



College Cost Reduction Act: An Overview

The College Cost Reduction Act, passed by Congress on September 7th, 2007, marks the largest federal investment in student financial aid in over sixty years. Paid for by cutting over \$20 billion in subsidies to banks and other student loan lenders, the Act secures billions of dollars in grant aid to students in need.

In addition, the Act increases access to financial aid for unemployed and underemployed women, as well as other low-income working adults seeking to further their education and skills.

Bolstering Federal Aid

Specifically, the *College Cost Reduction Act*:

Increases the maximum Pell grant. The Act would increase the maximum annual Pell Grant award by \$490 in 2008 and by \$1,090 over four years.

| School Year | Maximum Pell Grant |
|-------------|--------------------|
| 2007-2008 | \$4,310 |
| 2008-2009 | \$4,800 |
| 2009-2010 | \$4,800 |
| 2010-2011 | \$5,000 |
| 2011-2012 | \$5,000 |
| 2012-2013 | \$5,400 |

Guarantees adequate funding for Pell grants. The Act classifies billions of dollars in new funding for Pell grants as “mandatory spending.” Mandatory funds are not subject to the whims of the annual appropriations process, but instead are guaranteed in legislation for a period of several years.

Lowers federal student loan interest rates. The Act also cuts interest rates on subsidized undergraduate student loans in half—from 6.8 to 3.4 percent over four years:

| Disbursement Date Between: | Interest Rate |
|-----------------------------|---------------|
| July 1, 2006 - July 1, 2008 | 6.8% |
| July 1, 2008 - July 1, 2009 | 6.0% |
| July 1, 2009 - July 1, 2010 | 5.6% |
| July 1, 2010 - July 1, 2011 | 4.5% |
| July 1, 2011 - July 1, 2012 | 3.4% |

Improving Student Aid for Low-Income Working Adults

Effective July 1, 2009 (except where indicate otherwise) the new law:

Decreases the “work” penalty. Currently, adult working students are penalized because so much of their income counts against their federal student aid. The new Act increases the amount that students can keep to support themselves and their families without reducing their financial aid award. For working parents, the “work penalty” will be reduced substantially.

| Income Allowed For Living Expenses Without Reducing Aid | | | |
|--|---|---------------------------------|-----------------------------------|
| | Single Parent (one child) ¹ | Single Parent (two children) | Single Parent (three children) |
| Current | \$10,520 | \$13,100 | \$16,180 |
| 2009-2010 | \$17,720 | \$22,060 | \$27,250 |
| 2010-2011 | \$19,690 | \$24,510 | \$30,280 |
| 2011-2012 | \$21,660 | \$26,960 | \$33,300 |
| 2012-2013 | \$23,630 | \$29,420 | \$36,330 |

The Act also raises income protection amounts for independent students without dependents and married students without children.

Excludes the EITC from financial aid calculations. Under the new law, Earned Income Tax Credit (EITC) payments will no longer count as income for the purpose of determining eligibility for federal financial aid.

Allows more low-income students to ignore assets when calculating financial aid. In certain circumstances, administrators are allowed to use a “simplified needs test” to calculate the amount a family would be expected to contribute toward college costs. This simplified formula ignores assets, thereby increasing eligibility for financial aid.

The *College Cost Reduction Act* expands the circumstances under which students can qualify for the “simplified needs test” to include:

- dislocated workers, as defined by the Workforce Investment Act
- students who have received means-tested benefits—for example, cash welfare—within 24 months of applying for aid (previously students had to have received benefits within 12 months of applying for aid).

Makes more working students automatically eligible for the maximum Pell Grant. The Act increases the family income level under which a student is automatically eligible for the maximum Pell from \$20,000 to \$30,000 and indexes this level to inflation.

Allows financial aid administrators to make more decisions on a case-by-case basis. Currently, financial aid administrators are allowed to adjust financial need analysis on a case-by-case basis for students in special circumstances. The *College Cost Reduction Act* expands circumstances under which aid administrators can use their discretion to include:

¹ Assumes that dependent children are not also in college.

- independent students who are recently unemployed
- students whose family members are dislocated workers
- homeless students.

Eliminates tuition sensitivity. Finally, the new Act eliminates an earlier rule that had prevented some low-income students attending lower-cost institutions—such as community colleges—from benefiting fully from the Pell grant. (Effective for grant awards beginning on or after July 1, 2007.)