The Pell Grant program is the federal government’s foundational investment in college affordability. The program, which enjoys strong bipartisan support, helps more than seven million low- and moderate-income students attend and complete college annually.

Pell Grants are extremely well targeted to students with very high financial need: 88 percent of Pell recipients come from families with incomes at or below $40,000, and 46 percent of recipients come from families with incomes at or below $15,000 (the 2024 federal poverty level for a family of three is $25,820).

A student’s Pell Grant eligibility is based on their financial need, as determined by the information they provide on the FAFSA. For the 2024-25 award year, a student can receive up to the maximum Pell award of $7,395.

The Pell Grant Program Funding Structure Puts Students at Risk

The Pell Grant program has a unique and complex funding structure. The program functions like an entitlement program (such as Social Security or Medicare), where every eligible student in a given academic year is legally entitled to receive their Pell award.

However, unlike other entitlement programs, the program does not rely entirely on mandatory funding. Instead, it relies on both discretionary (funding annually appropriated by Congress) and mandatory (automatic funding that is set by authorizing legislation) funding from the federal budget.

The wrinkle: because Congress appropriates discretionary funds for the program based on projections of how much it will cost in the upcoming year, there is an inevitable annual mismatch between how much the program costs and how much funding is actually available. This creates significant complication for policymakers and ongoing risks for the students who rely on the grant.

This leads to four possible scenarios:

1. **Funding Gap:** The program does not have enough funding in a given year to cover the cost of providing grants to eligible students in that year. This means that appropriators did not provide enough discretionary funds in the prior year’s funding package. This is typically due to an unexpected increase in program costs.

2. **Projected Shortfall:** The program is predicted to be short on funding in future years based on projections of future program costs.

3. **Current Surplus:** The program has more funding than it needs to cover costs for that year.

4. **Projected Surplus:** The program is projected to have more funding than it will need to cover estimated program costs for future years. This is often called the “Pell reserve” because it provides a safety net for unexpected future increases in program costs.
When the Pell Grant Program Faces a Funding Gap, Students Pay the Price. Here’s How Congress Can Fix It.

When a surplus exists, funds remain in the Pell program to cover actual or unexpected growth in program costs—unless appropriators (1) use them to fund other programs, or (2) use the funds to make additional investments in the Pell program itself (such as increasing the award amount or expanding eligibility).

When the Pell program is facing a gap or is projected to soon be in shortfall, lawmakers must invest additional discretionary funds to cover expected costs or find ways to reduce program costs by curtailing eligibility or reducing the grant amount, putting our country’s most vulnerable students at risk. We discuss below how such shortfalls have previously caused both immediate and long-term harm to millions of students.

Preventing the Harm of a Pell Shortfall

The Great Recession offers the most recent example of the harm that befalls low-income students due to a Pell funding gap. In the wake of the economic downturn, families lost jobs and income, and, as a result, more students became eligible for Pell Grants. At the same time, college enrollment spiked as workers sought to re-skill or upskill in a difficult job market. This meant that the Pell program suddenly cost a lot more than lawmakers had expected prior to the recession.

As a result, by fiscal year (FY) 2011, Congress faced a significant funding gap between the amount appropriated in FY 2010 and the amount needed in FY 2011 to cover program costs. To close this gap, in fiscal years 2011 and 2012, Congress cut Pell program costs by more than $50 billion (over 10 years). Many of those cuts have not been restored.

Specifically, the FY 2011 budget agreement eliminated “year-round” Pell Grants, which had allowed students to use Pell Grants to pay for summer coursework. Lawmakers then made further program cuts in the FY 2012 spending package, including the enactment of an immediate, retroactive lifetime limit on Pell eligibility (a reduction from 18 semesters to 12 semesters), which immediately eliminated eligibility for millions of students.

Based on the most recent Congressional Budget Office baseline, we anticipate that the program is again in danger of a shortfall, potentially as soon as fiscal year 2026. To prevent another round of harmful program cuts, Congress must act now to shore up program funding.

Ultimately, the only way to fully eliminate this annual uncertainty is to shift the Pell program to be funded entirely on the mandatory side of the budget. This shift, which is proposed in the bicameral Pell Grant Preservation and Expansion Act, would eliminate the need for annual appropriations and provide for automatic adjustments in program funding based on changes in participation.

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1 For the current financial aid award year (2024-25), discretionary funding provides the first $6,335 of the current maximum Pell Grant award. The other $1,060 of the maximum award is covered by mandatory funding, which was established in prior authorizing legislation.
2 “The Pell Grant program operates as an entitlement to eligible students once the maximum grant, award rules, and payment schedule are established. The Higher Education Act does not provide for the denial of an award to any student who meets the qualifying conditions, nor does it allow for the reduction of any student’s award level.” See the Education Department’s Congressional Justifications for the President’s FY2025 Budget Request for more: https://www2.ed.gov/about/overview/budget/budget25/justifications/q-sfa.pdf.
3 The College Cost Reduction and Access Act (enacted in 2007) authorized mandatory funding to support increases to the Pell Grant maximum award set in each fiscal year’s appropriations act. The Health Care and Education Reconciliation Act (enacted in 2010) amended that provision and increased the maximum award by $690 for award years 2010-11 through 2012-13, and by the Consumer Price Index (CPI) from 2013 to 2017. Beginning with the 2018-19 award year, the add-on award is equal to the award year 2017-18 level and is not increased by the CPI.
4 Lawmakers sometimes make additional “mandatory” Pell investments to supplement the annual amount that appropriators provide.
5 Researchers can forecast Pell shortfalls and surpluses using Congressional Budget Office projections on how much the program is expected to cost in future years. Program costs are based on how many students are expected to enroll in a given year and how many of those students will be eligible for Pell funding.
6 Year-round Pell Grants were restored in the fiscal year 2017 spending agreement, but remain at risk in the event of a funding gap.