STUDENT FINANCIAL ASSISTANCE POLICY

(PELL GRANTS, SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS, WORK-STUDY, PERKINS LOANS, LEVERAGING EDUCATIONAL ASSISTANCE PARTNERSHIPS, FEDERAL DIRECT LOANS, AND FEDERAL FAMILY EDUCATION LOANS)

Goal: To help ensure access to high-quality postsecondary education by providing financial aid in the form of grants, loans, and work-study in an efficient, financially sound, and customer-responsive manner.

Relationship of Program to Volume 1, Department-wide Objectives: Supports Objective 3.2 (postsecondary students receive support for high-quality education) by providing student financial aid to help low-income students enroll in and complete postsecondary education.

FY 2000—$11,233,000,000

FY 2001—$13,229,000,000 (Requested budget)

OBJECTIVE 1: ENSURE THAT LOW- AND MIDDLE-INCOME STUDENTS WILL HAVE THE SAME ACCESS TO POSTSECONDARY EDUCATION THAT HIGH-INCOME STUDENTS DO.

Indicator 1.1 Percentage of unmet need: Considering all sources of financial aid, the percentage of unmet need, especially for low-income students, will continuously decrease.

Targets and Performance Data

Average unmet need (the percentage of a student's total cost of attendance that is not met by the expected student and family contribution and all sources of financial aid)

Year	Actual Performance		Performance Targets
Total			
1995-1996:	22%		
1996-1997:	22%		
1998-1999:	**No data available**		**Continuing decrease**
1999-2000:			Continuing decrease
2000-2001:			Continuing decrease
**Low Income: Dependent*			
1995-1996:	46%		
1996-1997:	46%		
1998-1999:	**No data available**		**Continuing decrease**
1999-2000:			Continuing decrease
2000-2001:			Continuing decrease
**Low Income: Independent*			
	With kids	Without kids	
1995-1996:	54%	49%	
1996-1997:	54%	49%	
1998-1999:	**No data available**		**Continuing decrease**
1999-2000:			Continuing decrease
2000-2001:			Continuing decrease

*Low-income is defined as students in the bottom 20 percent of the income distribution for a given dependency status.

Assessment of Progress

Status: No 1999 data; no change in progress.

Explanation: There was no change in the ratio of unmet need to total cost of attendance between the 1995-96 and 1996-97 school years. While Federal student aid is a significant factor affecting unmet need, at least as important are institutional and state decisions regarding the cost of attendance, revenues, and expenditures, which increases the difficulty of meeting the goal of continual decreases in unmet need.

It should be noted that because unmet need represents the amount of additional aid a student could possibly receive under student aid regulations, it does not really reflect the resources students and their families actually use to pay for college. However, trends in unmet need are a good measure of changes in postsecondary affordability.

Sources and Data Quality

Source: Baseline: National Postsecondary Student Aid Study (NPSAS). Updates: Based on administrative records and data from the Integrated Postsecondary Education Data System (IPEDS) and College Board.
Frequency: Annually.
Next Update: 1997-98 (available in 2000); 1998-99 (available in 2001).

Validation Procedure: Verified by ED data attestation process.

Limitations of Data and Planned Improvements: NPSAS data are collected only every four years so that estimates are required for the intervening years. These estimates, while done as carefully as possible, will not necessarily exactly represent the circumstances faced by students in 1996-97. Planned improvements include comparing projections with actual data from the 1999-00 NPSAS and investigating using other, more timely, sources of data to update the various components of unmet need.

Indicator 1.2 College enrollment rates: Postsecondary education enrollment rates will increase each year for all students, while the enrollment gap between low- and high-income and minority and non-minority high school graduates will decrease each year.

Targets and Performance Data

The percentage of high school graduates ages 16-24 enrolling immediately in college

Year	Actual Performance		Performance Targets
Total			
1994:	62%		
1995:	62%		
1996:	65%		
1997:	67%		
1998:	66%		
1999:	**No data available**		**Continuing increase in rate**
2000:			Continuing increase in rate
2001:			Continuing increase in rate
***Income*			
1994:	Low	High	
	44%	79%	
	Difference: 35%		
1995:	42%	80%	
	Difference: 38%		
1996:	41%	80%	
	Difference: 39%		
1997:	47%	81%	
	Difference: 35%		
1998:	51%	79%	
	Difference: 28%		
1999:	**No data available**		**Continuing decrease in gap**
2000:			Continuing decrease in gap
2001:			Continuing decrease in gap

**Due to small cell sizes, income and racial groups are based on 3-year averages; the year listed is the last year in the series. Income is divided into quintiles, with low-income defined as the bottom quintile and high-income defined as the top quintile.

Assessment of Progress

Status: No 1999 data. Progress in reducing the enrollment gap between low- and high-income students is likely, although progress toward increasing the overall enrollment rate is difficult to judge, and no progress has been made in reducing the enrollment gap between minority and white students.

Explanation: The enrollment rate of low-income students (3-year average) has increased 10 percentage points between 1996 and 1998, resulting in a statistically significant reduction in the gap between low- and high-income students between 1997 and 1998. There was also a statistically significant increase in the overall enrollment rate from the 1994-95 period to the 1997-98 period. However, there has been no significant change in the enrollment rate since 1996, making it difficult to judge progress. Finally, there was no statistically significant difference in any of the two years presented between whites and blacks and whites and Hispanics, indicating no progress in reducing the enrollment gap by race. One factor affecting the achievement of this goal is that, while Federal aid is an important factor in promoting college access, outside factors such as academic preparation and the returns to education are probably even more crucial to students' decisions about whether to attend college.

Sources and Data Quality

Source: October Current Population Survey (CPS) conducted by Census.
Frequency: Annually.
Next Update: 1999.

Validation Procedure: Verified by ED data attestation process.

Limitations of Data and Planned Improvements: Small subgroup sample sizes for low-income and minority students lead to large yearly fluctuations in enrollment rates.

Targets and Performance Data					Assessment of Progress	Sources and Data Quality
Year	**Actual Performance**			**Performance Targets**		
*Race***						
1994:	Black	White	Hispanic			
	52%	64%	55%			
	Difference: 12% & 9%					
1995:	53%	64%	55%			
	Difference: 11% & 9%					
1996:	53%	65%	51%			
	Difference: 13% & 14%					
1997:	55%	67%	57%			
	Difference: 11% & 10%					
1998:	59%	68%	55%			
	Difference: 9% & 13%					
1999:	**No data available**			**Continuing decrease in gap**		
2000:				Continuing decrease in gap		
2001:				Continuing decrease in gap		
**Due to small cell sizes, income and racial groups are based on 3-year averages; the listed year is the last year in the series. Income is divided into quintiles, with low-income defined as the bottom quintile and high-income defined as the top quintile.						

Indicator 1.3 Targeting of Pell Grants: Pell Grant funds will continue to be targeted to those students with the greatest financial need: at least 75 percent of Pell Grant funds will go to students below 150 percent of poverty level.

Targets and Performance Data			Assessment of Progress	Sources and Data Quality
The percentage of Pell Grant funds going to students below 150 percent of the poverty line			**Status:** No 1999 data; progress toward target is likely. **Explanation:** Increases in the maximum award without other changes in the formulas used to award Pell grants will tend to lower the percentage of funds going to the neediest students. Therefore, we anticipate that the indicator will continue to trend downward, although we expect to remain above the 75 percent goal for the next few years.	**Source:** Pell Grant Applicant/Recipient File *Frequency:* Annually. *Next Update:* 1998-99. **Validation Procedure:** Verified by ED data attestation process. **Limitations of Data and Planned Improvements:** There are some concerns about the data on income. As a remedy, we will pursue a data match with the IRS to get more accurate income information.
Year	**Actual Performance**	**Performance Targets**		
1996-1997:	82%			
1997-1998:	80%			
1998-1999:	**No data available**	**75%**		
1999-2000:		75%		
2000-2001:		75%		

Indicator 1.4 Federal debt burden: The median Federal debt burden (yearly scheduled payments as a percentage of annual income) of borrowers in their first full year of repayment will be less than 10 percent.

Targets and Performance Data			Assessment of Progress	Sources and Data Quality
The median Federal debt burden of students in their first full year of repayment.			**Status:** No 1999 data; progress toward target is likely. **Explanation:** As a general rule, it is believed that an educational debt burden of 10 percent or greater will negatively affect a borrower's ability to repay his or her student loan and to obtain other credit such as a home mortgage. We expect the 1999 median debt burden rate to remain below 10 percent. There is concern about the rise in median debt burden over time. Given that loans play such a major role in enabling students to afford college, limiting their use would be counterproductive in terms of achieving the program's goals regarding postsecondary access and completion, however. As described under strategies, the Department is taking steps, including raising the Pell Grant maximum award and offering flexible repayment plans, to help ensure that borrowers do not become overburdened with debt.	**Source:** National Student Loan Data System (NSLDS) and Social Security Administration (SSA) earnings records. *Frequency:* Annually. *Next Update:* 1998 (available in 2000). **Validation Procedure:** Verified by ED data attestation process. **Limitations of Data and Planned Improvements:** Debt burden may be overstated because income is based only on earnings, is limited to the amount earned by the individual borrower, and is capped at the maximum amount upon which Social Security taxes are owed ($65,400 in 1997). We are trying to obtain permission to use IRS income data, which would alleviate these limitations.
Year	**Actual Performance**	**Performance Targets**		
1994:	7.4%			
1995:	7.5%			
1996:	7.9%			
1997:	8.4%			
1999:	**No data available**	**Under 10%**		
2000:		Under 10%		
2001:		Under 10%		

OBJECTIVE 2: ENSURE THAT MORE STUDENTS WILL PERSIST IN POSTSECONDARY EDUCATION AND ATTAIN DEGREES AND CERTIFICATES.

Indicator 2.1 Completion rate: Completion rates for all full-time, degree-seeking students in 4-year and 2-year colleges will improve, while the gap in completion rates between minority and non-minority students will decrease.

Targets and Performance Data						Assessment of Progress	Sources and Data Quality
The percentage of full-time, degree-seeking students completing a 4-year degree within 6 years, and those completing a 2-year degree, earning a certificate, or a degree that requires transferring to a 4-year school within 3 years.						**Status:** No 1999 data; progress cannot be judged until trend data are available. **Explanation:** Approximately one-half of full-time degree-seeking students complete a 4-year degree within 6 years, and one-third complete a 2-year degree or certificate or transfer to a 4-year school within 3 years. Completion rates for black and Hispanic students are lower than those of white students. It should be noted that the completion rates reported here are understated to the extent to which students complete their degree at a different institution from the one they began at. The extent of the underestimation appears to be about 10 percentage points.	**Source:** Graduation Rate Survey (GRS) conducted as part of the Integrated Postsecondary Student Aid Study (IPEDS). *Frequency:* Annually. *Next Update:* 1998 (available in 2000). **Validation Procedure:** Verified by ED data attestation process. **Limitations of Data and Planned Improvements:** Postsecondary institutions are not required to report graduation rates until 2002. However, data were voluntarily submitted by institutions representing 87 percent of 4-year students and 74 percent of 2-year students. Investigating whether a proxy for graduation rates for student aid recipients can be obtained from administrative records.
4-year rate							
Year	**Actual Performance**				**Performance Targets**		
	Total	Black	White	Hispanic			
1997:	53%	36%	56%	39%			
	Difference: 20% & 17%						
1999:	**No data available**				**Continuing increase in rate**		
2000:					Continuing increase in rate		
2001:					Continuing increase in rate		

Targets and Performance Data						Assessment of Progress	Sources and Data Quality
Year	**Actual Performance**				**Performance Targets**		
	Total	Black	White	Hispanic			
2-year rate							
1997:	31%	23%	33%	26%			
	Difference: 10% & 7%						
1999:	**No data available**				**Continuing increase in rate**		
2000:					Continuing increase in rate		
2001:					Continuing increase in rate		

OBJECTIVE 3: ENSURE THAT TAXPAYERS WILL HAVE A POSITIVE RETURN ON INVESTMENT IN THE FEDERAL STUDENT FINANCIAL ASSISTANCE PROGRAMS.

Indicator 3.1 Return on investment: The benefits of the student aid programs, in terms of increased tax revenues, will continue to exceed their costs.

Targets and Performance Data					Assessment of Progress	Sources and Data Quality
Year	**Actual Performance**			**Performance Targets**	**Status:** Target exceeded. **Explanation:** The estimated return on investment is calculated in the following manner: 1) The discounted present value of tax revenue and welfare benefits is calculated for different educational attainment levels. 2) Under the "best" scenario, 90 percent of the revenue differential calculated in step 1 is assumed to be caused by obtaining more education. 3) Under the "best" scenario, for every $100 received by a student in federal grant aid, 1 percent of the revenue differential calculated in step 2 is assumed to be caused by student aid. It is also assumed that grants and loans are equally cost-effective. 4) The revenue differential calculated in step 3 is divided by the cost to the Federal government of providing the aid. Based on this calculation, the best estimate is that the student aid programs return over $3 to Federal taxpayers in terms of increased tax revenue and reduced welfare payments for every $1 spent on the student aid programs. Even using very conservative assumptions, the low estimate is still almost 50 percent higher than the $1 break-even point.	**Source:** March Current Population Survey (CPS) and Beginning Postsecondary Student (BPS) study with imputations from the National Postsecondary Student Aid Study (NPSAS) and High School and Beyond (HS&B). Behavioral assumptions were derived, where feasible, from meta-analyses conducted by Leslie and Brinkman in their 1988 book, The Economic Value of Higher Education. *Frequency:* Annually. *Next Update:* 2000. **Validation Procedure:** Verified by ED data attestation process. **Limitations of Data and Planned Improvements:** A number of assumptions and imputations are required to estimate the return on investment. We are planning on having an independent expert review the methodology and to suggest possible areas of improvement.
	Low	Best	High			
1996:	$1.40	$3.03	$7.15			
1997:	$1.42	$3.08	$7.27			
1998:	$1.46	$3.16	$7.49			
1999:	**$1.54**	**$3.36**	**$7.97**	**No target set**		
2000:				Greater than $1		
2001:				Greater than $1		
Low: A pessimistic set of assumptions leading to a low-end estimate of the return on investment. Best: The set of assumptions that we believe best captures the return on investment. High: An optimistic set of assumptions leading to a high-end estimate of the return on investment.						

OBJECTIVE 4: ENCOURAGE POSTSECONDARY STUDENTS TO ENGAGE IN COMMUNITY SERVICE.

Indicator 4.1 Community Service: The percentage of Federal Work-Study (FWS) program funds spent on community service, in particular America Reads and America Counts, will increase over time.

Targets and Performance Data

The percentage of Federal Work-Study program funds spent on community service

Year	Actual Performance		Performance Targets
	Total	America Reads*	
1997:	11%	Not applicable	
1998:	10%	2.5%	
1999:	**No data available**		**Continuing increase**
2000:			Continuing increase
2001:			Continuing increase

* Because it is not known what percentage of spending on America Reads meets the statutory definition of community service, the extent to which America Reads spending is captured in the total for community service cannot be determined. It is assumed that there is a great deal of overlap.

Assessment of Progress

Status: No 1999 data; progress toward target difficult to judge.

Explanation: The percentage of FWS funds spent on community service declined slightly between 1996/97 and 1997/98. This was likely caused by the large increase in program funding between those two years. Community service positions are more difficult to establish than other positions so that institutions may have found it hard to create new community service positions with their increased funding. The percentage of FWS funds spent on community service should begin to increase as institutions adjust to their new increased funding levels and begin creating additional community service positions.

Sources and Data Quality

Source: Fiscal Operations Report and Application to Participate.
Frequency: Annually.
Next Update: 1998-99.

Validation Procedure: Verified by ED data attestation process.

Limitations of Data and Planned Improvements: None.

KEY STRATEGIES

Strategies Continued from 1999

- If enacted, the Department's FY 2001 budget would provide more than $54 billion in grant, loan, and work-study assistance to 8.6 million postsecondary students.
  - An $8.4 billion request for Pell Grants would increase the maximum award by $200 to $3,500, the highest ever and more than 50 percent higher than the maximum grant in 1993, and would provide grants to nearly 3.9 million students.
  - A $1,011 million request for Work-Study (an increase of $77 million) would allow approximately 1 million students to work their way through college.
  - The FY 2001 budget provides a $60 million increase (to $691 million) for Supplemental Educational Opportunity Grants, the largest increase in 10 years. The grants will serve an estimated 1.2 million students.
  - The Federal Family Education Loans and Federal Direct Student Loan programs would provide 9.4 million loans totaling an estimated $43 billion in funds available to support postsecondary students.

New or Strengthened Strategies

- Help minimize debt burden by implementing and promoting lower interest rates, offering flexible repayment options, providing electronic exit counseling, and minimizing the frequency with which interest is capitalized.

HOW THIS PROGRAM COORDINATES WITH OTHER FEDERAL ACTIVITIES

- The Student Financial Assistance Programs complement other Federal efforts to reduce the net price of a postsecondary education for families and students. The newly proposed College Opportunity Tax cut, in conjunction with the already available Hope Scholarship and Lifetime Learning tax credits, will reduce the Federal income tax liability of those enrolled in postsecondary education. Other examples of Federal tax-related efforts to help students and their families pay for college include tax-free investments for college such as Series EE U.S. Savings bonds and tax-preferenced college savings vehicles, including the Education IRA.
- The Student Financial Assistance Programs also complement other Department efforts involved in preparing precollege students, often as early as middle school, for the academic rigors of college. These other programs, in particular Upward Bound and GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs), provide grantees with funding for counseling, mentoring, and other support activities which, when combined with financial aid, help ensure that students are both academically and financially able to enroll in and complete college.

CHALLENGES TO ACHIEVING PROGRAM GOAL

- While the student financial aid programs play a key role in achieving the goals described above, a number of other factors beyond the control of the programs also affect the attainment of these goals. The state of the economy, student and family motivations and expectations, funding decisions made by postsecondary institutions and state governments, and changes in elementary and secondary education all play an important role in determining whether the program goals are achieved.

INDICATOR CHANGES

From FY 1999 Annual plan (two years old)

Adjusted—None.

Dropped—None.

From FY 2000 Annual Plan (last year's)

Adjusted

- Indicator 1.4, the Federal debt burden indicator, was changed from looking at the percentage of borrowers with debt burdens in excess of 10 percent to median debt burden being less than 10 percent to better reflect conditions being faced by "typical" borrowers.
- A comparison of low- and high-income students was dropped from Indicator 2.1 because the data source now being used for this indicator, which is available on an annual basis rather then every 8 years as was the prior data source, does not contain information on income.

Dropped

- Indicator 3.1, the employment rate indicator, which compared the rate at which student aid recipients obtained jobs with that of nonrecipients, was eliminated because it was felt that the return on investment indicator better measured the economic effects of the student aid programs and the employment rate indicator could be updated only every 4 to 8 years.

New—None.