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Information Brief

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Post-Secondary Student Financial Aid: Decoupling Pell and State Grants

This information brief describes the basics of post-secondary financial aid calculations including the relationship between federal and state aid, in order to help explain recent legislative proposals to decouple Pell grants and state grants.

Student financial aid in post-secondary education is a major issue for legislators. In the 1997 session, legislators considered many proposals. In the end, the legislature did not adopt any major policy changes, but significantly increased financial aid appropriations. One issue raised during the session that continues to generate questions centers around changing the relationship between the federal Pell grant and the Minnesota state grant. This information brief describes the relationship between the two programs and discusses proposals to change that relationship. It begins with an overview of the financial aid process.

Need Analysis

For most forms of financial aid, students and their families must complete a financial aid form supplied by the federal government. The form is designed to analyze their need for aid. The need analysis considers family income and assets, as well as the number of family members in college, and exceptional expenses in the previous year (such as health care costs). From this information, an "estimated family contribution" (EFC) is determined. This is the amount that the family, including the student, is expected to contribute to the cost of attendance. If the EFC is lower than the cost of attending college, the student is said to have "need." Most Minnesota financial aid programs, as well as federal programs, are "need-based."

Pell Grants

The federal government operates several financial aid programs. The major ones are its student loans and the Pell grant. The Pell grant program is currently a $5.7 billion annual expenditure in which students, based on family need, may be eligible for grants of up to $2700 per year.

Students enrolled in undergraduate programs at accredited post-secondary institutions are eligible to apply for Pell grants. In cases where the EFC is quite low, a Pell grant is awarded to help cover the cost of attendance. Generally speaking, if there are no extraordinary circumstances, dependent students with families earning less than the median income (approximately $37,000 per household) will receive Pell grants. Independent students who have no dependent children of their own are treated differently, and are usually eligible for Pell grants if their annual income is not more than $10,000. Approximately 70,000 Minnesota students received Pell grants in 1995, totaling about $93 million in aid.

State Grants

The primary state financial aid program is the state grant program. In fiscal year 1996, over $88 million in state grants was awarded. During the 1997 session, the legislature significantly increased funding for the program to help students cope with rising tuition and living costs. Students apply for state grants by completing the same federal need analysis that is used for the Pell grant. The state grant program, like the Pell, is need-based. However, the calculation of awards is based on a formula that includes both the family's ability to pay and the cost of attending a particular college. This is intended to provide choice to students by addressing their needs even at more expensive institutions. Because of the policy providing for choice, students from a wider range of incomes qualify for state grants.

The calculation of a state grant (illustrated below) begins with the cost of attendance. This has two components — tuition and fees (actual cost for public institutions and up to a maximum set by law each biennium for private institutions), and a living and miscellaneous expense allowance (LME) set by law each biennium. These two components are added together to produce the cost of attendance. The calculation then assigns responsibility for one half of this total to the student. This is known as the "student share." From the remaining half — the "family/government share" — the EFC is subtracted. From what then remains, any Pell grant is subtracted. Any difference between the final remainder and the original 50 percent of cost is the amount of the state grant.

State Grant Calculation

	Cost of Attendance (tuition and fees + living allowance)
Minus	50% assigned as student's responsibility (student share)
Minus	family contribution (EFC)
Minus	amount of any Pell grant
Equals	**State Grant Award**

Pell and State Grant Relationship

The relation between the Pell grant and the state grant is obvious from the calculation above. If a student receives any amount of Pell grant, that amount is subtracted from any state grant eligibility. This creates a situation in which students with the greatest need often receive the smallest state grants. The link between the Pell and state grants dates back nearly 15 years, to the adoption of the current state grant program. The purpose of the linkage originally was twofold: 1) to protect students in the event that Pell grants were reduced by the federal government, at which time the state grant would increase to fill in for the reduction; and 2) to save the state money by counting the federal grant in place of the state grant.

The Pell grant has only been reduced once since the adoption of this state grant formula in 1983. In most years, it remained flat or rose slightly. Few questions were raised about the relation between the state and federal programs. This began to change when the Pell was increased — the first time in five years — for the 1995-96 academic year. This was followed by increases each fall since, with another increase scheduled for fall 1998. Congress and the president argued that the Pell grant had not kept pace with college costs and, since the recipients are primarily lower income, the effect was to remove the option of higher education for a large segment of the population. Therefore, a bipartisan agreement was made to increase resources for the Pell grant program to help low and moderate income students meet growing costs.

Because the Minnesota formula counts the Pell grant first, Pell recipients who also qualified for a state grant did not receive these federal increases. Their state grants were simply reduced by an amount equal to the increase in their Pell grants, and appropriations to the state grant program were reduced by the Department of Finance in an amount equal to the additional federal aid. While the state received a windfall from Pell increases, Minnesota students did not benefit.

Legislative Proposals

In the early 1990s, testimony to the legislature from public and private higher education sectors, and student groups, often focused on the need for the legislature to do more to help provide access to higher education for low-income students. Research was emerging that indicated that lower income families used a disproportionately large share of their income and borrowed a disproportionately high amount of money to pay for college. Additionally, the changing demographics of the state, especially in the metro area, indicated that this trend would grow.

In response to these concerns and in light of the federal Pell increases, some legislators in 1996 began to surface proposals to allow students to keep their Pell increases. In 1997, bills were introduced to "decouple" the Pell and state grants so that a state grant would be added to the Pell, rather than reduced by the Pell grant amount. Because of the expense of ignoring the entire Pell grant in determining a state grant, some legislators suggested ignoring only part of the Pell. For example, the state grant formula might subtract half the Pell rather than the entire amount, or ignore any increases in the Pell that Congress adopts. Thus, the student would receive at least some of the increased amount that Congress and the president intended.

Under these proposals, any student who received both a state and a Pell grant would benefit from an increased award. This would affect about 75 percent of state grant recipients, or roughly 48,000 students.