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President’s FY15 Budget Fully Funds Pell Grants and Improves Income-Driven Repayment

Makes Permanent and Expands Access to the Most Targeted College Tax Benefit

(Oakland, CA) – President Obama’s fiscal year 2015 budget proposal released today takes important steps towards making college affordable for millions of Americans by reducing the need to borrow and making federal student loan payments more manageable. It does this by investing in Pell Grants, making the American Opportunity Tax Credit permanent, improving income-driven federal student loan repayment plans, and preventing the taxation of Pell Grants and debts forgiven for borrowers in income-driven repayment plans.

The budget funds the scheduled \$100 increase in the maximum Pell Grant to \$5,830 in 2015-16, from \$5,730 in 2014-15, which will help nearly nine million students attend and complete college and reduce how much they need to borrow. However, *even with this scheduled increase*, the maximum Pell Grant is expected to cover the smallest share of the cost of attending a four-year public college since the program started in the 1970s.

“The scheduled Pell Grant increase is essential, but the maximum grant will still cover the smallest share of college costs in the last 40 years, forcing the neediest students to borrow even more,” said **Pauline Abernathy**, vice president of [The Institute for College Access & Success](#) (TICAS). “This budget acknowledges that the federal government, states, and colleges each need to recommit to making college affordable for all.” A TICAS [white paper](#) includes detailed recommendations to simplify federal student aid, increase and better target resources to those with more financial need, reduce waste and fraud, and strengthen incentives for colleges to serve low- and moderate-income students well.

This budget also improves income-driven repayment, making more borrowers eligible to cap their monthly payments at 10 percent of their discretionary income and have any debt remaining after 20 years discharged without taxation. In addition, it streamlines the multiple income-driven repayment plans and makes changes to prevent high-income borrowers from having debts discharged when they could have afforded to pay more. These changes include several TICAS [recommendations](#) to simplify and better target the benefits of income-driven plans.

“Millions of Americans have federal student loans, and income-driven repayment plans are crucial tools for making that debt more manageable. But there are now four different income-driven plans, and too many borrowers are either unaware or understandably confused,” said TICAS president **Lauren Asher**. “The Administration’s proposals to streamline eligibility would help more struggling borrowers buy a home, start a family or business, save for retirement, or save for their kids’ education.”

Among other things, the budget proposes \$7 billion for College Opportunity and Graduation Bonuses to reward colleges that successfully enroll and graduate significant numbers of low- and moderate-income students on time. This proposal will need to be carefully designed to reward schools that serve these students *well*, not just graduate them with degrees they cannot use and debts they cannot repay. TICAS’ white paper includes [recommendations](#) for how colleges could qualify for rewards.

As TICAS has recommended, this budget also makes permanent the American Opportunity Tax Credit (AOTC), which research suggests is the most likely of the current tax benefits to increase college access and success, and enables more Pell recipients to benefit from the AOTC. There is growing [bipartisan support](#) to go further and significantly streamline a number of poorly targeted tax benefits into an improved AOTC, as [TICAS](#) and [many others](#) have urged.

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An independent, nonprofit organization, [The Institute for College Access & Success](#) (TICAS) works to make higher education more available and affordable for people of all backgrounds. TICAS' [Project on Student Debt](#) works to increase public understanding of rising student debt and the implications for our families, economy, and society. Follow us on [Twitter](#).