



## CHANGES IN THE FEDERAL PELL GRANT FORMULA WILL DECREASE FINANCIAL AID FOR LOW-INCOME STUDENTS IN COLORADO

*Colorado should significantly increase general fund appropriations for the state's need-based financial aid programs to partially restore the major cuts these programs have suffered in recent years. This becomes even more imperative in light of the recent changes in the federal Pell Grant - the largest need-based grant program for low-income students - that will result in decreased federal financial aid for thousands of students.*

*Changes made in the federal formula that is used to determine a family's expected contribution to college costs, which take effect this coming fall, will significantly decrease financial aid for students with financial need.*

---

### Federal Pell Grant

- Pell Grants are awarded primarily to undergraduate students with demonstrated financial need who have not earned a degree and they are considered a foundation of federal financial aid, to which aid from other sources might be added.
- Financial need is determined by a standard formula of the U.S. Department of Education that is used to calculate a student's Expected Family Contribution (EFC), which measures a family's financial strength on the basis of its income and assets. The EFC indicates how much money the student and his/her family are expected to contribute toward college costs for the school year, including tuition and fees, room and board, transportation, books, and supplies. If the EFC is below a certain number, a student is eligible for a grant.

### The Federal Pell Grant in Colorado

- In 2001, over 45,000 students in Colorado received a Pell Grant, for a total of over \$121.5 million.
- Pell Grant recipients in Colorado represented 18% of total undergraduate enrollment, which ranked the state 45<sup>th</sup> in the nation. This is compared to the 24.4% national average and the 41.2% average rate of the top three performing states (Mississippi, Montana and Arkansas).

### Recent Changes in the Pell Grant

- In December 2004, the U.S. Department of Education updated the EFC formula and changed the amount a family can deduct for state and local taxes when calculating their expected contribution.
- Although federal law requires that the formula should have its state and local tax tables updated annually, this had not been done since 1993. Since then, the tax burden has fallen in many states, and consequently thousands of students in several states will lose aid. Under the formula, when property and income taxes are cut, required family contributions go up, and financial aid goes down.
- Nationwide, *as many as 90,000 students could be ineligible* from receiving Pell Grants and other forms of federal and state financial aid programs that use the EFC formula for determining eligibility and a student's need for aid. In addition, about *1.3 million students will receive lower federal financial aid* since the new formula will indicate that they have more discretionary income.
- Critics argue that the tax tables do not accurately measure taxes paid by students and families because they do not include sales taxes and are usually two years out of date. For example, the updated formula tables are based on 2002 tax data and replace 1988 data, which have been used since 1993.

- *Colorado is one of 21 states where the amount the U.S. Department of Education forgives families for their state and local tax payments in estimating their expected contribution to college costs will be reduced by three or four percentage points.*
- *The formula changes will cost Colorado a loss of -\$4,124,846 and 1,456 students will lose funding.*
- *Students in Colorado face the second-highest risk of losing their grants in the nation, following students in Arkansas who face the highest risk.*

**PELL GRANTS AND RECIPIENTS: PROJECTED CHANGES, STATE BY STATE, 2005-6**

	Change in Pell Grant aid	Change in number of recipients		Change in Pell Grant aid	Change in number of recipients
New York	(\$30,607,707)	-8,457	Maryland	(\$3,918,966)	-1,420
Michigan	(\$15,353,681)	-5,419	Arkansas	(\$3,829,024)	-1,228
Florida	(\$13,132,357)	-3,315	Oregon	(\$3,762,787)	-1,282
California	(\$11,108,313)	-3,231	Utah	(\$3,712,909)	-1,283
Pennsylvania	(\$10,424,722)	-3,399	Iowa	(\$3,679,869)	-1,324
Ohio	(\$10,079,688)	-3,224	Kansas	(\$3,061,937)	-1,079
Texas	(\$8,246,411)	-2,279	New Mexico	(\$2,649,351)	-894
North Carolina	(\$7,874,997)	-2,220	West Virginia	(\$2,503,246)	-807
Arizona	(\$7,492,448)	-2,722	Idaho	(\$2,070,123)	-668
Georgia	(\$7,198,272)	-2,252	Nebraska	(\$1,852,180)	-680
Alabama	(\$6,684,965)	-2,141	Rhode Island	(\$1,403,509)	-496
Louisiana	(\$6,245,210)	-1,947	Montana	(\$1,348,170)	-439
Tennessee	(\$6,027,983)	-2,042	Maine	(\$1,263,732)	-441
Indiana	(\$5,912,761)	-2,147	South Dakota	(\$1,214,654)	-416
Illinois	(\$5,893,852)	-1,947	Nevada	(\$1,170,307)	-425
Virginia	(\$5,800,181)	-2,022	North Dakota	(\$1,124,302)	-378
Missouri	(\$5,726,111)	-2,026	District of Columbia	(\$1,073,075)	-376
Washington	(\$5,252,853)	-1,807	Hawaii	(\$981,394)	-330
Mississippi	(\$5,214,893)	-1,571	New Hampshire	(\$912,468)	-344
Kentucky	(\$5,002,879)	-1,667	Delaware	(\$712,889)	-259
Oklahoma	(\$4,780,169)	-1,592	Vermont	(\$685,092)	-248
South Carolina	(\$4,658,494)	-1,622	Wyoming	(\$509,866)	-174
Massachusetts	(\$4,620,436)	-1,628	Alaska	(\$447,080)	-162
Minnesota	(\$4,430,879)	-1,608	New Jersey	\$198,488	11
<b>Colorado</b>	<b>(\$4,124,846)</b>	<b>-1,456</b>	Connecticut	\$539,084	400
Wisconsin	(\$3,971,921)	-1,428			

**Sources:**

1. **Chronicle of Higher Education** (March 4, 2005) "Change in Pell-Grant Formula Is Likely to Drive Up Loans and Work Hours," Volume 51, Issue 26, Page A21.
2. **Chronicle of Higher Education** (January 7, 2005) "Change in Federal Formula Means Thousands May Lose Student Aid," Volume 51, Issue 18, Page A1.
3. **American Council on Education** (January 3, 2005) "Impact of Changes to the Pell Eligibility Formula Proposed in the Dec. 23, 2004 Edition of The Federal Register." <http://www.acenet.edu/hena/readArticle.cfm?articleID=1212>
4. **National Association of Student Financial Aid Administrators** (December 23, 2004) "ED Posts Updated Pell Tax Tables for 2005-06; Tens of Thousands Expected to Lose Pell Grants." <http://www.nasfaa.org/publications/2004/gtaxtableupdate122304.html>
5. **Christian Science Monitor** (January 4, 2005) "Paying for College Just Got Harder." <http://www.csmonitor.com/2005/0104/p11s01-legn.htm>
6. **Washington Post** (December 24, 2004) "Change Means Fewer Students Will Be Eligible for Pell Grants." <http://www.washingtonpost.com/ac2/wp-dyn/A23290-2004Dec23?language=printer>
7. **CNN** (December 23, 2004) "Department of Education to Tighten Pell Grant Eligibility." <http://www.cnn.com/2004/EDUCATION/12/23/pell.grants/>

*For questions and additional information contact Spiros Protosaltis, Policy Analyst, [spiros@thebell.org](mailto:spiros@thebell.org)*