

**The American Recovery and Reinvestment Act of 2009:
Estimated Impact of Student Financial Aid Provisions on UC Undergraduates**

University of California Office of the President

Executive Summary

- The new American Recovery and Reinvestment Act (ARRA) will provide an estimated 113,800 UC families with up to \$121 million in new resources to help cover their 2009-10 education expenses:
 - *The Act increases the maximum value of a Federal Pell Grant by \$619, providing an estimated \$33 million in new grant funding for UC students over the pre-ARRA Pell Grant funding level of \$196 million. This additional federal aid to an estimated 52,500 UC Pell Grant recipients will allow approximately \$28 million of UC Grant funds to be redistributed so that all UC Grant-eligible students (generally students with financial need and incomes below \$70,000) will benefit equally from the new funding. Roughly 62,000 UC Grant-eligible students would receive about \$460 more in grant and a corresponding \$460 reduction in their self-help contribution from work and borrowing.*
 - *The Act expands (and renames) the Hope Tax Credit, more than doubling UC student pre-ARRA \$78 million of estimated tax credit eligibility by up to \$88 million in additional tax credit eligibility to middle-income UC families. Tuition tax credits benefit UC students below the credit income cap if their fees are not already fully covered by grants or scholarships – generally middle-income families. The new credit increases the maximum credit from \$1,800 to \$2,500 for the first \$4,000 in qualified expenses and raises the income ceiling from \$116,000 to \$180,000 for married filers (and from \$48,000 to \$90,000 for single filers).*
- The combined benefit to individual students ranges from an average of \$557 for low-income students to \$1,266 for middle-income students with incomes from \$93,000 to \$139,000. This compares to a projected \$1,365 increase in 2009-10 expenses (\$662 from a 9.3% fee increase plus \$703 in other cost increases).
- The impact of these provisions is largely independent of the level of UC fees in 2009-10, since Pell Grant eligibility is unrelated to specific fee levels, and most students who qualify for the tax credit will incur \$4,000 in eligible charges in 2009 (either in Spring 2009 or Fall 2009) under either a 9.3% or a higher fee increase in 2009-10.
- The additional benefits available under the stimulus package are *in addition to* large anticipated increases in student aid from two other major sources – UC Grants and Cal Grants – that by themselves generally provide enough additional funding to more than cover a given fee increase for low-income and many middle-income students. However, unlike Pell and tax credit eligibility, UC Grant and Cal Grant funding are highly dependent upon UC fee levels, UC’s return-to-aid policy, and the coupling of Cal Grants to UC systemwide fee levels.

Context

On February 17 President Obama signed into law the American Recovery and Reinvestment Act (ARRA) of 2009. The legislation injects \$789 billion in investments over the next two years into the key sectors of energy, health care, and education. The ARRA includes extensive investments in the higher education sector that will have a direct impact on the University and its students including expansions in college

affordability funding. UC students will have additional resources as a result of the expanded financial aid provisions, which include boosting the maximum Pell Grant, expanding the Hope tuition tax credit, and extending it to students from higher-income families.¹ This analysis focuses on the impacts of these two specific ARRA financial aid provisions and projects how much UC undergraduates are likely to benefit from them in 2009-10 under different fee increase scenarios.

ARRA Enhancements

The ARRA expands the financial support available through both Pell Grants and education tax credits. Each of these enhancements is described below.

Changes to the Pell Grant Program

Under the ARRA, the maximum value of a federal Pell Grant will increase by \$619 in 2009-10 (from \$4,731 to \$5,350) and by another \$150 (to \$5,500) in 2010-11.

For 2009-10, the average Pell Grant will increase by \$619 for approximately 51,000 UC Pell Grant recipients and provide about \$1,000 to an estimated 1,500 newly eligible Pell Grant recipients. The total value of this additional aid is approximately \$33 million over the pre-ARRA level of \$196 million.

Figure 1: Additional Pell Grant Funding Provided by ARRA

	Total ²	Parent Income Category ³				Ind.
		Under \$46K	\$46K - \$93K	\$93K - \$139K	Above \$139K	
Est. 2009-10 undergrad enrollment	165,051	47,197	38,107	30,873	37,106	11,224
Est. current Pell recipients	51,084	37,133	5,172	13	2	8,764
Avg. increase in Pell Grant	\$619	\$619	\$619	\$619	\$619	\$619
<i>Add'l Pell for current recipients</i>	<i>\$32 M</i>	<i>\$23 M</i>	<i>\$3 M</i>	<i><\$1 M</i>	<i>< \$1 M</i>	<i>\$5 M</i>
Est. new Pell recipients	1,455	420	877	9	0	150
Avg. Pell for new recipients	\$976	\$976	\$976	\$976	\$0	\$976
<i>Add'l Pell for new recipients</i>	<i>\$1 M</i>	<i><\$1 M</i>	<i><\$1M</i>	<i><\$1 M</i>	<i>\$0</i>	<i><\$1 M</i>
<i>Total add'l Pell funds</i>	<i>\$33 M</i>	<i>\$23 M</i>	<i>\$4M</i>	<i><\$1 M</i>	<i><\$1M</i>	<i>\$6 M</i>

Of the \$33 million in additional Pell Grant funding, \$5 million will benefit Pell Grant recipients who are not currently eligible for UC Grants (i.e., students whose entire cost of attendance is already covered by federal and state grants, a parent contribution, and a manageable student self-help contribution from work and borrowing). The remaining \$28 million will allow a redistribution of UC grant funding so that all UC Grant-eligible students (who are generally students with financial need and incomes below \$70,000) will benefit equally from the new funding. The net result would be that each of the roughly 62,000 UC Grant-eligible students would receive \$458 more in grant funding and a corresponding \$458 reduction in their self-help contribution from work and borrowing; see Figure 2, below.

¹ Overview of ARRA Education Provisions. U.S. Department of Education. February 18, 2009. <http://www.ed.gov:80/policy/gen/leg/recovery/factsheet/overview.html>

² In all figures, total enrollment includes 543 students with unknown parent incomes.

³ The income categories used in this analysis reflect the same categories, in constant dollars, used in other UC reports (e.g., the *Accountability Framework* and the *Annual Report on Student Financial Support*).

Figure 2: Impact of Additional Pell Funding on UC Undergraduates

	Total	Parent Income Category				
		Under \$46K	\$46K - \$93K	\$93K - \$139K	Above \$139K	Ind.
Est. 2009-10 undergrad enrollment	165,051	47,197	38,107	30,873	37,106	11,224
Awarded to Pell recipis. w/o UC Grants Available to reduce self-help of UC Grant-eligible students	\$5 M	\$4 M	\$1 M	<\$1 M	<\$1 M	<\$1 M
Est. UC grant-eligible students	61,872	32,374	16,665	3,080	287	9,566
Avg. grant increase	\$458	\$458	\$458	\$458	\$458	\$458
<i>Total incremental benefit</i>	<i>\$33 M</i>	<i>\$19 M</i>	<i>\$8 M</i>	<i>\$1 M</i>	<i><\$1 M</i>	<i>\$5 M</i>

The net impact of the new Pell Grant expansion on UC students is largely independent of the size of UC's fee increase, since fees play no role in determining a student's eligibility for a Pell Grant.

Changes to Federal Higher Education Tax Credits

ARRA creates the American Opportunity Tax Credit (AOTC), a temporary enhanced replacement for the Hope Tax Credit in 2009 and 2010.⁴ The AOTC provides five major enhancements to the Hope credit. Of these, three will provide real benefits to UC students:

- The maximum credit is increased from \$1,800 to \$2,500 (for up to \$4,000 in eligible charges).
- Income ceilings rise from \$116,000 to \$180,000 for married filers (\$58,000 to \$90,000 for single).
- The credit can be taken for up to four years of education (compared to 2 under Hope).

Two enhancements will have little or no effect on UC students:

- Eligible charges now include course materials. (UC charges already exceed the \$4,000 cap.)
- 40% of the AOTC is now refundable, benefitting low-income families with no tax liability. (At UC, these low-income families generally receive gift aid to cover their eligible charges.)

The new AOTC is also an improvement over the Lifetime Learning Tax Credit, which remains unchanged. Figure 3, below, compares the terms of the three programs.

Figure 3: Comparison of Existing and New Higher Education Tax Credits

	Hope Credit (pre-ARRA)	Lifetime Learning Credit	American Opportunity Tax Credit (New)
<i>Income cap: single</i>	\$48K-\$58K (phased)	\$48K-\$58K (phased)	\$80K-\$90K (phased)
<i>Income cap: married</i>	\$96K-\$116K (phased)	\$96K-\$116K (phased)	\$160K-\$180K (phased)
<i>Allowable charges</i>	\$2,400	\$10,000	\$4,000
<i>Maximum credit</i>	\$1,800	\$2,000	\$2,500
<i>Refundable</i>	no	no	yes – 40%
<i>Course materials</i>	no	no	yes
<i>Year in school</i>	First two years	Any	First four years

⁴ Full text of ARRA legislation. http://www.finaid.org/educators/111_hr1_legtext_crb.pdf

Collectively, UC students and their families could receive up to \$88 million, more than double, in additional tax credits under the enhanced programs over estimated pre-ARRA levels of \$78 million.⁵ The beneficiaries fall into two categories:

- *Newly eligible recipients:* An estimated 25,640 students in 2009-10 will become newly eligible for tax credits and will receive \$40 million in new benefits assuming a 9.3% increase in UC fees – an average benefit of about \$1,560 per new recipient. Nearly all new recipients are middle- and high-income families who become eligible due to the higher AOTC income ceilings. The largest benefit will accrue to families in the highest income category, who will enjoy an average benefit of \$1,633.
- *Current recipients:* Tax credits for current recipients will increase by an estimated \$48 million, or nearly \$900 per recipient. The largest beneficiaries are those with incomes between \$93,000 and \$116,000 (the current Hope and Lifetime Learning income ceiling) since these families typically receive little grant or scholarship assistance to offset their eligible charges.

As with tax credits generally, the primary beneficiaries of the new AOTC will be middle- and upper-middle-income families. The benefit to lower-income families is generally smaller because these families typically have some or all of their fees covered by grants. The benefit to higher-income families is limited by the credit's phase-out provisions.

The impact of the tax credit provisions is largely independent of the level of UC fees in 2009-10: most students who would qualify for the tax credit will incur \$4,000 in eligible charges in 2009 (either in Spring 2009 or Fall 2009) under either a 9.3% or a higher fee increase in 2009-10.

Figure 4: Incremental Tax Credit Benefits Resulting From AOTC, 2009-10

	Total	Parent Income Category				Ind.
		Under \$46K	\$46K - \$93K	\$93K - \$139K	Above \$139K	
Est. 2009-10 undergrad enrollment	165,051	47,197	38,107	30,873	37,106	11,224
<i>Assuming 9.3% fee increase:</i>						
New recipients	25,640	0	2,328	10,016	13,562	98
Est. avg. tax credit increase	\$1,560	\$0	\$1,331	\$1,519	\$1,633	\$1,537
<i>Increase in tax credits</i>	<i>\$40 M</i>	<i>\$0 M</i>	<i>\$3 M</i>	<i>\$15 M</i>	<i>\$22 M</i>	<i><\$1 M</i>
Current recipients	55,851	11,763	23,977	16,879	0	2,965
Est. avg. tax credit increase	\$864	\$627	\$688	\$1,330	\$0	\$582
<i>Increase in tax credits</i>	<i>\$48 M</i>	<i>\$7 M</i>	<i>\$16 M</i>	<i>\$22 M</i>	<i>\$0 M</i>	<i>\$2 M</i>
Total beneficiaries	81,491	11,763	26,306	26,894	13,562	3,063
Est. avg. tax credit increase	\$1,083	\$627	\$745	\$1,401	\$1,633	\$613
<i>Increase in tax credits</i>	<i>\$88 M</i>	<i>\$7 M</i>	<i>\$20 M</i>	<i>\$38 M</i>	<i>\$22 M</i>	<i>\$2 M</i>
<i>Assuming 15% fee increase:</i>						
Negligible change from 9.3% scenario (< \$0.6 M increase in overall benefit) since eligible expenses are capped at \$4,000, which nearly all beneficiaries will exceed even with a 9.3% increase.						

⁵ All tax credit projections assume 100% utilization by eligible families. Estimates reflect net additional benefit for filers who may have previously utilized the existing tax deduction for qualified educational expenses. Estimates do not discount benefits to reflect the limited (40%) refundability of the AOTC for those with little or no tax liability.

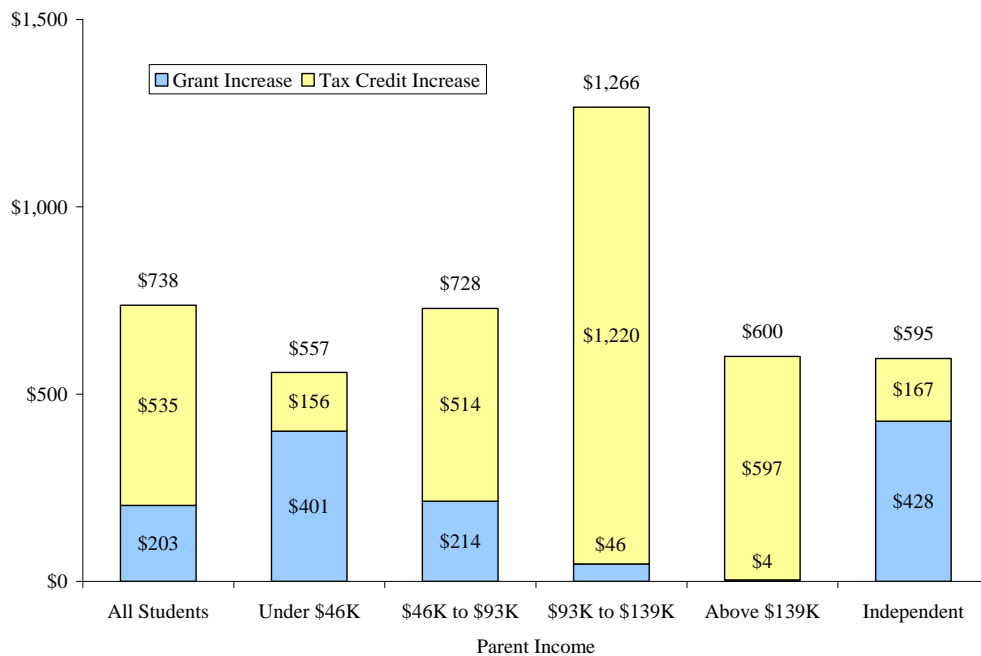
Combined Impact of ARRA Enhancements

Overall, 113,783 UC undergraduates will receive an additional \$121 million in 2009-10 in combined grant aid and tax credit increases from ARRA under a 9.3 percent fee increase. This amounts to \$738 per student overall but varies considerably by income group. Lower-income students will primarily receive the smaller Pell Grant increases. In contrast, middle- and high-income students could receive considerably more since they benefit primarily from the more significantly expanded tax credits. Figures 5 and 6 below summarize the per capita incremental benefit from the combined ARRA grant aid and tax credit enhancements by income group in 2009-10.

Figure 5: Combined Incremental Benefits from ARRA Provisions

	Total	Parent Income Category				
		Under \$46K	\$46K - \$93K	\$93K - \$139K	Above \$139K	Ind.
Est. 2009-10 undergrad enrollment	165,051	47,197	38,107	30,873	37,106	11,224
Incremental total benefit						
Grant aid	\$33 M	\$19 M	\$8 M	\$1 M	<\$1 M	\$5 M
Tax credit	\$88 M	\$7 M	\$20 M	\$38 M	\$22 M	\$2 M
<i>Total</i>	\$121 M	\$26 M	\$28 M	\$39 M	\$22 M	\$7 M
Incremental per capita benefit						
Grant aid	\$203	\$401	\$214	\$46	\$4	\$428
Tax credit	\$535	\$156	\$514	\$1,220	\$597	\$167
<i>Total</i>	\$738	\$557	\$728	\$1,266	\$600	\$595

Figure 6: Combined Per Capita Incremental Benefits from ARRA Provisions



Other Implications of UC Fee Increases on Student Aid

As noted above, the additional benefits available under the Pell Grant program and the new American Opportunity Tax Credit will be roughly the same whether UC's systemwide fees increase by 9.3% or 15% in 2009-10. This outcome follows directly from the terms of the two programs:

- Pell Grant awards are determined by a family's financial resources, not fees.
- Since the expanded tax credit program applies only to the first \$4,000 of eligible charges (100% of the first \$2,000 and 25% of the remaining \$2,000) not covered by grant or scholarship, fee increases have a very limited impact on tax credit eligibility for low-income students (whose grants already cover their fees) or for middle- and upper-middle income students (whose fees and other eligible charges, net of grant and scholarships, generally exceed \$4,000 even with a 9.3% fee increase).

Although the additional Pell and tax credit eligibility is not tied to 2009-10 cost increases, it will help mitigate their impact. The combined benefit to individual students ranges from \$557 for low-income students to approximately \$1,266 for middle-income students with incomes from \$93,000 to \$139,000. This compares to a projected \$1,365 increase in 2009-10 expenses (\$662 from a 9.3% increase in systemwide fees plus \$703 in other cost increases student will experience).

Note that the additional Pell and tax credit support is in addition to increases expected from two other important sources of financial aid – UC grants and Cal Grants. These fund sources provide grant support to financially needy students and by themselves generally provide funding augmentations that more than cover whatever fee increase is implemented. However, unlike Pell and tax credit eligibility, UC grant and Cal Grant funding is highly dependent upon UC fee levels, UC's return-to-aid practice, and the coupling of Cal Grants to UC systemwide fee levels. A separate analysis will illustrate the full impact of various 2009-10 fee levels, with and without Cal Grant coverage of fee increases above 9.3%, on UC's overall financial accessibility.