with no workforce value will hurt students who took on loan debt to afford college — especially low-income students whose families don't have the resources to assist with education-related debt.

To ensure taxpayers and students are not wasting time and money, all institutions — four-year, two-year, and certificate programs — must be accountable for helping students attain at least a reasonable chance of paying down the investment they made for their education. Currently, the federal government judges this based on cohort default rates, which measure the percentage of students who default on their loans within three years of entering repayment. Institutions with cohort default rates of 30 percent or higher for three years (or of 40 percent or higher in any given year) are subject to harsh sanctions. But cohort default rates are

easy for institutions to manipulate. (If, for example, they drive students into forbearance status, those students are not counted in these rates.) The 30-percent benchmark is arbitrary, fixed, and captures only the worst financial outcome, not continued financial hardships.

A better way to measure students' ability to pay back their loans is through student loan repayment rates, a common metric in consumer debt financing. Such rates also offer an ongoing record of whether former students have been able to make enough payments to keep their loans on a reasonable amortization schedule.^{viii} Repayment rates provide a much more representative picture of student outcomes post-enrollment; they catch financial hardship sooner; and they are harder for institutions to manipulate. Currently, however, repayment rates are not available by institution. We strongly encourage the U.S. Department of Education to collect and aggregate repayment rate data at the institution (or ideally program) level and establish a risk-retention requirement that would make institutions financially responsible for progressively greater portions of their borrowers' underpayments.

viii We suggest that repayment rates might be calculated in one of two ways: On a student basis, the rates should consider what percentage of students have retired enough of their debt after three years of repayment that the amount still remaining is equal to or less than the amount that would be remaining at the end of three years if they were making equal payments on a regular amortization schedule. On a portfolio basis, an institution should have to show that the overall amount of money borrowed by a cohort of students is being repaid such that the total outstanding balance of all borrowers in repayment at the end of three years is at least equal to the amount that would be left if that same total loan balance were being repaid in fixed installments over a reasonable amortization schedule not to exceed 20 years.

CONCLUSION

When the Pell Grant program was first created, it filled a deep societal need to bring a more complete and diverse population to college campuses across the nation. It brought higher education into reach for students from low-income families because colleges and universities still received generous state support and tuition and fee prices were still manageable. The landscape has changed in the last 40 years, and the expanded access to higher education that Sen. Pell fought for is now at risk — particularly for our nation’s low-income students and students of color. On an inflation-adjusted, per-student basis, state support for higher education remains in long-term decline, and public colleges and universities continue to raise tuition prices to compensate for those losses. In turn, Pell Grants — and most financial aid — have lost buying power in terms of helping students afford, pursue, and complete a college degree.

It’s time to bring our financial aid system in line with the realities of today’s college-going market. By setting a 10 percent college affordability guarantee — that any student eligible for the maximum Pell Grant will not have to pay more than 10 percent of his or her family’s income in a given year for college — the federal government can lift the crushing college cost burden inflicted on the nation’s most vulnerable families. A next-generation design for federal financial aid can spur socioeconomic mobility, stem the tide of state disinvestment from higher education, and halt full-scale privatization of a public good. It can lead institutions to stay true to their missions of providing affordable access to all students and encourage them to make sure students are getting the knowledge and high-demand skills they need to be employable — all while staying on the shortest path possible to graduation. With this series of bold yet practical steps, the federal government can reaffirm the great legacy of Sen. Pell and extend his vision to an affordable, quality postsecondary education for all. ■

APPENDIX

METHODOLOGY FOR THE 10 PERCENT AFFORDABILITY GUARANTEE COST ESTIMATE

TABLE 1: COST ESTIMATE FOR 10 PERCENT AFFORDABILITY GUARANTEE FOR MAXIMUM PELL GRANT-ELIGIBLE STUDENTS

	# of Students	Median Net Price/ Student	Student Contribution Cost to Cost of Attendance		Per-Student Cost: (Median Net Price - 10% Contribution - Work Earnings)	Total Cost Estimate
			10% Discretionary Income = \$0 if All Max Pell Students had AGI < \$23,000	Earnings from 15 hrs./week work expectation (\$3,915)	Per-Student Estimate	Aggregate Cost for All Students
Public 4-year						
#Full-Time undergraduates	5,118,175					
#Max. Pell Grant recipients	949,585					
Dependent max. Pell	581,980	\$10,402	\$0	\$3,915	\$6,487	\$3,775,303,645
Independent max. Pell	367,605	\$12,952	\$0			
AGI < \$32,000	357,204			\$0	\$12,952	\$4,626,500,745
AGI ≥ \$32,000	10,402			\$3,915	\$9,037	\$94,000,711
Public 2-year						
#Full-Time undergraduates	2,776,731					
#max. Pell Grants	482,579					
Dependent max. Pell	213,443	\$5,650	\$0	\$3,915	\$1,735	\$370,323,335
Independent max. Pell	269,136	\$9,465	\$0			
AGI < \$32,000	256,214			\$0	\$9,465	\$2,425,063,254
AGI ≥ \$32,000	12,923			\$3,915	\$5,550	\$71,720,327
TOTAL	1,432,164					\$11,362,912,017

Source: Education Trust analysis of U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), Spring 2012, Enrollment component, NPSAS: 2012 data, and 2013-14 Poverty Guidelines from the Department of Health and Human Services.

Using publicly available data, we estimate the recommended 10 percent affordability guarantee for maximum Pell Grant-eligible students will cost about \$11.4 billion annually. This is a conservative estimate, because we only have data available from the 2011-12 school year, when students from families up to \$32,000 qualified for a maximum Pell Grant award. As of the 2012-13 school year, however, that income threshold has been reduced to \$23,000. Therefore, this analysis likely over-estimates the total number of students to which this policy would apply.

The goal of the 10 percent affordability guarantee is to cap students' immediate out-of-pocket expenses — provided that they enroll full-time and contribute a modest amount of work earnings toward their living expenses. This work expectation, capped at 15 hours per week at the federal minimum wage for nine months of the academic year (or \$3,915), is meant to promote student buy-in for their own educational success (as research indicates that working up to 15 hours per week promotes persistence and completion)

while also acknowledging that students incur living expenses regardless of whether they are enrolled in college or not.ⁱ Students can always reject or offset the \$3,915 work contribution by borrowing, but they would never face any more than \$3,915 in loans. Students would still have the post-college safety net, whereby only 10 percent of discretionary income after college can be applied to student loan payments under the income-based repayment plan.

To calculate this cost, we have estimated the total number of full-time students receiving the maximum

ⁱ A special note regarding independent students: Independent, maximum Pell Grant-eligible recipients whose incomes are already below \$32,000 do not have to work additional hours on top of what they were already working when they apply for the 10 percent affordability guarantee. This is because the income from their current job has already been determined to be low enough to qualify for the maximum Pell Grant award. On the other hand, independent, maximum Pell Grant-eligible students who have incomes of \$32,000 or more will still have to contribute \$3,915 in earnings (or borrow up to the equivalent amount) toward their living expenses.

Pell Grant award (\$5,550 for the 2011-12 school year) at public two- and four-year colleges. The total number of students is multiplied by students' remaining net price of attendance, after accounting for their 10 percent discretionary income contribution (\$0 in most cases) and 15 hour/week work earnings (\$3,915).ⁱⁱ The remaining per-student expense represents the additional cost to states and institutions to meet the 10 percent guarantee, over and above what they are already providing maximum Pell Grant-eligible students in grant aid. The total aggregate cost estimate, \$11.4 billion, however, would be fully funded by our proposed federal-state partnership, whereby the estimated \$5.7 to \$7.5 billion in funds from re-directed Supplemental Educational Opportunity Grants, in-school interest subsidies, and other federal funds, would be matched by the state for a total funding stream of an estimated \$11.4 to \$15 billion.

ii Only students from one-person households making exactly \$23,000 may have a positive discretionary income contribution of less than \$600, based on the 2013-14 150 percent poverty guidelines for the 48 contiguous states with a family size of one.

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