JASON DELISLE AND BEN MILLER

Myths & Misunderstandings
The Undeserved Legacy of Year-Round Pell Grants
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About the Authors

Jason Delisle is the Director of the Federal Education Budget Project, which is part of the Education Policy Program at New America. Mr. Delisle is a leading expert on the federal student loan program and federal financing for higher education. He was previously a senior analyst on the Republican staff of the U.S. Senate Budget Committee.

Ben Miller is higher education research director at New America, where he provides research and analysis on policies related to postsecondary education. Previously, Mr. Miller was a senior policy advisor in the Office of Planning, Evaluation, and Policy Development in the U.S. Department of Education.
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INTRODUCTION

The first two years of the Obama administration brought nothing but good news for student financial aid programs. Starting with the American Recovery and Reinvestment Act of 2009 (aka the “stimulus”) and continuing with the Student Aid and Fiscal Responsibility Act in 2010, which redirected subsidies banks collected for making federal student loans, the administration poured billions in new funds into student aid. These included increases to grants, tax benefits, and funding for community colleges and minority-serving schools. And that did not count several other proposed spending increases that were not adopted.

Then the president released a budget in 2011 that took a surprising turn. Yes, increases to the maximum Pell Grant would be sustained, but there would be a price to pay. After years of budgetary procrastination, a more than $1,000 increase in the maximum award per student, and nearly 4 million additional recipients, lawmakers would need to come up with over $11 billion to boost the program’s budget that year. To make matters worse, the low-hanging budget fruit had already been picked. Congress and the administration had just redirected the last of the subsidies from the bank-based student loan program.

That left administration officials without an easy option to pay for a program that had seen massive cost increases on their watch. While they could have argued that lawmakers should provide the necessary funds in the annual appropriation for the program, they instead proposed to cut benefits. The administration’s budget request would achieve large savings within the Pell Grant program by eliminating a little-discussed provision that allowed students to receive an additional Pell Grant for attending school beyond the typical two-semester schedule. (See Box 1 for a note about how this paper uses the term “semester.”) This so-called “year-round Pell Grant” was a largely unnoticed part of the 2008 reauthorization of the Higher Education Act, and most students had not even started benefiting from it until 2010. Despite flying under the radar, what was viewed as a minor change turned out to have a huge price tag—over ten times greater than expected, according to one estimate.

Lawmakers quickly adopted the president’s proposal to eliminate year-round grants as part of a large budget bill in early 2011, preserving the maximum Pell Grant at its then-current level in the process. There were no hearings; no studies, research, or opinion articles; no
press conferences; and not a single vote in committee. The year-round Pell Grant was ended less than two years after it had gone into effect.

Regardless of its short lifespan, the death of the year-round Pell Grant is a story that has lingered in the higher education policy community, fueled by widespread suspicion that lawmakers ended the program for reasons beyond solving a budget crisis. These theories are many and varied: the Department botched the implementation and unnecessarily drove up costs; bad actors exploited the program; the initial cost estimate was wrong and misled policymakers. “He-said, she-said” finger-pointing aside, there is no consensus about what really happened and why, even among those who helped create—and end—the program.

To set the record straight, we carefully reviewed the history of the year-round Pell Grant, the statute and regulations that implemented it, budget statistics, and the rationales given for its elimination. We also interviewed experts inside and outside the executive branch and Congress. What we found was not the gross incompetence, abuse, or ill-designed policy that many believed plagued the original program. Rather, the year-round program was buffeted by the same forces that caused every other part of the Pell Grant program to rise in cost: Enrollment surged due to a severe economic recession; and for the same reason, families’ weakened financial situations qualified them for larger grants. All of this coincided with decisions Congress had made that exacerbated funding problems with the overall Pell Grant program. In this atmosphere of economic recession and budgetary kick-the-can, ending year-round grants became an expedient way to trim costs without sacrificing more visible parts of the program.

Despite its troubled history, we believe the year-round Pell Grant has merit and recommend a new version. Similarly, multiple proposals introduced in the last Congress would have reestablished some version of the policy. It is thus imperative that lawmakers and the policy community understand what really happened to the original program. They will also need to understand that many of the features and outcomes of the original program that affected its cost are mostly unavoidable and are not flaws. Finally, given the ongoing concerns about the cost of the overall Pell Grant program, we suggest alternative ways to restore the year-round grant that should make costs more predictable.
Understanding the purpose and merits of a year-round benefit in the Pell Grant program first requires an explanation of the traditional program and its inherent limitations. Congress established what is today known as the Pell Grant program in the 1972 reauthorization of the Higher Education Act. The program has since provided federal grant aid directly to financially needy undergraduate students to help pay for the cost of attendance at any eligible school.

The amount of Pell Grant money a student receives each year is a function of three factors: (1) the maximum award, which lawmakers set annually and is $5,730 for the 2014-15 year; (2) the student’s expected family contribution; and (3) the student’s enrollment status (i.e., full-time, three-quarter-time, half-time, or less than half-time). The first two factors affect the maximum Pell Grant a student could receive in a year—what is known as a student’s “scheduled award.” The third, meanwhile, dictates how much of that scheduled award a student will receive, what is known as a student’s “annual award.”

A student’s scheduled Pell Grant is the difference between his expected family contribution, which is generated by filling out the Free Application for Federal Student Aid (FAFSA) and the maximum award for a given year. For example, if a student’s expected family contribution is $1,250 and the maximum Pell Grant is $5,730, then his scheduled award would be $4,480. Students with a zero expected contribution are eligible for the maximum award. On the other end, a student loses eligibility for a Pell Grant once his expected family contribution exceeds 90 percent of the maximum award.

Just because a student qualifies for the maximum award does not mean she actually receives that amount. That’s because the amount disbursed is also based on whether the student is attending full- or part-time. A student’s scheduled award reflects how much money she could receive if she attended full-time, defined as attempting at least 12 credits per semester. Students who do not take a full-time course load receive a proportionally smaller amount. For example, someone attending half-time (six to eight credits a semester) only receives half of her scheduled award, while someone attending three-quarter time (nine to eleven credits) would receive 75 percent of her scheduled award.

Enrollment status is where the program’s limiting features come into play. Since annual Pell Grants are based on how many credits a student attempts over multiple semesters, a student who attends full-time during the traditional school year will exhaust all of her...
Box 1. Notes on Terminology

**Year-Round Pell Grant**

What this paper refers to as the “year-round Pell Grant” or the “year-round grant” or the “year-round program” differs from the technical way it was described in statute and regulation and was commonly understood in the financial aid community. Those sources referred to the benefit as a “second grant” or “two Pells.” That is technically a more accurate description because the benefit allowed a student to receive a second Pell Grant award in a single year. Other sources, more commonly in the media, referred to the year-round program as a “summer Pell Grant,” but this paper does not use that description because the benefit was not restricted to summer courses.

**Semester**

For the sake of simplicity, this paper uses the term “semester” as a generic way to describe part of an academic year. In practice, the year-round Pell Grant was available to students regardless of their college’s type of schedule, including trimesters, quarters, those measured in clock hours, and other types of terms.

**School Year**

For the sake of simplicity, this paper uses the term “school year” generically to refer to both an academic year and an award year. The federal student aid programs define years in a slightly different way than schools. Most schools operate on an academic year, which at a traditional college is roughly nine months split into two semesters. The federal student aid programs, meanwhile, operate by award years, which are the 12 months that run from July 1 of one year to June 30 of the following year (e.g., the 2014-15 award year is defined as July 1, 2014 to June 30, 2015). The year-round Pell Grant allows a student to enroll for more than one academic year’s worth of classes within the same award year and receive an additional Pell Grant.

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aid before the summer session begins. She will have received half her scheduled award in attempting 12 or more credits in the fall semester and the other half to do the same thing in the spring session (see Figure 2, Student A). This shortage of aid is not limited to the summer. If a student attends a college that treats the summer as the start of the year, receives Pell Grants as a full-time student in that summer, and then attends full-time in the fall, she will not have enough aid to attend full-time in the spring (see Figure 2, Student B). If, however, she attends only half-time over two semesters, she will use only half of her scheduled award, leaving up to the remaining half to pay for summer courses (see Figure 2, Student C). Similarly, someone who takes a full-time course load for the first semester and then a three-quarter-time amount the next would leave one-eighth of her scheduled award to use in the summer (see Figure 2, Student D).

In short, setting Pell Grants by enrollment status creates a situation in which someone who wants to finish school faster by enrolling in more semesters than the traditional schedule, or at least reduce the amount of time spent completing a degree, must find the resources to cover the summer (or any additional semesters). Student loans would be the logical source of additional funds to cover costs not met by grant aid. Attending part-time, however, allows students to use aid year-round by distributing the same amount of dollars over 12 months instead of nine. The program thus rewards part-time attendance with more flexibility.
Calculating A Pell Grant

Note: This simplified explanation assumes that a student’s cost of attendance is greater than his or her grant amount, and that students are enrolled for two semesters, with consistent enrollment time in both semesters. Expected family contributions are rounded prior to calculations.

<table>
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<th>Expected Family Contribution</th>
<th>Enrollment Status</th>
<th>Actual Pell Grant Received</th>
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<td>$2,750</td>
<td>0.75</td>
<td>$2,235</td>
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</table>
FIGURE 2
Pell Grants Without Year-Round Benefits

This figure shows how the traditional Pell Grant’s limitations affect four different students over a school year (the horizontal axis of each figure). Green blocks indicate a Pell Grant covers a student’s courses; red blocks indicate where her Pell Grant falls short. Block height indicates her enrollment status (full-time, half-time, etc.) in a given semester.

Student B’s school treats summer as the start of the school year; in the other examples, summer is treated as the end of the school year.

Students A attends full-time during the traditional school year and exhausts her Pell Grant before the summer semester begins. Student B attends half-time in the summer and then full-time in the fall. When she attends full-time in the spring she will only have one-fourth of her annual Pell Grant left to use. Student C is the only student unaffected by the absence of year-round Pell Grants. She attends half-time over fall, spring, and summer, leaving one quarter of her annual Pell Grant unused. Student D is an in-between case. She takes a full-time course load in the fall semester and then a three-quarter-time load in the spring, leaving one-eighth of her annual Pell Grant to use in the summer.
The inherent limitations of the traditional Pell Grant led policymakers in the mid-2000s to propose making grants available to students year-round. President George W. Bush’s 2005 budget request included one of the earliest proposals, stating, “Pell Grants would be made available year-round at eligible 2- and 4-year degree granting schools, giving students a more convenient option for accelerating their studies and promptly completing their educations.” The proposal limited Pell Grant eligibility to 16 semesters, suggesting that if Pell Grants were available throughout an entire year, then students should be subject to an overall limit. None of the budget materials mention the cost of the proposal.

That same year, House Republicans introduced a bill to reauthorize the Higher Education Act that included a year-round Pell Grant. It also added a 16-semester limit and included other restrictions on the new year-round grants. They would be available only to students attending full-time for an entire year who were pursuing bachelor’s or associate’s degrees, but not certificates, at schools that met a graduation rate standard.

These proposals did not win passage initially, but in 2007, House Committee on Education and Labor Chairman George Miller (D-CA) introduced a bill to reauthorize the Higher Education Act, titled the Higher Education Opportunity Act (HEOA), which included a year-round Pell Grant provision. The bill was eventually signed into law in August 2008. The HEOA included an 18-semester limit for Pell Grants, but in other ways it was far less restrictive than earlier proposals. There was no graduation rate requirement for schools, students could receive the year-round grant for certificates, and both half-time and full-time students were eligible. The statute’s only real restriction was that students “accelerate” their educations to qualify for the year-round grant.

**How Year-Round Pell Grants Worked Under the HEOA**

The goal of the year-round Pell Grant enacted in the HEOA was to provide additional grants to students who had already exhausted their Pell Grants for the school year but wanted to take additional courses. While informally known as “summer Pell,” the program technically could provide students with year-round grants at any point in the academic calendar. As was discussed before, Congress described in the statute partly how the program should work and who would qualify. Though lawmakers made “acceleration” a key requirement for eligibility, they never explained how this term should be interpreted. Implementation of the year-round Pell Grant thus hinged on the Department defining the term through regulations.

At one extreme, the Department could define acceleration in absolute terms, meaning a student was accelerating if he took enough coursework to complete a credential faster than the expected time for that particular course of study (i.e. completing a four-year degree in three years). At the other extreme, the Department could define it in relative terms: A student could qualify if the coursework paid for with the year-round grant would allow him to complete his course of study faster than he otherwise would. This latter definition was the least restrictive, since attempting any additional coursework should speed up a student’s time to degree if he had not completed a full year’s worth of classes. Ultimately, the Department chose a point midway between these two extremes.

To qualify for a year-round Pell Grant, students had to attempt coursework that counted toward a second school year within a single school year. If a school defined a school year as 30 credits (the minimum permissible amount), then a student had to attempt at least his 31st credit during the semester for which he would use a year-round grant. Students who took a full-time course load over the fall and spring semesters but did not earn an academic year’s worth of credits would not be eligible for a year-round Pell Grant that summer. While emphasizing only how many credits students earned in a given year did not address questions of how long it would take a student to finish a degree, the standard would at least ensure that recipients finished more than one school year when using a year-round grant.
It is important to note that students did not need to earn a year’s worth of credits first, but could also receive a year-round grant to bridge between finishing one school year and starting the next. The year-round grant covered credits that would move a student across the threshold of earning a school year’s worth of credits. An example using the 30-credit school year just mentioned illustrates this rule. If a student earned 28 credits through the fall and spring semesters and was attempting six more in the summer, then he would qualify for a year-round grant. The six credits financed by the year-round grant would allow him to finish one year’s worth of credits and pick up some for the second year. Alternatively, had he only earned 20 credits even though he had received grants for a full-time load, and then attempted four more in the summer, he would not be eligible because he fell short of using the year-round grant to complete a full school year of coursework and begin a second.

For students who met these requirements, the Department calculated the year-round grant using the same formulas and processes as a regular Pell Grant issued in a semester. This meant that the size of year-round grants varied by student based on the number of credits he attempted, his expected family contribution, and his cost of attendance. The award a student could receive as a year-round grant in a given semester was the same as the regular Pell Grant. For example, a student taking 12 credits during a summer semester qualified for one-half of his scheduled award, just as he did in each of the spring and fall semesters.
The final rules implementing the year-round Pell Grant under the HEOA required that schools award the grants starting in the 2009-10 school year. An estimated 1.2 million students used the grant in the 2010-11 year, the only year for which such a statistic is available. But 2010-11 would be the last year the program would be available. Midway through that school year, even before most of those students would receive the grant, President Obama proposed eliminating the program. Congress accepted his proposal within a few months in April 2011.

The swift congressional action came out of budgetary necessity. In early 2011 the Congressional Budget Office (CBO) reported that the overall Pell Grant program needed an $11.2 billion increase to the base funding from the prior year or else policymakers would need to cut the maximum award. The savings from ending the year-round grant would go a long way toward bridging that gap. (Policymakers would also increase the base funding to fully bridge the gap.)

Many in the policy community have come to believe that the reason policymakers saw ending the year-round Pell Grant as a solution to the budget crisis was because the program was flawed. The Obama administration made its case for ending the program on those grounds, claiming year-round Pell Grants failed to encourage students to accelerate their education and that the program cost substantially more than expected. Ending it would restore "fiscal integrity" to the Pell Grant program. Others turned the blame for supposed flaws in the program back on the Department, claiming that the agency made mistakes in implementing year-round Pell Grants, unnecessarily increasing costs and letting students and schools qualify for more funds than Congress had intended.

Our work reveals that these views are largely incorrect. Some are only partially true while others are myths born out of misconceptions about how the program operated or how the federal budget records costs. Because we believe, as do many others in the policy community, that a year-round Pell Grant is sound policy, it is imperative that these alternative explanations be refuted. We examine each one in the next section.

Claim: Costs Were Unreasonable

Perhaps the most common justification for ending year-round Pell Grants was that the policy cost far more than budget experts and policymakers had expected, implying that unexpected costs were unreasonable. While there is no publicly-available cost estimate from when the year-round program was enacted in late 2008, interviews with budget experts familiar with the initial estimates for the HEOA suggest that it was around $400 million per year. By early 2011, the CBO was reporting that year-round Pell Grants would cost $3.6 billion per year, although it later revised that down to $2.1 billion. Thus the cost was between five and nine times greater than expected. But that framing ignores the fact that everything in the Pell Grant program ultimately cost more than budget agencies predicted, driven by a combination of increased benefits, eligibility changes, and the economic recession.

Between 2007 and 2010, Congress made a number of changes to the way financial aid eligibility is calculated that made more students Pell-eligible and increased the amount of aid students could receive. This included a $490 increase in the maximum Pell Grant through the College Cost Reduction and Access Act of 2007 and a further $565 increase through the American Recovery and Reinvestment Act. Separately, lawmakers increased the minimum Pell Grant as part of the 2008 Higher Education Opportunity Act. Generally, those changes not only meant students could receive larger grants, but that more students would qualify for a grant.
Technical changes to the federal financial aid formulas in the College Cost Reduction and Access Act of 2007 had similar effects. These included increasing the amount of income automatically excluded when calculating applicants’ earnings on the FAFSA, an increase in the amount of income a student and his family could earn and automatically qualify for a maximum Pell Grant, and no longer treating some federal benefits, such as welfare, as a form of income. And though all of these changes were enacted piecemeal over three years, policymakers scheduled them all to take effect fully starting with the 2009-10 school year—exactly when the year-round Pell Grant first became available.

The problem was that 2009-10 was the same time period that larger economic factors helped dramatically increase the number of Pell Grant recipients. Poor employment prospects drove hundreds of thousands of individuals into higher education, including many lower-income adults who qualified for Pell Grants. Widespread loss of income and wealth also meant more people would be eligible for the grant than in the past. As a result, the number of recipients jumped from 5.5 million in 2007-08 to 8.1 million in 2009-10, a nearly 50 percent increase.

A year later there were 9.3 million recipients. The rise in costs was also meteoric. From the 2003-04 to 2006-07 school years, annual costs in the Pell Grant program hovered around $13 billion. By 2010-11, they had reached $35.7 billion.

Given those trends, the fact that the cost of the year-round Pell Grants ended up higher than expected hardly looks unreasonable. Consider that if policymakers had never enacted the year-round grant, the cost of the Pell Grant program would have still spiked, peaking at $33.6 billion instead of $35.7 billion in 2010-11. Measured in the context of the entire Pell Grant program, year-round grants accounted for only 5.9 percent of total costs that year. (See Figure 4.)

Similarly, we find that the revised costs for year-round Pell Grants were similar to those for other parts of the program. A memo the Department issued just one year after the 2007 eligibility changes under the College Cost Reduction and Access Act were enacted (which would take effect at the same time as the year-round grant) is instructive on that point. The Department revised the number of projected Pell Grant recipients upward from 5.8 million to 6.5 million for the 2009-10 school year and reported that as a result, the cost of the 2007 changes would be $1.4 billion more per year than expected. Yet the number of actual recipients ended up at 8.5 million that year, meaning the eligibility changes easily cost $3 billion, or two-and-a-half times more when they took effect than what policymakers and budget experts had initially expected.

**Claim: Year-Round Pell Grants Should Cost Nothing**

When it was first proposed, many in the policy community were (and still are) under the impression that a year-round grant should not increase the cost of the overall Pell Grant program. Lawmakers even argued it should reduce costs as students earned credentials faster. The basis for this view is that a student who uses two years’ worth of grant aid in one year and spends it on two years’ worth of classes does not result in receiving more grant aid overall. He merely “accelerated” his course taking and grants. While costs increase in the first year, this theory goes, they are reduced by the same amount in the next. This logic likely contributed to the sense that design flaws must explain why year-round Pell Grants ended up costing billions per year.

The federal budget, however, does not recognize a year-round Pell Grant as a zero-sum transaction because it does not measure spending on a per-student basis; it measures the effect of a policy on the government’s finances. Furthermore, Congress funds most of the Pell Grant program one year at a time through the annual appropriations process which, by its nature, will show that a year-round grant increases costs. The year-round grant pulls funding forward from a future, yet-to-be drafted appropriations bill and makes it appear on the current bill. The program must therefore show an increase in funding on the first year’s appropriations bill, despite the fact that students may, over an academic course, use no more grant aid individually than if the policy were not in place.

The effect is also no different in a multiyear budget window. Just as the year-round grant carries next year’s spending into this year, it does the same thing again for every year in the future in a cascading effect such that the transaction never nets to zero on any time horizon. The upshot is that any year-round Pell Grant provision will appear in the budget as an increase in spending on Pell Grants on a dollar-for-dollar basis. If the Department disburses $1 billion in year-round Pell Grants, then the net effect on federal spending, relative to the program not existing, will be an increase of $1 billion. This is not
Comparing The Cost of Pell Grants With and Without Year-Round Grants

Source: New America using Congressional Budget Office figures.

Note: Based on constant annual cost of $2.1 billion, the program’s reported cost in the 2010-11 school year. Assumes cost is half as much for the 2009-10 school year to reflect that the program had just begun.
Box 2. A Bad Year To Judge Year-Round Pell Grants

Observations about the year-round Pell Grant around the time that policymakers ended it were based on a single year of data that did not reflect exactly how the program was supposed to function. Schools were required to award year-round Pell Grants starting with the 2009-10 school year (which meant effectively the summer of 2010). But the Department’s rules on how the program was to operate, while announced in late 2009, did not go into effect until the 2010-11 school year.

Therefore, in its first year the year-round Pell Grant operated outside of the rules the Department developed for it. Schools were instead given discretion in issuing the grants, so long as they followed the Department’s guidance and used a legally defensible approach. Schools also had the option to use the Department’s final rules set to take effect the following year. As a result, some schools could have used a laxer approach in offering year-round Pell Grants compared with the final rule, while others could have chosen stricter rules. Their choices could have distorted how the year-round grant operated compared with how it would operate once the Department’s rules took effect.
As the Congressional Research Service reports, year-round Pell Grants “had a significant impact on program costs, in part due to the regulatory interpretation of the provision...” Under this reasoning, the Department loosened the eligibility rules beyond congressional intent in such a way that far more students benefited and received more money than originally intended. While this explanation was pervasive among people we interviewed in the policymaking community, our analysis suggests that it is erroneous. If anything, it was the legislative language that Congress wrote that was open-ended and the Department narrowed the scope of the program. (See appendix for the statutory language.)

The Department has been a common scapegoat for the unexpectedly high cost of year-round Pell Grants

In fact, organizations such as the National Association of Student Financial Aid Administrators argued early in the regulatory process that the Department should implement a more open-ended version of the program than what it ultimately decided. Other stakeholder groups made similar arguments, suggesting that Congress did not intend for the Department to develop any rules that would limit eligibility for year-round grants beyond the existing requirements in the Pell Grant program. Ironically, the Department’s rules were originally criticized for being too strict but now are understood by many in the policy community as having been too lax.

The issue of whether the rules were sufficiently restrictive comes down to how the agency interpreted what it means for a student to accelerate; Congress had already defined the other eligibility rules in the statute. As was explained earlier, the Department defined acceleration in a middle-ground approach. It was looser than the most restrictive option possible because it focused on annual credit accumulation, not overall progress toward a degree, and allowed students to use the second grant to bridge toward finishing one school year and starting another. But it did not allow a student to be eligible for a year-round grant only because he had exhausted his regular Pell Grant for the year, as some in the policy community desired. Had the Department chosen this approach, someone who attempted a full-time course load over multiple semesters but failed a large number of classes might still have been able to qualify for additional grant aid. As such, we believe that the Department’s approach was neither so loose that it would have dramatically expanded the program beyond what Congress intended nor should it have meaningfully increased the cost beyond initial expectations.

Unhappiness with the Department’s implementation of the year-round Pell Grant can be more easily attributed to a regulatory provision that increased the burden on financial aid administrators. The issue concerns which year the second grant should be attributed to if a student is attending in the summer (e.g., whether summer 2010 enrollment that crosses over July 1st is part of the 2009-10 or 2010-11 year). Financial aid administrators wanted to retain their discretion to choose the year. The Department, however, required them to choose based on which year would produce greater amounts of aid for the student for those summer courses. This generated substantially more work for financial aid administrators to determine aid amounts and individually assign students to different years, and earned the program a poor reputation in the community.

Claim: Students Could Receive Two Full Grants

Related to the concerns that the Department’s implementation was lax is the commonly held belief that students inadvertently received two full Pell Grants in a single year. Even proposals introduced in the last Congress to reinstate a year-round grant include provisions to guard against the alleged error. Under this theory, instead of students receiving one-half the annual Pell Grant three times during three semesters ($2,775 per full-time semester in the case of the maximum grant in 2010), they supposedly received a full grant of $5,550 for the third semester. Thus the program provided 50 percent more grant aid than intended. The facts, however, contradict this assertion.

The average year-round Pell Grant in 2010-11 was $1,700, which is less than half of the $3,833 annual average grant that students received. Note that in awarding year-round Pell Grants, the Department followed the same calculations used during the rest of the year. So a student who earned a school year’s worth of credit and enrolled for an additional semester, such as a summer semester, would receive an additional award worth no more than one-half of what he would receive from his scheduled award for any other semester. And he would only receive such an amount if he took a full-time course load of 12...
credits that summer, the same standard he would have to meet to get the full amount of his normal scheduled award for that semester. If a student was taking six credits in the summer—a more likely load given the compressed nature of the semester—then he received one-fourth of a scheduled award as he would have if he took six credits in any other semester.

In fact, the only way students could have earned two full Pell Grants would have been in the unlikely event that they had attempted two full school years’ worth of work in one year. Receiving two full annual awards in a credit-based program would thus require attempting 24 additional credits over two additional semesters.65

Claim: For-Profit Colleges Abused It

Although the Obama administration’s stated reasons for eliminating the year-round Pell Grant emphasized concerns about cost and lack of degree acceleration, individuals outside the government were suspicious that those were second order effects. The proximate cause of the program’s purported failings, they suspected, was abuse by private for-profit colleges. While the Obama administration appears to have never made this claim, news outlets and analysts implied or asserted this explanation.66

A Bloomberg article, for example, implied that for-profits may have been taking advantage of the program because they received 32 percent of year-round Pell Grants (measured in dollars) even though they account for about 25 percent of Pell recipients.67 But the use of year-round grants at for-profit colleges may not be quite as disproportionate as it may first seem. The subset of students who could qualify for a year-round Pell Grant were those taking over a year’s worth of credits by taking classes in more than just the fall and spring. And since many for-profit colleges promote their year-round course schedules and accelerated programs, it is possible that a greater share of students attending for-profit colleges would have met these conditions than students enrolled in other types of schools. Unfortunately, the Department has not published an analysis or released data that would allow anyone to verify this point.

If for-profit colleges really were abusing year-round grants then it would have most likely been due to vulnerabilities in the overall Pell Grant program, not something specific to the year-round grant. Year-round grants were awarded by the same rules as traditional Pell Grants once a student’s eligibility had been determined. If a school was gaming the year-round program by inflating the credit value of courses so that part-time students would be treated as full-time and earn more aid, or by watering down standards for students to meet satisfactory academic progress, then those issues would manifest in the entire Pell Grant program or in federal aid programs writ large. They certainly merit attention, but are not indications of a flaw in year-round Pell Grants.

The timing of the Department’s regulations complicates any analysis of year-round grants issued at for-profit colleges. During the 2009-10 school year—the only full year of the year-round program’s implementation before the call to end the program—colleges had flexibility to implement the program as they saw fit. They had to follow a legally defensible approach, but could have chosen to be less restrictive than under the Department’s regulations. While there is no evidence that for-profit colleges chose to be laxer in their implementation of the year-round Pell Grant than the regulations allowed, there was an opportunity for them (and all other colleges) to award year-round Pell Grants to students who would have been ineligible a year later under the Department’s rules.

There Never Was a Fatal Flaw

All of these claims about the demise of the year-round Pell Grant make the same mistake. They assume that there was something in the way the program was designed that caused undesired outcomes. If only that fatal flaw could be identified, so the theory goes, those outcomes could be explained and understood—and perhaps avoided with a better design. But as we have shown, there was no major design flaw in the program. Rather, unexpected costs resulted from numerous eligibility changes that policymakers made to the overall Pell Grant program, an enrollment explosion due to the economic recession, and budgeting decisions. Understanding and recognizing these facts is crucial for thinking about how a year-round program should operate if one is reinstated. There are no flaws to “fix” and make the program work as originally envisioned. At most, policymakers could limit eligibility for year-round grants further, but that would likely end up excluding the very students they aim to help.
NEW PROPOSALS

A number of proposals introduced in the last Congress to reauthorize the Higher Education Act would have re-established some form of a year-round Pell Grant (see Box 3). Although the exact details of each vary, these proposals indicate that lawmakers have a strong interest in finding a way to make the grant program work better for students who do not follow the two-semester enrollment pattern.

Many of these proposals make only minor modifications to the original year-round grant, and others even make eligibility less restrictive than the prior program. Moreover, none, in our view, would significantly reduce the budgetary costs relative to the original program (CBO cost estimates are not available). This is not a case of policymakers making the same “mistakes” as before. As we argue, the original year-round program was hardly flawed. On the contrary, the fact that new proposals mimic the original idea demonstrates how the design and outcomes of the original year-round policy are mostly unavoidable and are in fact inherent to accomplishing the goal of a year-round Pell Grant.

Even though there are inevitable cost considerations in enacting a year-round Pell Grant, the program can still be worth the added cost. Research shows that academic momentum and credit accumulation matter a great deal in determining whether students graduate.\(^4\) The year-round Pell Grant can thus help more students engage in completion-oriented behavior by taking more courses and fewer breaks between semesters. Helping students complete degrees faster can also lower the overall financial burden of college since students will enter the workforce sooner and any interest on student loans will accumulate over less time. Finally, a year-round Pell Grant acknowledges that higher education enrollment is no longer about just taking courses during two semesters and provides funding that better accommodates students in the way they progress through their programs today.

With these ultimate goals and benefits in mind, there are several ways a year-round Pell Grant could be redesigned to function better. Though none of these alternatives would mitigate the program’s cost, they could at least manage it in a more predictable manner as well as present opportunities to ensure that grant aid would be better targeted at successful schools. In laying out these alternatives we hope to help the policymaking community understand the tradeoffs and decisions that must be made to ensure the successful return of year-round Pell Grants. Otherwise, the same illogical or unfounded justifications for eliminating year-round Pell Grants in 2011 could again undermine support for the program or be used as an excuse to end it.

Box 3. Legislative Proposals

Senators Alexander and Bennet: In 2014, then-ranking member of the Senate Health, Education, Labor, and Pensions committee Lamar Alexander (R-TN) and Senator Michael Bennet (D-CO) drafted a bill to reform federal student aid, called the FAST Act, and included a year-round Pell Grant.\(^5\) It mimics the initial year-round Pell Grant, but is also less restrictive in some ways. Like the original program, it would allow students who complete more than a year’s worth of coursework and want to take additional classes to receive an extra Pell Grant up to the amount they would receive the following year, with the actual amount varying, based on the number of credits attempted.

Going beyond the original program, it would also make grants available to students who did not complete a year of coursework. Students qualifying through this provision would not be able to receive more than one-and-a-half Pell Grants—what basically works out to enrolling for three semesters at full-time attendance—and would have to meet two conditions. First, a student would have to take enough additional credits to finish his
current school year (e.g., earn 30 credits). Second, the additional credits attempted would have to put him on track to finish his program on time (e.g., complete a bachelor’s degree in four years). These conditions thus limit additional aid to students who have only slightly fallen behind. For example, a freshman who took a full-time course load could receive additional aid to make up for a class or two failed during the year, since doing so would get him back on track to finish his overall program on time. But someone who is on track to finish a bachelor’s degree in six years would not be eligible since he could not take enough additional courses in time to get back on a pace where he would graduate in four years.

Senator Harkin: Senator Tom Harkin (D-IA), the retired former chairman of the Senate Health, Education, Labor and Pensions Committee, included a year-round Pell Grant in a discussion draft of a bill to reauthorize the Higher Education Act in 2014. It is similar to the original program, but includes restrictions that would be unlikely to further limit the program in practice.

Specifically, students would need to have been enrolled full-time during the preceding semester and have finished a full-time course load. This is a slightly tougher standard than the original program since it requires students to first earn a year’s worth of credits, precluding the opportunity to bridge between school years in the way the Department originally allowed. The Harkin proposal would also restrict an annual Pell Grant (a combined regular and a year-round grant) to no more than 150 percent of the maximum annual award. But that is how the original program generally worked as well, even though it technically allowed students up to 200 percent of the grant. In practice, students received an additional one-half of an annual Pell Grant as their year-round grant.

Senator Hirono: The most flexible and generous proposal to reinstate a year-round program is in the Pell Grant Protection Act. Senator Mazie Hirono (D-HI) introduced the bill in 2014 and received help from the National Association of Student Financial Aid Administrators to develop it. Rather than addressing specific acceleration requirements, the Hirono proposal would allow a student to receive a year-round Pell Grant so long as he enrolled for another semester or other academic period and is meeting the school’s satisfactory academic progress requirements. A student would not have to actually earn a year’s worth of credit or necessarily be accelerating at all to qualify. In addition, the proposal does not have a stated limit on how much in additional Pell Grants a student can receive, suggesting students can keep earning extra Pell Grants as long as they qualify, within the overall 12-semester limit.

House Republicans: The Republican-controlled House Committee on Education and the Workforce and Representative Paul Ryan (R-WI) both proposed in 2014 to add greater flexibility to the Pell Grant program. While not a year-round grant proposal like the others, it would change the Pell Grant program into a “flex fund” equal to the amount of aid a student could receive from the program over six years. Students could then draw down funds as they took courses, suggesting that students could receive aid for year-round attendance regardless of whether they are accelerating, so long as they have enough funds left in their account. One technical hurdle this proposal would need to overcome is that federal student aid amounts are set annually when families complete the FAFSA. It is unclear whether and how the amount available in a student’s flex fund would be set using the FAFSA. Unlike other proposals listed here, the sponsors have not released legislative text.
While these alternative congressional proposals for year-round Pell Grants would improve upon the program in one way or another, they still operate in the same framework of credits, school years, and other elements that helped breed confusion about the original program. Fortunately, there are a few other ways to construct a year-round Pell Grant that could avoid some of the limitations of this framework.

**A Separate Summer Session**

The year-round program was informally known as “summer Pell,” but its structure actually allowed students to receive the assistance at any point in the year so long as they had finished a school year. Instead of that approach, policymakers could make the year-round Pell Grant an exclusive option for the summer. This format would treat the summer session as a separate mini-year within the aid formulas. The most a student could receive would be half of the annual maximum award and the actual award would be based on how many credits a student is attempting for the summer. Financial aid administrators could run the award calculation off of FAFSA information for either the prior or successive year, but the amount the student received would not count toward either year. The advantage of this option is that financial aid administrators would not have to deal with questions of acceleration or credit accumulation for a given year, though it would not work as well for programs that operate on less traditional schedules.

The biggest drawback of this option is the lack of an explicit emphasis on acceleration. Nevertheless, the overall Pell Grant program already includes several incentives for students to accelerate and complete. The most significant of these is the semester limit on Pell Grants. Because a student cannot receive Pell Grants for more than 12 full-time semesters (which Congress reduced from 18 in 2011), a student who uses some of that time for summer coursework has a strong reason to use this aid to progress or else risk exhausting her aid before her program is over.16

**Summer Funding**

The student-based voucher structure of Pell Grants provides benefits in maximizing choice and options for students. But this makes it less effective at supporting schools to grow programs and build capacity since funding is linked directly to students. It also makes it harder to ensure that federal funds go to schools that serve students well rather than those that solely succeed at recruiting, not helping, students.

Encouraging year-round course attendance is one way to partially break the student-based funding approach. Instead of a voucher model, the federal government could provide a set amount of money for direct grants to schools. Colleges receiving these grants would have to offer courses with no or low tuition and fees for Pell Grant recipients, with a priority placed on introductory courses in short supply where students are prevented from progressing through their education.

Paying directly for courses rather than on a per-student basis allows Congress to set an explicit price expectation on the course, ensuring low costs.

Paying directly for courses rather than on a per-student basis has several advantages. First, it allows Congress to set an explicit price expectation on the course, ensuring low costs. Second, providing funds directly to schools makes it easier to target grants toward schools that are going to make the best use of funds in helping students complete their educations. Third, it reshapes the goal of federal aid toward purchasing a defined service versus providing a voucher in hopes that that is sufficient to cover the cost of the education.
The origins of the Pell Grant program date to a time when students largely attended school full-time for two semesters each year. Today’s higher education students increasingly do not fit that pattern. They attend throughout the year, using the summer as a chance to catch up or get ahead. For them, the goal is to get through a program as expeditiously as possible, not spend years lounging around on grassy quads. The initial year-round Pell Grant was a much-needed attempt to modernize the old program structure to fit these new needs, but it was ultimately undone for budgetary reasons that were a product of larger economic conditions, poor planning by Congress and the Obama administration, and simply bad timing. Separating the facts from the misinformation and rumors that have spread since the demise of the year-round Pell Grant is crucial to ensuring that policymakers can enact sensible policy changes in the future.
Year-Round Pell Grant, Statutory Language under the Higher Education Opportunity Act of 2008, Public Law 110-315

SEC. 401. FEDERAL PELL GRANTS.

"(5)(A) The Secretary shall award a student not more than two Federal Pell Grants during a single award year to permit such student to accelerate the student’s progress toward a degree or certificate if the student is enrolled--

"(i) on at least a half-time basis for a period of more than one academic year, or more than two semesters or an equivalent period of time, during a single award year; and
"(ii) in a program of instruction at an institution of higher education for which the institution awards an associate or baccalaureate degree or a certificate.

“(B) In the case of a student receiving more than one Federal Pell Grant in a single award year under subparagraph (A), the total amount of Federal Pell Grants awarded to such student for the award year may exceed the maximum basic grant level specified in the appropriate appropriations Act for such award year."

2 The cost of attending a program can also affect a student’s Pell Grant, but in practice this matters only if he attends a very low-cost school and incurs no living expenses such that his total cost of attendance is less than the grant he could receive.

3 Students’ actual Pell Grant award will deviate slightly from this formula because the U.S. Department of Education uses disbursement schedules to calculate awards. These schedules set the same award for all students with an expected family contribution and cost of attendance within the same $100 ranges (e.g. $1,001 to $1,100). The actual Pell award is thus equal to what someone at the midpoint of the $100 ranges would receive. So someone with an EFC of $1,017 and a cost of attendance of $2,208 is treated as if his EFC was $1,050 and his cost of attendance was $2,250.

4 Currently, with the maximum Pell Grant set at $5,730, students must have an expected family contribution no higher than $5,157 in order to be eligible for the smallest scheduled award of $602 for the 2014-15 year.

5 Schools have the option of requiring a higher number of credits for full-time status.


7 At the time, there was no semester limit on Pell Grant eligibility. The current 12-semester limit was added in 2012. The semester limits are full-time equivalency measures. A student attending half-time can therefore receive Pell Grants for double the amount of time.


9 A Bill to Amend the Higher Education Act, H.R. 4137, 110th Congress.


11 The 18 semester requirement only applied prospectively to students receiving their first grants after July 1, 2008. The semester limits are full-time equivalency measures. A student attending half-time can therefore receive Pell Grants for double the amount of time.

12 Neither the legislative text nor the report language accompanying it provides any guidance on the concept of “accelerate” that Congress intended.


14 A student who began a subsequent semester with an unused portion of his Pell Grant would have those funds combined with the year-round grant.


17 Department of Defense and Full-Year Continuing Appropriations Act, Public Law 112-10, 112th Congress. Note that students were allowed to receive year-round Pell awards to finish the 2010-11 year.


This is a moot point, however, since both previously enacted amount of Pell Grant spending between years is budget-neutral.

If the year-round Pell Grant had a definite end, say in four years, then over a 10-year budget window, moving a fixed amount of Pell Grant spending between years is budget-neutral. This is a moot point, however, since both previously enacted and newly proposed year-round grants would be permanently authorized—and no one suggests that the Pell Grant program would end in a few years.

Timing issues aside, it’s not clear how this claim could be evaluated. In order to qualify for a year-round Pell Grant, a student would have to enroll in coursework that counted toward a second academic year, which should help him speed up his time to degree. It is possible that some students may have already been doing this without the year-round grant. In those cases, the extra money itself would not have been inducing the acceleration, but it likely would have been at least offsetting out-of-pocket spending or additional borrowing, which is not a bad outcome. Or, students could have been failing the additional courses so they did not actually earn credits that moved them further along. But both claims are minor concerns that still would require greater analysis to judge than would have been possible given the timing issues.

Calculating by dividing the $2.1 billion reported cost of the year-round Pell Grants by the total cost of $35.7 billion for 2010-11 school year.

By one Department estimate, the eligibility changes and increases to the maximum grant were responsible for 60 percent of the increase in the cost of the program between 2008 and 2011, while economic conditions and enrollment growth account for the rest. http://www2.ed.gov/about/overview/budget/budget12/justifications/p-sfa.pdf. Another estimate, this one by the CBO, suggests that the policy changes raised the annual cost of the Pell Grant program by approximately $15 billion. http://www.cbo.gov/sites/default/files/44448_PellGrants_9-5-13.pdf.


24 That is because eligibility is a function of the maximum Pell Grant minus a student’s expected family contribution. Increasing the former means that students with higher expected family contributions become eligible for a Pell Grant.

25 By one Department estimate, the eligibility changes and increases to the maximum grant were responsible for 60 percent of the increase in the cost of the program between 2008 and 2011, while economic conditions and enrollment growth account for the rest. http://www2.ed.gov/about/overview/budget/budget12/justifications/p-sfa.pdf. Another estimate, this one by the CBO, suggests that the policy changes raised the annual cost of the Pell Grant program by approximately $15 billion. http://www.cbo.gov/sites/default/files/44448_PellGrants_9-5-13.pdf.


30 Calculated by dividing the $2.1 billion reported cost of the year-round Pell Grants by the total cost of $35.7 billion for 2010-11 school year.


34 If the year-round Pell Grant had a definite end, say in four years, then over a 10-year budget window, moving a fixed amount of Pell Grant spending between years is budget-neutral. This is a moot point, however, since both previously enacted and newly proposed year-round grants would be permanently authorized—and no one suggests that the Pell Grant program would end in a few years.


36 Timing issues aside, it’s not clear how this claim could be evaluated. In order to qualify for a year-round Pell Grant, a student would have to enroll in coursework that counted toward a second academic year, which should help him speed up his time to degree. It is possible that some students may have already been doing this without the year-round grant. In those cases, the extra money itself would not have been inducing the acceleration, but it likely would have been at least offsetting out-of-pocket spending or additional borrowing, which is not a bad outcome. Or, students could have been failing the additional courses so they did not actually earn credits that moved them further along. But both claims are minor concerns that still would require greater analysis to judge than would have been possible given the timing issues.

37 TG Shoptalk, “A few resources for writing a policy for summer Pell awards,” June 1, 2010.


40 Dr. Phillip Day and Dr. George Boggs, National Association of Student Financial Aid Administrators, letter to Arne Duncan, U.S. Secretary of Education, June 10, 2009. Among other things, the letter argues that all students should have access to a year-round Pell Grant if they met satisfactory academic progress standards.

41 U.S. Department of Education, “General and Non-Loan Programmatic Issues; Proposed Rule,” Federal Register Online, Vol. 74, No. 61, August 21, 2009. The relevant section reads: “The non-Federal negotiators believed that acceleration meant that a student was earning additional credit or clock hours beyond the first academic year in the school year without respect to whether the additional hours were sufficient for the student to advance significantly toward the completion of his or her eligible program. Some of these non-Federal negotiators believed that the statute intended acceleration to apply only on a student-by-student basis. For example, a student would be accelerating by completing his or her eligible program in a shorter period of time than the student would otherwise have completed the program without reference to any objective standard. We [the Department] do not agree. We do not believe the statute limits the implementation of these requirements in this manner, nor do we believe that adopting the non-Federal negotiators’ position would provide the necessary encouragement for a student to accelerate the completion of his or her educational program. As an alternative to our proposal, the non-Federal

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negotiators again advanced their belief that the satisfactory progress standards and the nine-Scheduled-Award limit were sufficient.

42 The only thing preventing a student in this situation from receiving more grant aid would be if he did not meet the school’s requirements for satisfactory academic progress. While exact requirements for this vary, a typical requirement would be that a student maintain a 2.0 grade point average and pass two-thirds of attempted courses.

43 There are other issues where credible arguments could be made about implementation choices by the Department that increased the cost of the year-round Pell Grant. These issues are, however, quite minor and include topics such as whether a school used a student’s FAFSA from a prior year or the upcoming year to calculate a year-round Pell Grant. These issues would have been unlikely to explain a large divergence in expected and the actual cost of the year-round program. They did increase complexity in administering the program in a way that was particularly unpopular with financial aid administrators and may have led others in the policy community to erroneously attribute those issues to the program’s cost.


45 Realistically, the only way this outcome could occur would be if a school managed to count two summer periods in the same academic year. For example, if a student took 12 credits in the summer of 2009, 12 credits in the fall of 2009, plus 12 more in the spring of 2010, and 12 in the summer of 2010 and the school attributed all of those credits to the 2009-10 school year, then he would have earned two full Pell Grants in one academic year. Even if this did occur, it should have been rare. Similarly, a student could have also earned two full Pell grants in a clock hour program, but again that would have required them to attend for double the normal amount of time.


47 John Lauerman, “Pell Grant Cuts Hurt For-Profit Colleges After 8-Fold Rise,” Bloomberg, April 15, 2011.


49 Financial Aid Simplification and Transparency Act of 2014, Discussion Draft, 113th Congress. A draft of the bill is available on the U.S. Senate Committee on Health, Education, Labor and Pensions website. It has not yet been introduced in the Senate.


51 The 2008 statute, not the Department’s regulations, allowed half-time students to qualify for a year-round grant in the original version of the year-round Pell Grant.

52 The proposed legislative language also includes a provision that addresses the crossover period issue that financial aid administrators criticized in the original year-round program. It would give financial aid administrators the flexibility to choose which school year to assign the year-round grant, unlike the regulations that implemented the original program. Financial aid administrators therefore would not necessarily have to assess multiple FAFSAs for one student in order to calculate his award.

53 Pell Grant Protection Act, S. 2194, 113th Congress, April 1, 2014.

54 Finally, the language also addresses the crossover period with provisions similar to Harkin’s language that allows aid administrators to choose which school year to assign the additional Pell Grant. The semester limits are full-time equivalency measures. A student attending half-time can therefore receive Pell Grants for double the amount of time.


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