A Supplemental Wealth-Based Pell Grant

How to Meet Unaddressed Need and Close Racial Gaps in Student Loan Borrowing

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The Higher Education, Race, and the Economy (HERE) Lab is a policy-engaged research institution located at the University of California, Merced. The Lab's mission is to understand and address uneven racial and class distributions of resources and risk within higher education systems and economies. Learn more at herelab.org.

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Executive Summary

Formulas for awarding federal student financial aid in the United States are based primarily on income. This approach overlooks the realities of wealth inequality. Household wealth in the United States is distributed more unequally than income (Saez and Zucman, 2016), and the distribution of wealth is more racially unequal than the distribution of income (Derenoncourt, et al., 2024). Recent racial-wealth-gap scholarship has informed policy on student debt cancellation (Charron-Chénier et al., 2022; Eaton et al., 2021). Yet, there remains a need for "front-end" solutions that address wealth inequality in the financial aid process and prevent racial student loan debt disparities from forming in the first place (Houle and Addo, 2022; Sanchez et al., 2024).

In this white paper, we argue that unaddressed inequalities in wealth have created significant unmet need for students from low-wealth backgrounds. Many students who are from low-wealth backgrounds are also from low-income backgrounds, and insufficient financial aid for these students has fueled racial inequities in student loan borrowing and repayment. We assess the extent to which increasing federal grant aid to students from low-wealth backgrounds helps to close these gaps. We use national data on first-time, full-time dependent students filing the Free Application for Federal Student Aid (FAFSA) in the National Postsecondary Student Aid Study (NPSAS18), as well as data from the 2004 Beginning Postsecondary Students Longitudinal Study (BPS04) for longer-term student loan outcomes. By analyzing these data, we develop a proposal for a new supplemental Wealth-Based Pell Grant that would eliminate racial disparities in student loan borrowing.

> ***In this white paper, we argue that unaddressed inequalities in wealth have created significant unmet need for students from low-wealth backgrounds.***

WE FIRST ILLUSTRATE THE PROBLEM:

- FAFSA filers from low-wealth backgrounds are disproportionately Black and Latine. Compared to only 15 percent of White students, more than one third of Black student filers and more than a quarter of Latine student filers are in the lowest quintile of wealth.
- Nearly 50 percent of all Black filers, around 40 percent of Latine filers, and 20 percent of White filers are from both low-income and low-wealth backgrounds. Existing Pell Grants leave unmet need among students who experience compounded disadvantage.
- Filers from low-wealth backgrounds are in many cases excluded from the existing Pell Grant. Around a quarter of FAFSA filers from low-wealth backgrounds receive no Pell Grant award.

- Students from low-wealth backgrounds borrow more than wealthier students with comparable family income. Students in the bottom quintile for family wealth borrow nearly double the amount borrowed by the students from the highest-wealth backgrounds with similar family income and Pell Grant financial aid awards.

- Students from low-wealth backgrounds struggle to repay their loans at higher rates. Twelve years after the start of college, students in the bottom quintile for family wealth still owe 70 percent of their undergraduate student loan borrowing, on average, compared to an average of 50 percent still owed by students from the top two quintiles.

WE THEN OFFER A *POLICY SOLUTION*—THE SUPPLEMENTAL WEALTH-BASED PELL GRANT.

A Wealth-Based Pell Grant can be layered onto existing Pell Grant eligibility, is compatible with other efforts to improve affordability, and would not require changes to existing FAFSA data collection to implement.

Specifically, we propose that students with low family wealth—calculated via existing data on students' and their families' assets collected on the FAFSA—receive a supplemental Wealth-Based Pell Grant equal to the maximum of the existing Pell Grant, in addition to any existing Pell Grant award. Students from low-wealth backgrounds who are not required to report asset data with the simplified FAFSA could submit a simple attestation regarding their lack of financial assets.

Our analyses highlight the potential impact of this intervention, projecting estimates based on three potential wealth cutoff points for the award; however, a range of thresholds, including graduated Pell Grant awards, could be implemented. Even with a very low threshold, a Wealth-Based Pell Grant would reach a substantial number of students. **We project that around 2.8 million students would receive a Wealth-Based Pell Grant if it was awarded to all families below a $500 FAFSA-reported wealth threshold.**

A Wealth-Based Pell Grant would equalize debt-free college access across racial groups by supporting all low-wealth students irrespective of racial identity, as it is not a race-based intervention. However, given racial wealth disparities, Black and Latine students would be most likely to receive a Wealth-Based Pell Grant. We estimate that, among first-time, full-time dependent student FAFSA filers:

- With a $500 family wealth threshold for a Wealth-Based Pell Grant, 20 percent of White students would qualify, compared to 33 percent of Latine students, and 42 percent of Black students.

- Twenty-nine percent of all students, 48 percent of Black students, and 39 percent of Latine students would receive both the existing Pell Grant and a Wealth-Based Pell Grant.

- Ninety-one percent of Black students and 87 percent of Latine students would receive the existing Pell Grant, a Wealth-Based Pell Grant, or both.

A Wealth-Based Pell Grant offers a financial aid solution to the radical growth in student loan debt following cuts to Pell Grants and state higher education funding since the 1980s. A Wealth-Based Pell Grant would help restore debt-free college enrollments to levels reached in the late 1970s, when middle class students were still eligible for the Pell Grant and Pell Grants covered higher shares of college costs. Debt-free enrollment would particularly increase among Black students. Our projections suggest that, among first-time, full-time dependent student FAFSA filers with family wealth below $500:

- Roughly 85 percent could have attended their first year of college debt-free if they had received a Wealth-Based Pell Grant in place of their federal student loans in 2017–2018—a 46 percentage point increase from the 39 percent who attended debt-free that year.
- Approximately one million more full-time students would have attended college debt-free.[1] Part-time students would likely see similar benefits.

Because Black students are disproportionately from low-wealth backgrounds, we estimate that among all full-time, first-year FAFSA filers:

- A Wealth-Based Pell Grant for students with less than $500 of family wealth would roughly double the share of Black students who attended their first year of college debt-free from 27 percent to 50 percent — eliminating the racial gap in the percentage of students who attend debt-free.
- With a $2,000 ceiling for Wealth-Based Pell Grants, nearly two-thirds of Black students could have attended their first year of college debt-free.

These reductions in borrowing will help restore economic mobility and security for students from low-wealth backgrounds. For individuals born in the 1980s who are not White, earning a college degree no longer yields a wealth premium (that is, an increase in net worth) in large part because of student debt (Emmons, Kent, and Rickets, 2019). A Wealth-Based Pell Grant will alleviate this debt burden for students from low-wealth backgrounds who are disproportionately Black and Latine. In doing so, Wealth-Based Pell Grants would join other policy proposals, like Baby Bonds, that are designed to redress the financial legacy of slavery and counter the complex of racialized policies that have long expropriated wealth from communities of color.

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1 This presumes non-first-year and independent full-time students would become debt-free at equivalent rates to first year, full-time dependent students.

Introduction

What would become the existing federal Pell Grant Program in the United States was initially designed as the expansive and universal centerpiece of the Higher Education Act of 1965. Senator Clairborne Pell, after whom the program was named, advocated for a federal grant aid program to reach all college students (Curs, Singell, and Waddell, 2007). Indeed, in the 1976 renewal of the Higher Education Act, Pell Grants were funded to serve as a "middle-class entitlement," generally available to students whose families made $115,000 or less (in 2024 dollars) (Eaton, 2022).

Over time and with sustained cuts, however, the program became more restricted, capturing primarily students from very low-income backgrounds. Today, only 6 percent of Pell Grant recipients live in households with more than $60,000 in annual income, and more than half of recipients are from families that earn less than $20,000 annually (Hanson, 2024). Many state and institutional aid programs also focus primarily on populations with low incomes.

Wealth is an often-overlooked dimension of inequality that, alongside income, creates divergent postsecondary experiences and outcomes. It includes the assets possessed by families, such as their savings, investments, real estate, and businesses, minus outstanding debts. In more direct ways than for income, wealth is transmitted intergenerationally (Piketty and Saez 2013). Racial inequalities in wealth tend to be even more persistent than racial inequalities in income (Sanchez et al., 2024). Many families also experience compound economic disadvantage due to both low income and low wealth. Unfortunately, U.S. financial aid programs have evolved over time with little attention to persistent and growing wealth-based inequalities.

Wealth transfers from older generations, savings, liquid investments, and other assets can significantly reduce the financial pressures associated with college and open up accessibility. Students from wealthier families are more likely to attend college, relative to their peers from less wealthy families, in part because their parents can offer more financial support and can access better financing options (Jez 2014; Hotz et al., 2023). According to a recent study by the Institute for Higher Education Policy, students with high wealth have roughly a 20 to 30 percentage point advantage in college attendance relative to their same-race peers from low-wealth backgrounds (Sanchez et al., 2024). Families with higher wealth can draw on their assets, often alongside high income, to afford college, while students from lower-wealth families—even with moderate family income—may struggle to cover the high costs of postsecondary attendance in the United States. Notably, students with the compounded disadvantage of wealth and income have extremely low rates of college enrollment (Sanchez et al., 2024).

Disadvantage due to low family wealth also hurts college completion, underscoring the importance of wealth-based financial aid. Family wealth may provide vital economic resources that help a student focus on academic success rather than working long hours. Family wealth is also important for affording multiple years of college costs without facing levels of financial precarity that threaten retention. Consequently, Braga et al. (2017) report that while youth from high-wealth families have a 70 percent chance of completing two years of college and a 43 percent chance of completing four years of college, similar students in low-wealth families only have a 41 percent chance of completing two years and a 24 percent chance of completing four years. These analyses also indicate that wealth remains highly associated with educational attainment, even after accounting for family income, parental education, and other demographic characteristics, suggesting that it is a distinct and important factor for completion. As a rapidly growing wealth gap in college attainment highlights, there is strong need for educational policy to address not only income inequality, but also wealth inequality (Pfeffer, 2018). For Black students, in particular, wealth is an even stronger indicator of college completion than income (Sanchez et al., 2024).

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Of central focus in this white paper is student borrowing and student debt. Across racial groups, students from low-wealth families are more likely to borrow than students from high-wealth families (Sanchez et al., 2024). The amount of student loan debt held by college attendees varies considerably by family wealth and reflects unmet need among students from low-wealth families, who are currently not well served by the existing Pell Grant. Even when accounting for family income differences, students from low-wealth families have greater levels of student loan debt relative to their peers from higher-wealth families (Addo, Houle, and Simon, 2016; Eaton et al., 2021). Such debts have a lasting impact on the future economic stability of those who carry them and play a role in reproducing racial economic disparities in the United States (Charron-Chénier et al., 2022; Eaton et al., 2021; Houle and Addo, 2019; Scott, Patton, and Mitchell, 2023).

RACE AND ACCESS TO FAMILY WEALTH

The existing Pell Grant is a race-neutral program. Although the FAFSA now requests information on student race or ethnicity, this information is not factored into eligibility. Students from low-income backgrounds come from all racial backgrounds. However, when financial aid policies only provide support for families from low-income backgrounds, without also addressing the needs of low-wealth families or those facing compounded disadvantage by income and wealth, racially marginalized students are significantly disadvantaged.[2]

The racial wealth gap in the United States is substantially larger than the income gap (Hamilton and Darity, 2017; Oliver and Shapiro, 2006). While the average Black household and Latine household in the United States earns around half as much as the average White household, Black households own only about 15 percent, and Latine households around 20 percent, as much wealth as White families (Aladangady and Forde, 2021). In 2023, White families possessed 84.5 percent of all wealth in the United States, despite comprising only two-thirds of all households (Kent and Ricketts, 2024). By contrast, while 12 percent of households identified as Black and 9 percent as Latine, these households only held 4 percent and 2 percent of U.S. wealth, respectively.[3]

Why do Black and Latine households have less wealth than White households? For Black families, the wealth gap is a lasting legacy of slavery. As Derenoncourt et al. (2024) show, racial wealth convergence occurred after emancipation, from a starting point of a nearly 60 to one White-to-Black wealth per capita ratio, to a seven to one ratio by the 1950s. However, change then stalled. By 2020, the wealth gap remained much the same as in the 1950s, at a ratio of six to one.

Over the past 70 years, the persistence of a stubborn racial wealth gap for Black and Latine families is a function of what Oliver and Shapiro (2006) refer to as the "racialization of state policy." Racially biased state and national social policies around housing, employment, and education, alongside racial discrimination, have prevented Black Americans from accumulating wealth (also see Rothstein, 2018). Racial differences in social origins are compounded over time, as Black families have little chance to build and pass on their wealth through inheritances, property, or other assets (Killewald, Pfeffer, and Schachner, 2017). The need to provide financial assistance to struggling family and friends may also chip away at Black wealth (O'Brien, 2012). Latine households have been similarly disadvantaged educationally, residentially segregated, and concentrated in low-wage work, resulting in intergenerational wealth disparities (Salgado and Ortiz, 2020). Additionally, since the 1980s, a widening racial gap in capital gains from stock equity has overwhelmingly benefitted the wealthiest Americans, who are almost exclusively White (Derenoncourt et al., 2024).

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2 We use the term "racially marginalized" to refer to groups that are historically underrepresented in higher education: Black, Latine, Native American and Alaskan Native, Native Hawaiian and other Pacific Islander, and some Southeast Asian students. We recognize that Latine is a pan-ethnic category encompassing multiple racial groups, and that other underrepresented categories encompass multiple ethnic groups; however, students in all of these groups are often racialized in ways that disadvantage them. Note, we use the term Latine when gender is unspecified. Due to data limitations, our focus in this brief is primarily on Black, Latine, and White families and college student populations.

3 The Federal Reserve Board codes the household by the primary survey respondent's race/ethnicity, and groups are mutually exclusive.

Lasting racial wealth disparities have intersected with changes in postsecondary funding that disadvantage racially marginalized college students. Only one in eight undergraduates had to borrow to attend college in 1975. In 1976, even students from upper middle-income backgrounds were eligible to receive Pell Grants (Eaton, 2022). At that time, Pell Grants covered, on average, 69 percent to 84 percent of a student's college costs (The Institute for College Access & Success, 2013; Mettler, 2014).

But by the late 1970s, just as Black and Latine students began to enter college in greater numbers, a long stretch of public disinvestment in higher education began (Hamilton and Nielsen, 2021). Under President Ronald Reagan, Congress narrowed eligibility for Pell Grants and reduced award sizes relative to college costs. In the early 1990s, Congress and President Bill Clinton radically expanded federal student loan programs rather than restoring Pell Grants to their 1970s levels of support. As a result, today the Pell Grant covers only 26 percent of the cost of attendance for a public four-year university (in state and living on campus) (NASFAA 2022). The substantial decrease in the purchasing power of the Pell Grant over time has likely caused particular damage to students with compounded disadvantage around both income and wealth.

With limited family wealth and income to help offset skyrocketing college costs, racially marginalized students and families seeking social and economic mobility now face a new challenge. To attend college, these students are disproportionately plunged into debts that they struggle to repay. Inabilities to cover college costs often contribute to higher dropout rates, which also makes repayment a challenge.

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When students cannot afford loan payments, those debts compound over time as interest accrues. As a result, 12 years after college entry, the typical Black borrower with a bachelor's degree owes 114 percent of what they originally borrowed, and the typical Latine borrower owes 79 percent of what they originally borrowed. In contrast, the average White borrower with a bachelor's degree only owes 49 percent of the original amount (Miller, 2017). As Houle and Addo (2022) show, these debts play a role in producing short-term, long-term, and intergenerational financial insecurity for Black families.

Addressing wealth-based inequalities in higher education today could play a sizable role in reducing educational disadvantages for racially marginalized students. For example, accounting for wealth inequality may significantly reduce racial disparities in college attendance and help close racial college completion gaps (Braga et al., 2017; Jez, 2008). Our focus in this white paper is, however, primarily on student borrowing.

As we demonstrate below, providing adequate financial aid to students from low-wealth backgrounds can significantly decrease the amount that they must borrow to afford college. This can short-circuit inequalities in student loan repayment and wealth returns from college by enabling more students from low-wealth backgrounds to attend college debt-free. Because they are disproportionately from low-wealth backgrounds, Black and Latine students will benefit most.

A SOLUTION: WEALTH-BASED PELL GRANT

We propose a supplemental "Wealth-Based Pell Grant" that can be layered onto existing Pell Grant eligibility. A Wealth-Based Pell Grant does not reduce or otherwise alter aid that students receive under existing Pell Grant policy. Rather, it adds an additional source of support for students and families from low-wealth backgrounds, who are disproportionately Black and Latine. This policy solution is consistent with, and can sit alongside, other efforts to improve affordability and access with increases in existing Pell Grant awards. At the same time, the proposal of a Wealth-Based Pell Grant acknowledges the unique role that wealth plays in college affordability and access, as well as the reality of racialized access to wealth in the United States.

> ***The proposal of a Wealth-Based Pell Grant acknowledges the unique role that wealth plays in college affordability and access, as well as the reality of racialized access to wealth in the United States.***

We propose simple eligibility criteria and award levels for Wealth-Based Pell Grants to avoid the administrative burdens that have hindered equity in other financial aid programs (Goldstein et al., 2023). Students from low-wealth backgrounds would receive a supplemental Wealth-Based Pell Grant—equal to the maximum existing Pell Grant ($7,395 per year in 2024)—in addition to any existing Pell Grant award. A graduated supplemental Pell Grant could support students who are below the median wealth, but above the threshold for receipt of a maximum Wealth-Based Pell Grant. A Wealth-Based Pell Grant can be administered using data on family assets already collected on the FAFSA form. Students from low-wealth backgrounds who do not report asset data with the simplified FAFSA could submit a simple attestation regarding their lack of financial assets.[4] Working with existing FAFSA items is important for avoiding delays in FAFSA completion like those seen in the spring of 2024. A Wealth-Based Pell Grant could potentially be awarded with even less administrative burden under proposals to use IRS filing data without the FAFSA (Dynarski, 2015).

To illustrate the need and potential impact of such an intervention, we rely primarily on national data from the NPSAS18.[5] Our main analyses only include first-time, full-time dependent students who filed the FAFSA. However, we anticipate that a large percentage of independent students would be able to access Wealth-Based Pell Grants, given the typically limited assets available to this group. We also include data from the BPS04, a sample of dependent students filing the FAFSA in their first year of college in 2003–2004, in order to see how wealth relates to student debt 12 years from the start of college.

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4 The Department of Education demonstrated the effectiveness of this approach with its simple attestation system for debt cancellation under President Biden's 2022 executive action.

5 NPSAS20 data are the most recently available. However, we discovered a data error that led to increased missingness among FAFSA filers. The National Center for Education Statistics (NCES) will re-release the data once the error is addressed, per personal correspondence with the Center.

MEASURING FAMILY WEALTH

FAFSA data on wealth are limited and less ideal than IRS data that have been used to detail U.S. wealth inequality (Derenoncourt et al., 2024; Saez & Zucman, 2016). Nevertheless, existing FAFSA data (including IRS-filing-derived FAFSA data)[6] can be used to measure students' unequal positions in the wealth distribution. A key limitation is that while FAFSA data includes wealth measures based on household asset values, FAFSA does not include measures for most debts and liabilities that also contribute to household wealth inequalities. Inequalities in household assets measured by FAFSA broadly track inequalities in net worth, however.

The FAFSA asks respondents to report several types of assets. Counted assets include money in cash, savings, checking accounts, time deposits, and money market funds; net worth of businesses or investment farms (reported as $0 if negative); real estate (excluding the primary residence), vacation homes, and income producing property; trusts, stocks, bonds, derivatives, securities, mutual funds, and tax shelters; and qualified educational benefits or education savings accounts. Uncounted assets, which are not part of FAFSA reporting, include retirement savings and home equity. FAFSA does not request information on debts like mortgage, credit card, or other family members' student debts. Debts and liabilities associated with a family-owned business or investment farm, however, are incorporated into measures of those assets.

Similar to household net worth, household asset wealth is more unequal than income. FAFSA-counted assets do not include home equity, retirement, or education savings accounts. The average value of FAFSA-counted assets are thus lower than the value of all household assets as measured in representative surveys such as the Survey of Consumer Finance (SCF) (Levine and Ritter, 2020). But the distribution of FAFSA-counted asset values is similar to the distribution of total household assets and total household net worth. For example, the 20th percentile for FAFSA-counted assets was $340 among the 2017–2018 students in our analysis. The 80th percentile for FAFSA-counted assets was $34,140, 100 times greater than the counted assets for students in the 20th percentile. The 20th percentile for total household net worth (reflecting both household asset values and household debts) was $6,370 for all U.S. households based on the 2019 SCF survey. But similar to the FAFSA-counted asset distribution, the 80th percentile for total household net worth was also nearly 100 times greater at $557,160. By comparison, the 80th percentile for income in the SCF was $127,265 in 2019, just five times greater than the 20th percentile for income of $25,962.

Currently, the Pell Grant only incorporates counted assets in a minimal way. Historically, a dependent student's expected family contribution (EFC), now replaced by the student aid index (SAI), determined Pell Grant eligibility. However, both EFC and SAI are primarily shaped by parental income. Parents' contributions from assets are included, but they are multiplied by an asset conversion rate of 12 percent. This means that only 12 percent of parents' counted asset values are considered as part of the expected family contribution toward college costs.[7] By contrast, there is no conversion

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6 Since 2012, FAFSA filers have been able to automatically complete much of the FAFSA, including its wealth related questions, using an IRS data retrieval tool that draws data from their own tax filings.

7 In the past, an asset protection allowance (variable by parental age and number of parents in the household) was applied before asset conversion. In 2024–2025, this protection allowance was set to 0 for all filers.

rate applied to parental contributions from income, meaning that all income contributions are included in the calculation of EFC. While student assets are typically low for dependent students, an asset conversion rate of 20 percent is applied, with no student income conversion. In addition, prior to conversion, an adjustment is applied to reported business and farm net worth, which significantly underestimates high-value assets. With these adjustments, parent- and student-counted assets play a far more minor role in determining Pell Grant eligibility and the size of any ultimate Pell Grant award than family income. It is not surprising, then, that the percent of variance in EFC explained by parents' income is more than two and a half times greater than the percent of variance in EFC explained by wealth.

Our proposed measure of family wealth is a summation of parent- and student-counted assets already reported by FAFSA filers, without conversion factors. We emphasize that this does not constitute a comprehensive measure of net worth. It does not include measures of debt, an omission that can underestimate the hardships faced by families from low-wealth backgrounds, whose debts often exceed the value of their assets (i.e., negative net worth) (Perry and Romer, 2021). However, debt can be misleading, in part because wealthier families, who are more likely to be White, often have access to strong credit and high amounts of what is broadly considered to be "good debt" (such as for real estate, property, and vehicles) with favorable repayment terms (Killewald, 2013; Seamster, 2019). Moreover, as discussed above, the distribution of household net worth is similar to the distribution of total counted FAFSA asset values.

Because our data include additional details beyond information on the existing FAFSA, we also can assess how well counted assets may reflect housing wealth. In particular, NPSAS18 collects students' census tracts, which we then merge with American Community Survey data on the median value of homes in each tract. Our estimates suggest that census tract home prices provide little additional information on borrowing behavior beyond that reflected in counted assets, our available measure of family wealth. This is likely because families with housing equity are also more likely to have other counted assets, and vice versa.

There are also considerable benefits to using only existing counted assets rather than modifying FAFSA to collect information on debts or home equity; this approach allows FAFSA to remain largely unchanged. Administrative burdens on students could potentially be further reduced by direct use of IRS filing data (including data on wealth) to provide financial aid awards (Dynarski 2015). But alterations to the information that FAFSA collects or how this information is collected can generate disruptions in FAFSA development and add additional barriers for filers on an already complex form (Dynarski and Wiederspan, 2012).

One additional feature of the FAFSA is exemption from asset reporting for households from low-income backgrounds, previously referred to as the simplified needs test. At the time of our NPSAS18 analyses, dependent students were not required to complete the assets portion of the FAFSA if their parents' combined adjusted gross income (for tax filers) or income earned from work (for non-filers) was less than $50,000[8] and their parents met any of the following additional criteria: they were not required to file an IRS Form 1040, one of them was a dislocated worker, or anyone in their

8 In 2024–2025, the $50,000 cutoff moved to $60,000.

household received a means-tested federal benefit. In our analyses, we use other data on the race, financial assets, socioeconomic status, and academic profile of FAFSA filers to impute the counted assets of those exempt from asset reporting. This method allows us to include all FAFSA filers in our analyses. As expected, and reflecting compounded disadvantage, those who meet this exemption due to low income are estimated to have lower assets than other filers. Although we use this method to make estimates, students from low-wealth backgrounds who do not report asset data with the simplified FAFSA could submit a simple attestation regarding their lack of financial assets. As noted above, the Department of Education has used this approach effectively in other contexts.

LOW-WEALTH FILERS ARE DISPROPORTIONATELY BLACK AND LATINE

Black and Latine families in the United States have less access to family wealth. Not surprisingly, then, Table 1 reveals that first-time, full-time dependent FAFSA filers from low-wealth backgrounds in the 2017–2018 academic year were disproportionately racially marginalized. We break out the proportion of students by wealth quintile for White, Latine, and Black students. Recall that when we refer to family wealth, we are referring to the summation of parent- and student-counted assets.

Students in the bottom wealth quintile have below $340 in counted assets. Those in the second quintile have more than $340 up to $1,160 in counted assets. Students in the top quintile have a wide range of assets, from $34,140 in assets up to millions of dollars. (Recall that FAFSA filers, who are generally seeking financial aid, are expected to have lower than average wealth. The wealthiest college students and families in the United States are far less likely to complete the FAFSA.)

TABLE 1

Percent of students in each quintile of family wealth, by race

	White	Black	Latine
1st Quintile of Family Wealth ($0-$340)	15%	34%	28%
2nd Quintile of Family Wealth ($340-$1,160)	19%	25%	24%
3rd Quintile of Family Wealth ($1,160-$3,450)	22%	17%	20%
4th Quartile of Family Wealth ($3,450-$34,140)	24%	13%	15%
5th Quintile of Family Wealth ($34,140+)	19%	11%	13%

Note: Estimates apply survey weights and multiply imputed data. Sample is restricted to first-time, full-time dependent students who filed the FAFSA.

Source: 2017-18 National Postsecondary Student Aid Study (NPSAS:18).

While only 15 percent of White students were in the first wealth quartile, more than one third of Black students and more than a quarter of Latine students were in the lowest quintile. By contrast, less than a quarter of Black students and more than a quarter of Latine students fell in the top two quintiles for wealth, combined, while 43 percent of White students were in these top two quintiles. This represents a 19-percentage point difference between White and Black students, on average.

The table reveals that although students from all racial backgrounds will be aided by a Wealth-Based Pell Grant, a more substantial share of Black and Latine students will benefit from this financial aid intervention, redressing their disadvantages from limited household wealth.

FAMILIES FROM LOW-WEALTH BACKGROUNDS FACE UNMET FINANCIAL NEED

There are at least two ways that existing federal aid fails to adequately support students from low-wealth backgrounds. First, these students frequently face compounded disadvantage, in that they are from both low-wealth and low-income backgrounds. These students typically find that their additional need due to wealth disadvantage is not addressed by policies designed around income inequality. Second, because financial aid is not sufficiently attentive to wealth, some students from low-wealth backgrounds with moderate family income are shut out of Pell Grant support entirely.

TABLE 2

Pell Grant award by parents' wealth and total income, under the 2017-18 Pell Grant formula for dependent students

		Income		
Wealth		$20,000	$40,000	$60,000
	$0	$5,920 (100%)	$3,970 (67%)	$0 (0%)
	$40,000	$5,920 (100%)	$3,970 (67%)	$0 (0%)
	$80,000	$5,920 (100%)	$2,970 (50%)	$0 (0%)

Notes: Pell awards are calculated for a full-time student for whom the following is true: the cost of attendance exceeds $5,920; the student has two parents, who both work, have equal earnings to each other, and filed taxes jointly; all income comes from earnings; the parents had an effective federal income tax rate of 1.96% (total income $20,000), 4.29% (total income $40,000), or 7.29% (total income $60,000), based on effective tax rates shown by Desilver (2023); there are four individuals in the household; the student is the only college student in the household; the student resides in California; the older parent is 44, based on adding 18 years to the mean age at first child's birth among U.S. men in 1999 (Stykes 2011); none of the parents' wealth comes from a business or farm; and the student has no income or assets. Holding these factors constant allows for a more direct comparison of Pell awards at different levels of income and wealth.

Both problems are visible by examining Pell Grant awards for first-time, full-time dependent students across a range of wealth and income values. The first column of Table 2 shows the Pell Grant award for students with $20,000 in family income and the attributes specified in the table note. Students in this column received the same Pell Grant award—a full max Pell Grant ($5,920 in the 2017–2018 school year)—despite a wide range in family wealth. These students exemplify the limits of existing Pell Grants for meeting the needs of students with compounded disadvantage. As we detail later, analyses of first-time, full-time dependent FAFSA filers using 2017–2018 data indicate that nearly 50 percent of all Black filers, around 40 percent of Latine filers, and 20 percent of White filers face compounded disadvantage by income and wealth.

The second issue is apparent in the $60,000 parental income column. Students in this column received no Pell Grant award, even though students reporting no family wealth are likely to have considerable financial need. These students illustrate the problem of exclusion from existing Pell Grant awards for some students disadvantaged by wealth. Indeed, our analyses of first-time, full-time dependent FAFSA filers reveal that a quarter of filers from low-wealth backgrounds received no Pell Grant in 2017–2018.

Overall, these patterns illustrate that the existing Pell Grant formula is not designed to address economic disadvantage due to wealth. While there is an increase from 0 percent of maximum Pell Grants to 100 percent of maximum Pell Grants due to a $40,000 increase in income, Pell Grant awards do not move alongside swings in wealth that are twice as large. For instance, in the first and third columns, as noted above, the Pell Grant award does not change with wealth at all. In the second column, the Pell Grant award only increases from 50 percent of the maximum award to 67 percent of the maximum award when moving from $80,000 in wealth to $0 in wealth.

Current Pell Grants thus leave students from low-wealth backgrounds with unmet need due to either compounded disadvantage or exclusion from existing awards.

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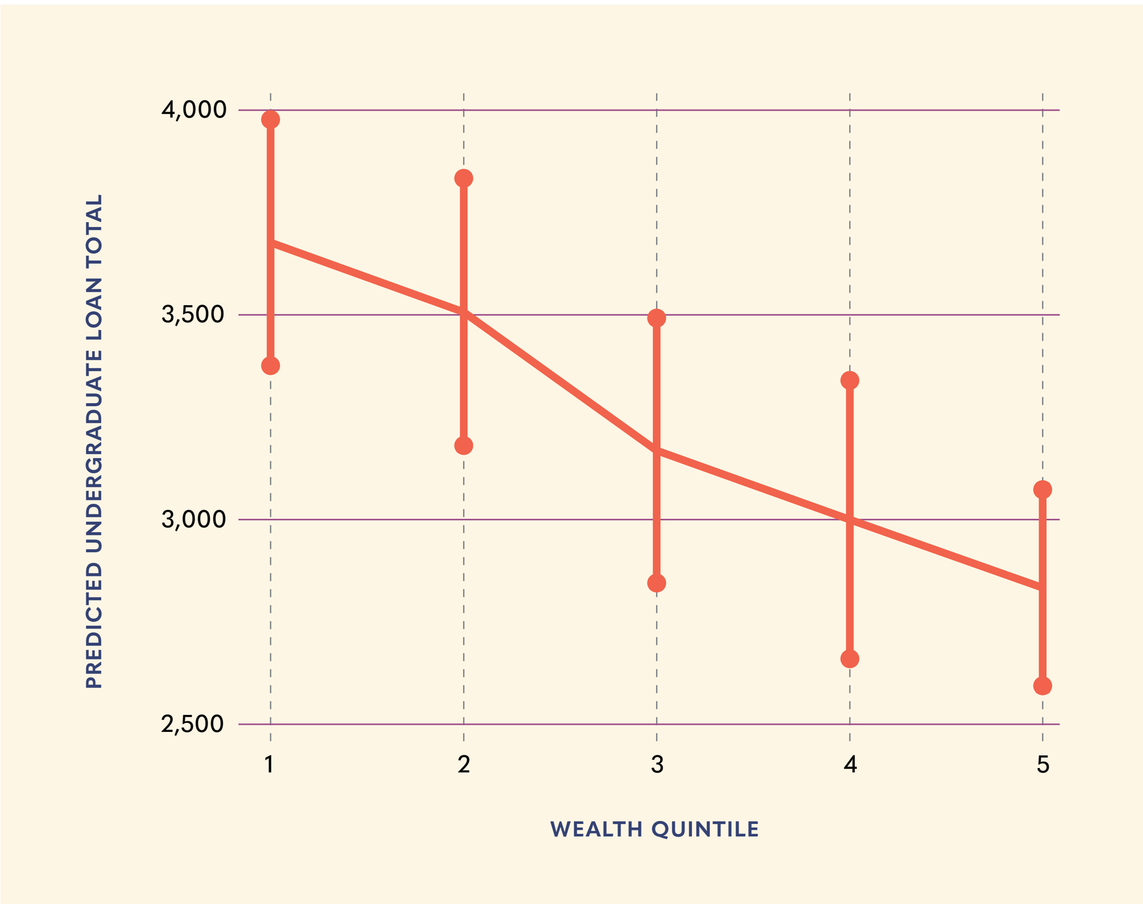
FAMILY WEALTH SHAPES BORROWING

Because families from low-wealth backgrounds face unmet financial need under the existing Pell Grant, they borrow more. Figure 1 illustrates the heavier borrowing of first-time, full-time dependent FAFSA filers from low-wealth backgrounds, which starts in their first year of college. It displays the regression-adjusted mean of students' undergraduate loan totals in the 2017–2018 academic year, by family wealth quintile. These analyses hold EFC constant, and also account for student race and institutional level.

FIGURE 1

Regression-adjusted mean of 2017-18 borrowing, by wealth quintile



Notes: Estimates apply survey weights and multiply imputed data. Sample is restricted to first-time, full-time dependent students who filed the FAFSA. Control variables: Expected Family Contribution, race, and institutional level. Source: 2017-18 National Postsecondary Student Aid Study (NPSAS:18).

Students with lower family wealth borrow more in their first year, even when looking among students with similar EFCs, which were used to determine existing Pell Grant awards during the 2017–2018 academic year. This strongly suggests that existing federal financial aid formulas, while they minimally incorporate assets information, do not adequately account for family wealth. Students from low-wealth backgrounds are borrowing at heavier levels in their first year of college.

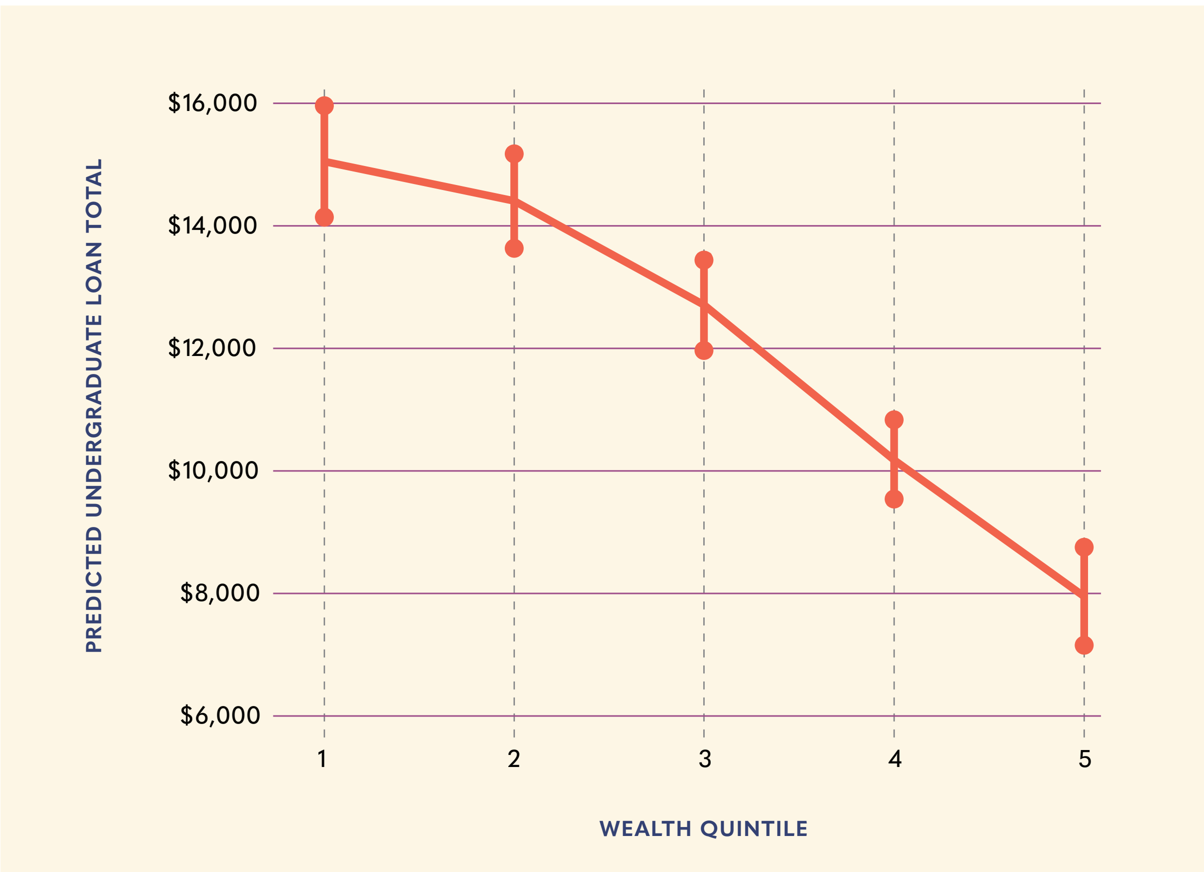
> ***Existing federal financial aid formulas, while they minimally incorporate assets information, do not adequately account for family wealth. Students from low-wealth backgrounds are borrowing at heavier levels in their first year of college.***

DISPARITIES COMPOUND OVER TIME

Borrowing disparities continue throughout college. As BPS04 data shows, first-time, full-time dependent student FAFSA filers from families with low-wealth backgrounds borrow much more during the entire course of college than those from families with high wealth. Figure 2 displays the regression-adjusted mean of total undergraduate borrowing, 12 years from the start of college, by wealth quintile, including controls for EFC (used in the 2003–2004 academic year to determine existing Pell Grant eligibility), student race, institutional level, months enrolled full time, and months enrolled part time.[9]

FIGURE 2

Regression-adjusted mean of total undergraduate borrowing 12 years out, by wealth quintile



Notes: Estimates apply survey weights and multiply imputed data. Sample is restricted to dependent students who filed the FAFSA. Control variables are Expected Family Contribution, race, institutional level, months enrolled full-time by 12 years, and months enrolled part-time by 12 years. Source: 2004/09 Beginning Postsecondary Students Longitudinal Study (BPS:04/09).

9 Controls for months enrolled are needed for these longitudinal analyses to account for very different durations of enrollment over the 12 years in question.

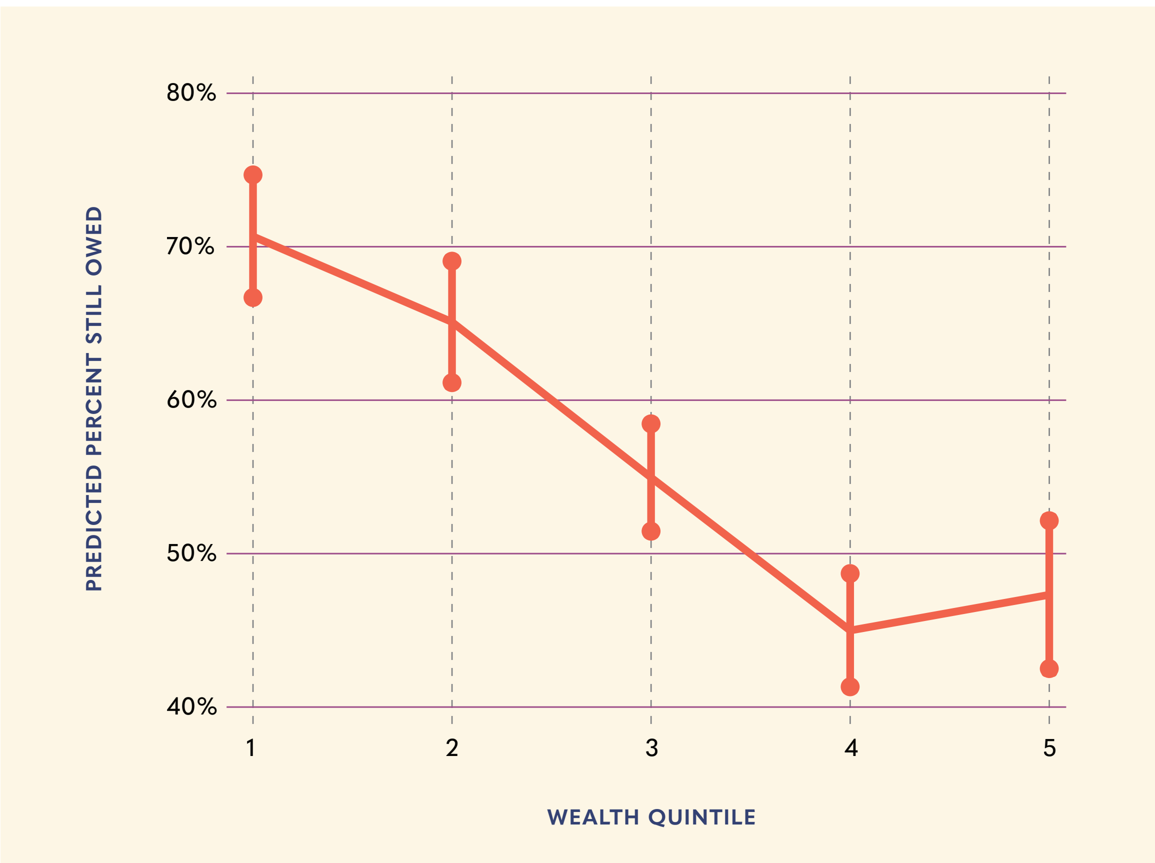
Students in the lowest wealth quintile borrow nearly double what their peers in the highest quintile borrow during college—a difference of roughly $16,000, compared to $8,000. There is again a consistent negative relationship, this time between family wealth and total undergraduate borrowing. As family wealth increases, student borrowing significantly decreases.

WEALTH SHAPES ABILITIES TO REPAY

Students from lower-wealth backgrounds also have more difficulty repaying the debts they incur to attend college. We examine this with the percentage of undergraduate borrowing that is still owed long after the start of college. Figure 3 displays the regression-adjusted mean percent of undergraduate borrowing for first-time, full-time dependent student FAFSA filers still owed 12 years out, by family wealth quintile, with the same set of controls as in the previous figure.

FIGURE 3

Regression-adjusted mean of percent of undergraduate borrowing still owed 12 years out, by wealth quintile



Notes: Estimates apply survey weights and multiply imputed data. Sample is restricted to dependent students who filed the FAFSA. Control variables are Expected Family Contribution, race, institutional level, months enrolled full-time by 12 years, and months enrolled part-time by 12 years. Source: 2004/09 Beginning Postsecondary Students Longitudinal Study (BPS:04/09).

The figure shows that students from low-wealth backgrounds, on average, still owe about 70 percent of the amount they borrowed during undergraduate education 12 years later. By contrast, students in the top two quintiles typically owe less than 50 percent of their undergraduate loan debt. The decline in amount owed is consistent between the first and fourth quintiles of wealth. The fourth and fifth quintile are not substantially different from each other, potentially due to the fact that students in the highest quintile may be most likely to enroll in graduate school, thus delaying loan repayment. BPS04 did not include sufficient information on educational status 12 years after the start of college to test this hypothesis. Nonetheless, comparing students in the first and fifth wealth quintiles reveals sharp disparities in repayment.

Family wealth thus not only impacts borrowing behavior, but also students' abilities to repay student loan debt accrued during undergraduate education. Students from low-wealth backgrounds do not have access to the same kinds of family resources post-graduation that students from high-wealth backgrounds may use to lower their student debt burden.

Most Black borrowers remain trapped in debt long after college in part because of this relationship between repayment and wealth. Recall that most Black students are in the bottom two quintiles for wealth, with more than a third of Black students in the bottom quintile. In alignment with this wealth position, 66 percent of Black borrowers who started college in 2004 still owed more than they originally borrowed 12 years later (Eaton et al., 2022). Black students who obtain their bachelor's degree are five times more likely to default on their student loans than White bachelor's degree graduates, and even default at higher rates than White college non-completers (Scott-Clayton, 2018). Eliminating or at least reducing the borrowing of students from low-wealth backgrounds is therefore essential to prevent racially disparate longer-term consequences of debt.

THE RACIAL IMPACT OF WEALTH-BASED PELL GRANTS

Above, we demonstrated the need for a Wealth-Based Pell Grant. We discussed the ways that wealth in the United States falls along racial lines, placing Black and Latine students at a significant disadvantage. We highlighted unmet needs for students with compounded disadvantage by income and wealth and for students from low-wealth backgrounds shut out of existing Pell Grants. Next, we demonstrated the ways that family wealth shapes borrowing and repayment, even when accounting for measures used to determine access to current Pell Grants. Students from low-wealth backgrounds are at a much greater risk of accumulating substantial student debt that they cannot pay.

In this section, we explore the potential positive impact of Wealth-Based Pell Grants on student borrowers. We provide several possible scenarios for the introduction of a Wealth-Based Pell Grant, using different cutoffs for access to a maximum award equivalent to the maximum amount of existing Pell Grants. We use the max Pell Grant amount in the 2017–2018 school year—$5,920; today current max Pell Grant is slightly higher. We estimate whether students would receive a Wealth-Based Pell Grant award based on whether they fell below a FAFSA-reported family wealth level or cutoff of less than $500, less than $1,000, and less than $2,000. These cutoffs correspond roughly to the 25th, 40th, and 50th percentiles for family wealth in this sample. None of these amounts could be characterized as substantial, and families up to the highest cutoff are likely to face significant challenges financing college for their dependent students.

Our findings suggest that higher cutoffs may be better suited to reducing inequities in student loan burdens. Students below the 60th percentile for wealth struggle more to repay loans than students with higher wealth at statistically significant rates. Students in the 20th percentile to 40th percentile for wealth, moreover, tend to still owe more than 65 percent of what they originally borrowed 12 years after starting college—an estimate with a confidence interval that overlaps with our estimate for 70 percent still owed by students below the 20th percentile.

We opt to use the maximum Pell Grant value in 2017–2018 and assess the impact of awards based on the above wealth eligibility thresholds for simplicity of exposition and potential implementation. However, there are many possible designs for Wealth-Based Pell Grant eligibility and award size, including options for graduated support between thresholds. We encourage exploration of many different policy variations.

As noted earlier, the potential cutoffs that we apply reveal that many students' needs are not being fully met by the current financial aid system. Indeed, 21 percent of first-time, full-time dependent student FAFSA filers with less than $500 of wealth, 24 percent of those with less than $1,000, and 26 percent of those with less than $2,000 received no existing Pell Grant in 2017–2018. These students, who are currently excluded from Pell Grant support, would benefit from a Wealth-Based Pell Grant. In addition, they would be joined by students whose families are characterized by both low income and low wealth, and thus have great need for additional financial support.

A Wealth-Based Pell Grant would benefit students from all racial groups and could equalize average borrowing across racial groups by accounting for racial wealth inequalities. The impact would thus be most substantial for Black and Latine students, whose families have been systematically denied access to wealth in the United States. Below, we illustrate racial patterns in access and student loan relief associated with Wealth-Based Pell Grants.

ACCESS TO WEALTH-BASED PELL GRANTS

Table 3 presents the percentage of first-time, full-time dependent FAFSA filers, by racial group, that would receive a Wealth-Based Pell Grant under different specifications. Looking across all groups, we can see that under the most restrictive cutoff of $500, more than a quarter of students would receive a Wealth-Based Pell Grant. A $1,000 cutoff would extend this coverage to 38 percent of students. A $2,000 cutoff would provide support to more than half of all FAFSA filers. Recall that our data only include FAFSA filers, so these numbers are not percentages of all first-time, full-time dependent students, but rather only those who took the step of completing the FAFSA, likely because they had some financial need.

TABLE 3

Percent of students receiving Wealth-Based Pell, under different eligibility cutoffs, by race

	Family Wealth Cutoff at $500	Family Wealth Cutoff at $1,000	Family Wealth Cutoff at $2,000
Aggregate	27%	38%	51%
Black	42%	57%	68%
Latine	33%	46%	59%
White	20%	30%	43%

Notes: Estimates apply survey weights and regression imputed data. Sample is restricted to first-time, full-time dependent students who filed the FAFSA.

Source: 2017-18 National Postsecondary Student Aid Study (NPSAS:18).

Wealth-Based Pell Grants would eliminate racial inequalities in borrowing by providing awards to Latine and Black FAFSA filers at higher rates, consistent with their lower levels of household wealth. For example, while 20 percent of White FAFSA filers would qualify for a Wealth-Based Pell Grant under the $500 cutoff, 33 percent of Latine filers, and 42 percent of Black filers would receive a Wealth-Based Pell Grant. The $1,000 and $2,000 cutoffs, however, produce the most support for Black and Latine filers relative to White filers, with between 25–27 percentage points greater coverage for Black students relative to White students and 16 percentage points greater coverage for Latine students relative to White students.

Like the existing Pell Grant, which supports postsecondary access for historically low-income populations, a Wealth-Based Pell Grant layers on additional supports for students from racially marginalized backgrounds. These students, especially Black students, are at unique risk for heavy student debt burdens due to unmet financial need during college. Wealth-targeted financial aid interventions can address some of the specific ways that racial inequality manifests in the United States.

RELATIONSHIP BETWEEN EXISTING AND WEALTH-BASED PELL GRANTS

How would a Wealth-Based Pell Grant relate to existing Pell Grant awards? In Table 4, we estimate the percentage of first-time, full-time dependent student FAFSA filers who: 1) currently receive an existing Pell Grant, 2) would be eligible for a kind of “double Pell” Grant (both wealth-based and existing Pell), 3) have been excluded from existing Pell Grant but would receive a Wealth-Based Pell Grant, and 4) would receive some form of Pell Grant (existing, wealth-based, or both). The table illustrates the ways that Wealth-Based Pell Grants offer support to students with compound economic disadvantage and students from low-wealth backgrounds currently shut out of federal need-based financial aid.

TABLE 4

Percent of students with each combination of existing Pell receipt and Wealth-Based Pell eligibility, by race

	Current Pell	Double Pell (Wealth-Based + Existing)	Wealth-Based Pell Only	Access to Some Form of Pell
Aggregate	61%	29%	9%	70%
Black	83%	48%	9%	91%
Latine	80%	39%	7%	87%
White	46%	20%	10%	56%

Notes: Estimates apply survey weights and regression imputed data. Sample is restricted to first-time, full-time dependent students who filed the FAFSA. Wealth-Based Pell cutoff for this table is $1,000 in family wealth.

Source: 2017-18 National Postsecondary Student Aid Study (NPSAS:18).

As the first column indicates, on average the existing Pell Grant (including minimum through maximum awards) reaches more than 60 percent of first-time, full-time dependent students who filed the FAFSA. There is, however, a wide range by race, with around 80 percent of Black and Latine filers receiving existing Pell Grants and 46 percent of White students receiving existing Pell Grants.

The second column reports the percentage of students who we estimate would be eligible for a "double Pell" Grant acknowledging compound economic disadvantage by income and wealth. Using a wealth cutoff of $1,000, 29 percent of first-time, full-time dependent students who filed the FAFSA would receive both forms of Pell Grants. As the table reveals, however, compounded disadvantage is concentrated among Black and Latine students. Forty-eight percent of Black students and 39 percent of Latine students would receive a double Pell Grant, relative to 20 percent of White students. Access to a Wealth-Based Pell Grant will assist these current Pell Grant students with unmet need.

The third column isolates the population of students who are not existing Pell Grant recipients (and thus do not meet the criteria for low income) but report low wealth. These students, who represent about 9 percent of first-time, full-time dependent FAFSA filers, would become eligible for a Wealth-Based Pell Grant. The Wealth-Based Pell Grant would address their financial need currently excluded from federal aid calculations or any financial aid based primarily on income.

As visible in column 4, with the implementation of a Wealth-Based Pell Grant, 91 percent of Black first-time, full-time dependent students who filed the FAFSA would have access to some form of Pell Grant. Coverage for Latine students is similarly high at 87 percent. More than half of White students would also see access to some form of Pell Grant.

CREATING LOAN-FREE CONDITIONS

What do Wealth-Based Pell Grants mean for students' freedom from student loan debt? Table 5 reports projections for the percent of students who could have been loan-free in 2017–2018. For the sake of simplicity in these approximations, we assume a dollar-for-dollar exchange, whereby each dollar from the Wealth-Based Pell Grant replaces a dollar of their student loan borrowing that year.

TABLE 5

Percent of students projected to be loan-free in their first year, under different cutoffs for Wealth-Based Pell, by race

	Status Quo	Wealth Cutoff at $500	Wealth Cutoff at $1,000	Wealth Cutoff at $2,000
Aggregate	41%	53%	58%	65%
Black	27%	50%	59%	65%
Latine	57%	67%	71%	76%
White	36%	44%	50%	57%
Wealth < $500	39%	85%	85%	85%
Wealth < $1,000	40%	71%	86%	86%
Wealth < $2,000	40%	63%	74%	87%

Notes: Estimates apply survey weights and regression imputed data. Sample is restricted to first-time, full-time dependent students who filed the FAFSA.

Source: 2017-18 National Postsecondary Student Aid Study (NPSAS:18).

Our estimates show that students from all racial groups would see considerable benefits from a Wealth-Based Pell Grant. For example, the bottom row of Table 5 shows that 85 percent of borrowers with less than $500 of wealth could have ended their first year loan-free under any version of a Wealth-Based Pell Grant—a 46 percentage point increase from the 39 percent coverage under the 2017–2018 status quo scenario.

If we assume that non-first-year and independent full-time students would become debt-free at equivalent rates to first-year, full-time dependent students, then we estimate that a Wealth-Based Pell Grant could enable approximately one million full-time students to become debt free. Part-time students would likely see similar benefits.

> ***We estimate that a Wealth-Based Pell Grant could enable approximately one million full-time students to become debt-free. Part-time students would likely see similar benefits.***

A Wealth-Based Pell Grant could also eliminate first-year Black students' greater indebtedness relative to White students. Because they have the lowest wealth, Black students would see the greatest increase in debt-free enrollment from a Wealth-Based Pell Grant. Under the $500 wealth cutoff, Wealth-Based Pell Grants could approximately double the percentage of Black students attending college free in their first year from 27 percent to 50 percent. Even the modest wealth cutoff of $500 is projected to more than close the Black-White gap in loan-free status completely. In the most expansive scenario of a $2,000 cutoff, nearly two-thirds of Black students could have ended their first year loan-free. Both Latine students and White students could also see considerable gains in loan-free status with a Wealth-Based Pell Grant.

Loan-free status is particularly important for Black students because they have faced more barriers to student loan repayment than other groups. As noted earlier, the typical Black borrower owes more than what they originally borrowed 12 years after college entry, not less (Miller, 2017). In addition, student loan debt has played a unique role in generating insecurity for Black Americans, even among the middle class (Houle and Addo, 2022). A Wealth-Based Pell Grant could help shore up economic security for Black students seeking knowledge and mobility through college.

FISCAL COST

We estimate that implementation of a Wealth-Based Pell award for the 2025–2026 academic year would cost $17.4 billion if all households below the 25th percentile for counted assets are eligible. While there is no need for this proposal to be in competition with other proposals, it is still useful for reference that this proposal would cost less than other important proposals to provide a debt-free college option for all students. For example, doubling Pell Grants based on current income-focused criteria would cost $27 billion annually.

At $17.4 billion, a supplemental Pell Grant award for households from low-wealth backgrounds also could be entirely paid for by a variety of small taxes on the wealthiest Americans. For example, a large portion of the cost could be covered by closing the wealth-related carried interest loophole. One proposal to close the carried interest loophole would generate $6.3 billion in annual tax revenue.[10] The 1 percent wealth tax on billionaires in the Ultra-Millionaire Tax Act of 2021 would generate $40 billion in tax revenue annually.[11]

Even without new taxes on the wealthiest Americans, a Wealth-Based Pell Grant would likely increase federal tax revenue, offsetting its cost. Wealth-based financial aid would likely increase college completion rates by providing more adequate financial aid to help students from low-wealth backgrounds graduate (Sanchez et al., 2024). Increased graduation rates would in turn increase tax receipts by boosting overall economic productivity and the incomes of students who otherwise would not have completed college (Baum, Ma, and Payea, 2013; Hout, 2012).

> ***Even without new taxes on the wealthiest Americans, a Wealth-Based Pell Grant would likely increase federal tax revenue, offsetting its cost.***

We detail our $17.4 billion cost estimate in Table 6. We assume that 73.9 percent of full-time students would file FAFSA to apply for federal aid. We assume that 58.5 percent of part-time students would complete FAFSA to apply. Based on these assumptions, we assume 7.5 million full-time students and 3.7 million part-time students would apply.[12] We then simply multiply the total full-time and part-time filers by 0.25 to estimate the total count of full-time and part-time awardees. We multiply these full-time and part-time awardee counts by the current full-time and part-time maximum Pell Grant award amounts of $7,395 and $3,698 respectively. This yields the total cost of providing a supplemental maximum Pell Grant award to 25 percent of all full-time and part-time FAFSA filers (to be selected based on falling below the 25th percentile for wealth, around $500, as detailed above). This cost estimate errs on the high side by presuming that a 25th percentile cutoff would cover 25 percent of full-time FAFSA filers and an equal percentage of part-time filers. Yet, basing a 25th percentile cutoff on the wealth of both full-time and part-time filers would likely cover a lower percentage of full-time filers with higher max Pell Grant awards and a higher percentage of part-time filers with lower max Pell awards. This is because full-time filers are likely to have higher wealth on average than part-time filers.

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10 https://www.finance.senate.gov/chairmans-news/wyden-whitehouse-bill-ensures-private-equity-moguls-pay-fair-share-in-taxes

11 https://www.warren.senate.gov/imo/media/doc/Wealth%20Tax%20Revenue%20Estimates%20by%20Saez%20and%20Zucman%20-%20Feb%2024%2020211.pdf

12 Our assumptions are based on National Center for Education Statistics data located here: https://nces.ed.gov/programs/digest/d22/tables/dt22_303.70.asp.

TABLE 6

Cost estimate for awarding Wealth-Based Pell Grants to the bottom quartile of students for counted assets in the 2025-2026 academic year

	Full-time	Part-time
Projected US Undergrads	10.1M	6.3M
% Who File FAFSA	73.9%	58.5%
Total FAFSA Filers	7.5M	3.7M
25% of Filers	1.9M	0.9M
Max Pell	$7,395	$3,698
Estimated Cost	**$13.9B**	**$3.4B**

Notes: We use projected enrollments for Fall of 2025 from the National Center for Education Statistics (NCES) and assume equivalent enrollment over the course of the academic year. Estimated percent of FAFSA filers is based on 2020 National Postsecondary Student Aid Study pre-COVID survey estimates computed with NCES Powerstats. Max Pell awards are based on 2023-2024 maximum awards which for which increases have not been appropriated by Congress.

Our estimates indicate that around 2.8 million students would receive a Wealth-Based Pell Grant because they were below the 25th family wealth percentile eligibility threshold of approximately $500.

Conclusion

A supplemental Wealth-Based Pell Grant would take a major step toward providing a debt-free college option for all students. This federal aid approach recognizes that family wealth is a valuable but highly unequal resource for the financing of college. Existing policies are not designed to alleviate the additional barrier that low wealth poses for students, often alongside low income in a form of compounded disadvantage. Students without the often-invisible subsidies of family wealth are more likely to borrow heavily to attend college and to carry this burden long after they leave. A Wealth-Based Pell Grant may not only have desirable impacts on student loan accrual and repayment, as suggested by these analyses, but may also boost student access, persistence, and completion—a key priority recently highlighted by the U.S. Department of Education (2023).

> ***A supplemental wealth-based Pell Grant would take a major step toward providing a debt-free college option for all students.***

As a financial aid policy, a Wealth-Based Pell Grant is likely to have wide public appeal. Like the existing Pell Grant, the policy itself is race neutral. It would support working- and middle-class students and families from all racial backgrounds, including many White students from low-wealth backgrounds who would otherwise receive no federal grant aid or insufficient federal grant aid. Because student eligibility is not contingent on race, a Wealth-Based Pell Grant is unlikely to be a target of litigation seeking to end race-conscious postsecondary policies.

At the same time, a Wealth-Based Pell Grant would end racial disparities in student loan borrowing and equalize debt-free college across racial groups. This is because a Wealth-Based Pell Grant will be afforded to a greater share of Black and Latine students, who are more likely to have low wealth than White students. In doing so, a Wealth-Based Pell Grant would join other policy proposals, like Baby Bonds, that are designed to redress the financial legacy of slavery and counter the complex of racialized policies that have long expropriated wealth from communities of color.

> ***At the same time, a Wealth-Based Pell Grant would end racial disparities in student loan borrowing and equalize debt-free college across racial groups.***

A Wealth-Based Pell Grant is also practical to implement. It does not require changes to the existing FAFSA, which already collects information on family assets. A simple attestation of low wealth for students who do not report asset data with the simplified FAFSA will keep administrative burden for borrowers low. A Wealth-Based Pell Grant could also easily be implemented using data from IRS filings, should policymakers eliminate the FAFSA or otherwise use tax filings to simplify federal financial aid applications and award offers.

We advocate caution regarding how to implement a Wealth-Based Pell Grant. Currently, Pell Grant funds do not go directly to students, as is often assumed. Rather, as Robert Shireman (2021) details, under existing Pell Grant policy, Pell Grant funds are paid directly to colleges, who can then include these funds in pricing and financial aid packages. Pell Grant funds are often used in place of other forms of aid provided by the institution, so that the university effectively absorbs this revenue by invisibly reducing the institutional aid that was going to be offered to the student. At public and non-profit schools, if the funds do not go to students, they can go to any of the college's operations. State lawmakers can also reduce support of public institutions when federal grants grow, leading to increased public defunding. At for-profit schools, the extra revenue can even be passed on to owners and investors.

> ***A Wealth-Based Pell Grant is also practical to implement.***

As Shireman recommends, institutional accountability should be attached to Pell Grant funds in order to ensure that increases in federal aid go toward the intended recipients—most of whom attend public institutions. Furthermore, it would be ideal to ensure restrictions on Wealth-Based Pell Grant funds for for-profit institutions, which have a known record of predation (Cottom, 2017; Deming, Goldin, and Katz, 2012; Goldstein and Eaton, 2021). This restriction would incent eligible students to instead attend more affordable and respected public and private non-profit institutions.

Wealth-based financial aid policies could be adopted at many levels to make college debt-free for all students, not just those from wealthy backgrounds. A Wealth-Based Pell Grant is a federal-level intervention. However, many states offer state-based funding that is, like the existing Pell Grant, heavily based on income. Similarly, colleges and universities should strongly consider wealth as a relevant dimension of family resources when providing need-based institutional aid and do so with an even richer set of measures than those provided on the FAFSA.

Government and higher education leaders need a multifaceted approach to solve the current student loan crisis. Policy debate has focused recently on important initiatives for both targeted and broad cancellation of existing student debts. We offer one "front-end" solution, designed to prevent, or significantly reduce, the imposition of debt on students who lack the household wealth that affords some an opportunity to leave college debt-free.

Notably, our analyses suggest that wealth-based initiatives are needed to address wealth-based inequality. Students with compounded disadvantage by income and wealth generally require more aid than students who are disadvantaged on one economic dimension, and many income-based forms of aid exclude borrowers from low-wealth backgrounds who are just over income thresholds.

A Wealth-Based Pell Grant is also compatible with other policy initiatives. It can sit alongside, and even reduce the cost of, efforts to increase the purchasing power of Pell Grants, such as doubling existing Pell Grants. Collectively, these initiatives offer all students debt-free college options like those afforded to earlier generations in the 20th century.

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