

How Will The \$2.7 Billion Pell Grant Funding Gap Impact Students?

Conroy, Edward. Forbes, Feb. 14, 2025.

In January, the Congressional Budget Office [released projections](#) showing that the Pell grant program is expecting to face a \$2.7 billion shortfall in funding for the 2025 fiscal year. The program will need additional funding and will need an increase in funding, or students will face cuts to eligibility criteria or grant amounts.

The Pell grant program is the primary federal higher education program, providing grants of up to \$7,395 a year to more than seven million low- and moderate-income students annually, to help these student pay for college. Cuts to the program would likely put college out of reach for many more low-income students. The maximum award amount already only covers 31% of tuition, fees, room and meals at the average public four-year college, compared to the 79% of those costs the grant covered in 1975.

How Do Pell Grants Work?

Eligibility for the Pell grant is based on the Student Aid Index (formerly Expected Family Contribution) number. SAI is based primarily on income, assets, and family size information from a student's completed Free Application for Federal Student Aid. This number plays a significant role in determining the types of financial aid students qualify for and the total financial aid they can receive. The lower the number, the more types of aid and the higher total aid dollars a student is eligible for, and vice versa.

The funding shortfall comes just as eligibility for the grants had been expanded as part of the bipartisan 2020 FAFSA Simplification Act. The changes were intended to simplify the FAFSA application, as well as increase the number of students eligible for the grants.

The law increased the income thresholds for maximum Pell grant eligibility increased across the board, and changes were made to [improve support for college students with kids of their own in particular](#). For example, a single parent with two children can now earn up to \$51,818 adjusted gross income (225% of the federal poverty guideline) and still qualify for the maximum award of \$7,395.

The other significant change is that the updated thresholds for single parents also apply to college-going students who are children of single parents. [Paying for college is often a huge challenge for single parents](#); the intention was to help alleviate some of that burden.

A [study from the Urban Institute shows that the changes were successful](#) in expanding eligibility for the grants. 730,000 more students were awarded Pell grants in 2024, a 14% increase over the prior year.

What Would A Pell Funding Shortfall Mean For Students And Families?

Pell grants are very effectively targeted at supporting students from low-income families. Recent [analysis from the Institute for College Access and Success](#), shows that 88% of the students who receive Pell grants are from families with incomes at or below \$40,000, and almost half of recipients come from families earning less than \$15,000 a year. Any cuts to the program would fall hardest on low-income students.

The last time the Pell grant program faced a shortfall was in the wake of the Great Recession, and Congress chose not to increase funding, the result was changes in eligibility for the grants, and reductions in total grant amounts. Both these adjustments harmed students.

TICAS' analysis explains that in response to the funding shortfall in 2010 and 2011, Congress made \$50 billion in cuts over ten years to balance the books. Those cuts removed the ability for students to receive Pell grants year-round, reducing students' ability to take classes during the summer to graduate faster, and cut the number of semesters students could receive the grants from 18 down to 12.

If Congress refuses to increase support for the Pell grant program, there could be similar cuts made to the program just as college enrollment appears to be rebounding from pandemic induced lows. Students who want to go to college may find it impossible to do so if eligibility for the grants is changed to reduce spending.

Once cuts are made, it can be very difficult to walk them back. It took Congress until 2017 to restore year-round Pell, and students are still limited to 12 semesters of Pell eligibility.

Why Is The Pell Grant Program Short Of Funds?

The Pell grant program has an odd funding structure. As [analysis by New America shows](#), the program operates as an entitlement program, which means there are no limitations on how many students can receive a Pell grant each year. But, unlike most other entitlement programs, such as Social Security, only a small portion of the program is paid for with mandatory funding. More than three quarters of the funds for Pell Grants are made up of annual discretionary funding that congress has to vote to approve annually.

Because college enrollment fluctuates, Congress must estimate how much discretionary funding to provide for Pell. Some years that means a surplus, which can be carried over into future years.

The Pell grant program had run a surplus in recent years, partially due to lower college enrollments during and after the Covid-19 pandemic. CBO had previously expected the earliest a shortfall in funding would be 2029, but that estimate was likely based in [incorrect enrollment data](#) from the National Student Clearinghouse, who had miscounted first time freshman students.

Instead of a 5% drop in enrollment of first year students in 2024 that NSC originally report, enrollment of first year students actually increased by 5.5%, a massive adjustment.

Many college access advocates have called for Congress to change how it funds the Pell grant program, moving it to a mandatory funding stream, to ensure that it cannot fall into a shortfall. So far lawmakers have chosen not to heed those calls.