

# Student Aid Modernization Initiative: Transforming Federal Student Aid for the 21<sup>st</sup> Century



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June 2016

The National Association of Student Financial Aid Administrators (NASFAA), at its 2015 National Conference in New Orleans, invited a small group of passionate thinkers to participate in “The Big Idea: NASFAA’s Policy Challenge,” an event where financial aid administrators, researchers and other interested stakeholders were given the chance to present their innovative policy ideas to reform and improve federal student aid programs and policies.

The positions expressed and recommendations put forward in this white paper are not those of NASFAA, but rather belong expressly to inaugural Big Idea Challenge winner Marcus Szymanoski.

The paper is being published by NASFAA to stimulate further discussion of innovative ways to reform the financial aid programs as reauthorization of the Higher Education Act approaches.



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## Introduction

The Higher Education Act (HEA) was signed into law more than 50 years ago. Since its inception, the HEA has profoundly impacted American postsecondary education. Today, as lawmakers prepare for its reauthorization, they must ensure the law is equipped for the next 50 years.

Countless ideas have been put forth, many of which have focused on consolidating aid programs, enhancing accountability, and streamlining the application process. An important component often missing from the discussion is an examination of the underlying method used to award federal student aid. Without systemic improvement in this area, funds will continue to be awarded to students using an outdated process that is inefficient and often inequitable.

Thus, HEA reauthorization represents an apt opportunity to modernize federal student aid. Achieving this requires common sense enhancements reflecting the way students attend college in the 21st century, while ensuring the resources our nation commits to postsecondary education are used as effectively as possible. The Student Aid Modernization Initiative is a concept designed to achieve these goals.

## Executive Summary

The Student Aid Modernization Initiative (SAMI) is a fresh approach to awarding federal student aid. SAMI directly links a student's financial aid awards with their educational progress, ensuring proportional distribution of financial aid as a student moves through their academic program. SAMI also helps students plan financially for their full academic program.

Students will complete the Free Application for Federal Student Aid (FAFSA) at the beginning of the academic program, and will be awarded financial aid for the entire program. Awards will be distributed proportionally as the student progresses toward completion. Students will receive prorated, per-unit, financial aid awards, based upon the portion of units (credit-hours, competencies, clock-hours, etc.) attempted within each period of enrollment.

## Anticipated Policy Implications

SAMI will significantly modernize federal student aid awarding. It will enable federal student aid to be distributed more precisely than is possible using the current method, which is based on complicated factors such as enrollment status ranges, a defined academic year, dependency status, and grade level,<sup>1</sup> among others. By basing awards on actual enrollment at the per-unit level, SAMI ensures financial aid is awarded proportionally with a student's attempted progress toward program completion.

SAMI will result in predictable and appropriate award amounts, better supporting students' unique enrollment patterns and enabling long-term planning. Postsecondary education is typically a multi-year commitment, yet federal student aid is currently awarded annually. As a result, each year millions of students embark on a multi-year commitment costing tens of thousands of dollars, yet only have information to accurately plan financing for the first year. SAMI empowers students to develop a financing plan for the entire program, not just year-one, enabling financially-informed enrollment decisions. Institutions of higher education and taxpayers will benefit from increased awarding precision and flexibility, helping to eliminate waste and arbitrary awarding restrictions. SAMI will increase funding predictability for students, institutions of higher education, and appropriators.

Combined, the elements of program-length awards and per-unit distribution will allow students to better understand financial aid and how their behavior directly impacts their awards over time.

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<sup>1</sup> [34 CFR 685](#)

SAMI will also benefit institutions of higher education by eliminating duplicative and complex awarding procedures, and likely reduce the volume of regulations currently in place. SAMI is also inherently more flexible than the current system, since it can be applied to virtually any type of academic program. This will help ensure federal student aid remains adaptable enough to accommodate emerging education delivery models. This is a key consideration, as advances in technology, globalization, and the desire to educate more Americans at the postsecondary level will inevitably result in continued innovation.

The following policy implications may be expected by implementing SAMI:

- *Increased precision of federal student aid awards, increasing overall system efficiency*
- *More equitable distribution of federal student aid among students*
- *Increased incentive for institutions to “lock-in” tuition rates for continuing students*
- *Students will have the ability to develop a financing plan for the entire academic program*
- *Students will be empowered to make financially-informed enrollment decisions*
- *Students will more easily understand federal student aid, and how awards relate to enrollment, progress toward completion, and other behaviors*
- *Excessive loan debt will be more difficult to incur*
- *Students with the time and ability to increase course load will be incentivized to do so, since awards increase proportionally with enrollment*
- *Students will have the ability to receive federal student aid “year-round,” in proportion to their enrollment*
- *Students who study part-time will be better supported by receiving federal student aid in proportion to their enrollment*
- *Reduction in administrative burden through simplified awarding procedures, and less frequent ISIR processing, verification, and related activities*
- *Increased predictability of federal budget impact of Title IV programs*
- *Institutions of higher education will have greater flexibility to innovate, experiment, and improve education delivery models*
- *Increased cohesion between policymakers and students, by viewing postsecondary education as a multi-year commitment*

## **Background: The Current Financial Aid Model**

The current awarding method was designed when the norm was “traditional” students—those who enroll in college full-time immediately after high school graduation, depend on parents for financial support, and either have part-time jobs or do not work during the school year<sup>2</sup>—enrolling in a semester-based program. Today, however, less than one-third of students are now considered traditional.

To support this reality, federal student aid should be flexible enough for all types of students, whether full-time living on-campus, part-time balancing a career with college, or somewhere in between. Similarly, federal student aid should work just as well for “brick and mortar” universities as it does for emerging educational models, such as programs based on demonstrating competency rather than seat time. Unfortunately, this is not the case with today’s system. The awarding method currently in use is not well suited to innovation. It is also imprecise, inequitable, and often cumbersome.

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<sup>2</sup> <http://nces.ed.gov/pubs2002/2002012.pdf>

## *Federal Pell Grant Awarding Issues*

Federal Pell Grant awards are determined, in part, by enrollment status tiers within a defined academic year;<sup>3</sup> full-time, three-quarter time, half-time, and less-than-half-time. Since schools must use a range of credit-hours (or equivalent) to determine a student's enrollment tier for a payment period, Pell Grant awards do not often reflect a student's actual enrollment, or the portion of the academic program being attempted.

Using a standard term 120 credit-hour bachelor's program, students are classified as "full-time" when enrolled in 12 or more credit-hours, per semester.<sup>4</sup> The result is many students within that tier receive the same amount of funding, even though each may be completing a vastly different portion of the academic program. David, a full-time student enrolled in 24 credit-hours in one academic year, can receive the same annual Pell Grant award as Nancy, who is enrolled in 30 credit-hours. In the example, Nancy is attempting approximately one-quarter of her academic program, while David is attempting just one-fifth of his program, yet both receive the same Pell Grant award.<sup>5</sup>

This illustrates how students near the top of an enrollment tier are in essence "under-awarded," since they're attempting a larger portion of the academic program, yet receiving the same amount of funds as students attempting a smaller portion. One could also look at this situation and conclude that students near the bottom of an enrollment tier are being "over-awarded." In either case, it is clear the awarding system in place today regularly results in students completing different portions of an academic program receiving the same amount of funding.

Over the course of completing the academic program, the two students will ultimately earn and pay for the same number of credit-hours, yet one will have received far more federal student aid to do so. This is not an equitable distribution of federal student aid funds.

This problem also exists in the other enrollment status tiers used for awarding Pell Grants. For example, students classified as "half-time" might be enrolled in 6, 7, or 8 credit-hours per-semester, yet each has the same maximum potential Pell Grant award.

In the example, there is no clear reason David should receive the same amount of funding as Nancy to enroll in fewer credit-hours. Unfortunately, situations like this occur regularly due to the awarding methodology currently used. Over the course of an academic program, this scenario could represent a disparity of nearly \$6,000 in Pell Grant funding alone, for each student.<sup>6</sup>

Considering the 8.5 million students who received a Federal Pell Grant during the 2014-15 Award Year,<sup>7</sup> the sum of these disparities illustrates the magnitude of this issue. This also has a significant impact on the federal education budget. Funds can be put to better use through more precise awarding methods, such as the one prescribed here with SAMI.

Another issue related to Pell Grants is the limitation of one scheduled award, per award year. This penalizes students attempting to quickly complete their program, or simply catch-up by studying "year-round" outside a traditional fall/spring academic cycle. Students often accomplish this by taking courses during a summer term, though not exclusively. Congress temporarily addressed these students between 2009 and 2011 with the implementation of "Year-Round Pell," which has subsequently been eliminated. Numerous policy discussions surround this limitation of one scheduled award, as well as its impact on students who need flexibility to accelerate or supplement their study.<sup>8</sup>

This issue is increasingly important because the new majority of students do not fit the "traditional" definition. Many students need to complete their academic program as quickly as possible in order to enter or reenter the workforce.

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<sup>3</sup> [34 CFR 690](#)

<sup>4</sup> Assumes the payment period also meets the weeks of instructional time and other requirements.

<sup>5</sup> Assumes both students have an Expected Family Contribution of 0 and other equal variables.

<sup>6</sup> Assumes students in a four-year program with full eligibility and Expected Family Contribution of 0.

<sup>7</sup> <https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/AidRecipientsSummary.xls>

<sup>8</sup> <https://www.luminafoundation.org/files/resources/year-round-pell.pdf>

From a national economic perspective, the federal student aid system should encourage accelerated program completion, not hinder it.

SAMI remedies this issue through de facto year-round awarding, since students will be awarded based on actual enrollment, independent of an academic year or award year limitations. This will enable federal student aid awards to match the pace of study that best fits each student's unique situation.

### *Federal Direct Loan Awarding Issues*

Awarding practices for Federal Direct Subsidized and Unsubsidized loans further illustrate problems caused by the use of enrollment status tiers. Students need only be enrolled half-time to qualify for loans, which creates extreme inequities between student borrowers.<sup>9</sup> Again, using a standard term 120 credit-hour bachelor's program for illustration, a student enrolled in 6 credit-hours per-semester can receive the same maximum Direct Loan award as a student enrolled full-time, in 12 credit-hours or more per-semester.

This practice has implications beyond award inequity, since student borrowers must repay these funds. Additionally, some students may exhaust funds by hitting aggregate loan limits prior to program completion.<sup>10</sup> Unfortunately, postsecondary institutions have little existing authority to limit a student's use of federal loans.<sup>11</sup> Under SAMI, loan awards are proportional to a student's enrollment, helping mitigate these negative outcomes.

There are also other issues with current Federal Direct Loan awarding practices. One is the variability of award amounts based on a student's grade-level. These currently range between \$5,500 and \$12,500 per academic year, at the undergraduate level. Loan awarding is also further complicated by a student's dependency status, as well as whether a dependent student's parent is able to borrow the Direct PLUS Loan.<sup>12</sup> SAMI eliminates both of these issues.

These are examples of superfluous complexity making federal student aid increasingly difficult for students to understand. This complexity has also increased administrative burden on postsecondary institutions. SAMI will significantly streamline federal student loan awarding and reduce administrative burden.

### **Solution: Student Aid Modernization Initiative**

SAMI remedies the issues described above with two relatively simple concepts: 1) awarding aid to students for the duration of their academic program; and 2) distributing that aid proportionally as the student progresses through the program.

To illustrate the concept, consider this basic Pell Grant awarding example. Using the 2015-16 maximum annual award (\$5,775) as a baseline, a student with a 0 Expected Family Contribution (EFC) might have a maximum program-level award of approximately \$23,100, at the bachelor's level (\$5,775 x 4 years of study).

With SAMI, the student receives the \$23,100 proportionally as he or she progresses through the academic program, based upon the number of credit-hours or units attempted in each enrollment period. To achieve this proportional distribution, the program-level award is subdivided into per-unit award amounts by dividing the program-level award by the number of units required to complete the academic program.

For example, a student enrolled in a standard 120 credit-hour bachelor's program with a program-level award of \$23,100 would have a per-unit award of \$192.50.

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<sup>9</sup> [34 CFR 685.200](#)

<sup>10</sup> [34 CFR 685.203](#)

<sup>11</sup> [http://www.nasfaa.org/news-item/556/ED\\_Clarifies\\_Permissible\\_Enhancements\\_To\\_Loan\\_Entrance\\_Counseling\\_In\\_DCL\\_Q\\_A](http://www.nasfaa.org/news-item/556/ED_Clarifies_Permissible_Enhancements_To_Loan_Entrance_Counseling_In_DCL_Q_A)

<sup>12</sup> [34 CFR 685.203](#)

***Program-Level Pell Grant Award / Units in the program = Per-unit Pell Grant award***

$$\text{\$23,100} / 120 = \text{\$192.50}$$

To calculate a student's award for a given enrollment period, simply multiply the per-unit award by the number of units attempted in that period. Continuing the above example, if the student is enrolled in 15 credit-hours in the enrollment period, the Pell Grant award would be \$2,888.

***Units in enrollment period X Per-unit award = Pell Grant award***

$$15 \times \text{\$192.50} = \text{\$2,888}$$

SAMI is dynamic, automatically adjusting awards based on enrollment. So, if in the subsequent semester the student enrolls in just 12 credit-hours, the Pell Grant award would be lower (\$2,310).

***Units in enrollment period X Per-unit award = Pell Grant award***

$$12 \times \text{\$192.50} = \text{\$2,310}$$

This illustrates how SAMI ensures the Pell Grant award is proportional to the student's actual enrollment in each enrollment period. Here's a basic comparison of the above example to illustrate SAMI and the current awarding method side by side:

SAMI		Current Method	
Term 1	Term 2	Term 1	Term 2
15 credit-hours	12 credit-hours	15 credit-hours	12 credit-hours
Pell: \$2,888	Pell: \$2,310	Pell: \$2,888	Pell: \$2,887

Notice how SAMI automatically adjusts the student's Pell Grant award for the student's lower enrollment in Term 2, unlike the current method, which awards the same amount for both terms.

Please note that the dollar amounts used in these examples are only to illustrate how SAMI works—in this case, how awards dynamically adjust to a student's enrollment behavior. Policymakers should set the actual award amounts. SAMI endeavors to ensure those awards are distributed appropriately and efficiently.<sup>13</sup>

SAMI applies this prorating methodology to other forms of federal student aid as well, namely Federal Direct Loans. All that is needed for basic awarding is the program-level award amount, the number of units in the program, and the number of units for which the student is enrolled in the period.

Subsequent sections will address other factors that may influence a student's final award, such as EFC and cost of attendance (COA).

### **A Closer Look: How SAMI Works With Existing Rules**

While awarding federal student aid under SAMI may seem like a significant departure from the current method, in fact many of the underlying federal student aid concepts and much of the existing infrastructure will remain. For example, the FAFSA application process, determining student eligibility, verification, and other foundational concepts

<sup>13</sup> This methodology is similar to that used currently in the Pell Grant Program for non-term and clock-hour programs, but without the added complexity of the weeks component, which has been argued is a barrier to innovation.



such as EFC and cost of attendance will continue to exist. The most significant improvements from SAMI originate from the way existing information is used to better calculate students' awards.

### Units

A central component of SAMI is the concept of per-unit, prorated awarding. Award proration can be accomplished using any unit of measurement representing a portion of an academic program. Programs are most commonly subdivided into credit-hours, but could also be subdivided into competencies, clock-hours, days, weeks, independent learning pursuits, portfolio evaluations, etc.

This makes SAMI uniquely flexible, since it can be applied to nearly any program type, free from the constraints of a defined academic year. This will help ensure federal student aid is flexible enough to accommodate emerging education models as well as the existing ones.

The term "unit" denotes the measurement used to subdivide an educational program into its constituent parts. Each institution will determine what type of unit is appropriate for each academic program, based upon the type, length, modality, requirements from accreditors or regulators, and other factors.

For example, a 120 credit-hour program would be subdivided into 120 units for financial aid awarding purposes under SAMI. An 800 clock-hour program would be subdivided into 800 units. A 40 credit-hour master's program would be subdivided into 40 units. This allows proration based upon the total number units required for the program and the number of units being pursued in an enrollment period. This ensures awards are always proportional to the student's attempted progress, without the need for conversion into a defined academic year.

### Enrollment Period

The enrollment period is simply the period of enrollment used to calculate and award a student's financial aid. No defined academic year exists under SAMI, which makes this method inherently much more flexible. Institutions would develop enrollment periods based upon the scheduling pattern of the academic program, which might be semesters, quarters, sequential terms, modules, mini-sessions, etc.

Policymakers will need to develop rules prescribing minimum and maximum enrollment periods to avoid extremes such as awarding for one day at a time, or unreasonable lengths of time beyond which a student can commit to enrollment.

SAMI gives institutions unprecedented flexibility to develop awarding cadences that best fit each academic program. This is a simplification over current practice, which now requires schools to adapt to a defined academic year which is often at odds with the academic reality of the program.<sup>14</sup>

### Cost of Attendance (COA)

COA continues to exist under SAMI, serving as a factor limiting a student's total awards in an enrollment period. This is particularly important for awards such as PLUS loans and private loans, as is the case today. Unlike current practice, however, the COA applied to an enrollment period under SAMI is calculated on a per-unit COA basis.

This method ensures a student's COA and corresponding total award package for an enrollment period is proportional to portion of the program being attempted. Institutions will develop per-unit COA values appropriate for each program, and include variables such as the student's living situation.

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<sup>14</sup> [34 CFR 668.3](#)

The program COA is subdivided by the number of units in the academic program to arrive at the per-unit COA, which will be used in award calculations. For example, a four-year program with an annual COA of \$30,000 might translate to approximately \$120,000 for the entire academic program<sup>15</sup>.

If there are 120 units in the program, the per-unit COA is \$1,000.

***Program COA / Units in program = Per-unit COA***

***\$120,000 / 120 = \$1,000***

To determine the COA used for an enrollment period, the per-unit COA is multiplied by the number of units being attempted in the period.

***Per-unit COA X Units enrolled in enrollment period = Enrollment period COA***

Here’s a basic example, continuing the scenario above which assumes a \$120,000 COA, 120-unit program. The student is attempting 15 credit-hours in the enrollment period:

Program COA	\$120,000
Units in program	120
Per-unit COA	\$1,000
<i>Units in enrollment period</i>	<i>15</i>
<i>Enrollment period COA</i>	<i>\$15,000</i>

As the example illustrates, SAMI ensures the applicable COA is automatically proportional to the student’s enrollment. Note that 15 units enrolled in the enrollment period is 12.5 percent of the required units in the program, just as \$15,000 is 12.5 percent of the program COA.

The enrollment period COA determines the maximum amount of financial aid that can be awarded within that enrollment period, just as it functions today. This is an important mechanism to help moderate student debt, since COA also limits the amount of PLUS and private loans available to borrow. This familiar formula is applied:

***COA – Estimated Financial Assistance (EFA) = Remaining Eligibility***

Another consideration is that costs do not always directly relate to a student’s course load. One example is housing expenses during a final term of enrollment in which a student may only have a few courses remaining. Policymakers will need to develop rules to ensure institutions have the necessary flexibility to ensure awards are appropriate to the student’s situation.

*Expected Family Contribution (EFC)*

EFC continues to exist as a mechanism for determining need-based aid eligibility. EFC is used in two ways: calculating the student initial program award eligibly for Pell Grants (and FSEOG), and then determining a student’s financial need within an enrollment period. This requires the calculation of both an annual EFC to determine a student’s program-level awards, and a per-day EFC used to determine a student’s financial need.

The annual EFC will reflect a 12-month period of time, rather than the 9-month period<sup>16</sup> currently used, but the calculation will still use data collected on the FAFSA a student completes upon beginning the academic program.

<sup>15</sup> This is a simplified example of how an institution might arrive at a program COA.

To arrive at the per-day EFC, divide a student's annual EFC by 365. There are certainly other ways to determine a per-day EFC, but this method would allow the existing need-analysis, FAFSA, and related infrastructure to remain intact, requiring only slight modifications.

To determine a student's financial need in an enrollment period, calculate an enrollment period EFC by multiplying the number of days in the period by the per-day EFC. This allows a student's EFC to be applied proportionally based upon enrollment. Just as with per-unit award amounts, and per-unit COA, this method increases precision, and ensures the proportional application of a student's EFC over time.

For example, a student's EFC is first used to determine the program Pell Grant award. If a student's annual EFC is 3,000, current 2015-2016 Pell Grant schedules<sup>17</sup> indicate that student would have an annual Pell Grant award of approximately \$2,825. Scaled up to a four-year program award under SAMI, the student's maximum program Pell Grant award would be \$11,300 (\$2,825 X 4). Again, these figures are for illustration only, not funding recommendations.

Then, calculate the enrollment period EFC to determine a student's financial need by multiplying the per-day EFC by the number of days in the enrollment period.

Using the example of a student with an EFC of 3,000, the per-day EFC would be 8.219:

$$\text{Annual EFC} / \text{Days in a year} = \text{Per-day EFC}$$

$$3,000 / 365 = 8.219$$

The number of days in the enrollment period is then multiplied by the per-day EFC to calculate the enrollment period EFC. For example, if the enrollment period contained 90 days, the EFC used for that period would be 739.71.

$$\text{Days in enrollment period} \times \text{Per-day EFC} = \text{Enrollment period EFC}$$

$$90 \times 8.219 = 739.71$$

As a result, the EFC of 731.71 is used to determine the student's financial need for the enrollment period:

$$\text{Enrollment Period COA} - \text{Enrollment Period EFC} = \text{Need in the Enrollment Period}$$

### Program Awards

A significant change under SAMI is the use of program-length awards. As previously illustrated, all financial aid awards, as well as the COA used to determine award amounts, are calculated at the program level. The maximum, credential-level program award amounts may increase or decrease each year for new students entering a program, but continuing students might be "locked-in" based upon the award levels when beginning the program.

This will likely incentivize institutions to consider also locking-in tuition rates for continuing students. This will give students increased certainty about educational costs, as well as the available financial aid resources for the duration of their academic program.

Policymakers will need to develop rules establishing appropriate limitations to program awards, but for the majority of students, program awarding will offer a predictable foundation upon which to develop a financing plan from matriculation to graduation.

The awarding examples presented in this document assume Congress would choose to fix program award amounts for the duration of students' programs. It is important to note, however, Congress would not be precluded from

<sup>16</sup> Used in certain awarding scenarios.

<sup>17</sup> Dear Colleague Letter GEN-15-02

granting increases to continuing students from one year to the next. SAMI is flexible enough to adapt to either scenario. At the very least, program-length awards provide students and policymakers with a degree of certainty not possible today.

### 150 Percent Cap

An important component of any awarding approach is to appropriately limit the amount of aid a student can use over time, while also accounting for unproductive units (failed courses, drops, withdrawals, etc.) that will inevitably occur. In order to limit the total amount of funding a student can receive, and to help ensure aid is not used at a pace that would likely exhaust it prior to program completion, SAMI applies a limiting principle of 150 percent. This cap is similar to established practices such as the quantitative Satisfactory Academic Progress requirement,<sup>18</sup> and the Pell Lifetime Eligibility Used (LEU) limit.<sup>19</sup>

Under SAMI, students will need to maintain a 67 percent productive unit rate in order to maintain aid eligibility for a subsequent term. This pace requirement will encourage productive enrollment, and help students avoid reaching the 150 percent cap.

Using the previous Pell Grant example as a baseline with a Pell Grant program-level award of \$23,100, the 150 percent cap would be \$34,650. This number represents the maximum potential amount a student could receive in Pell Grant funding to complete the program. It's important to note that the 150 percent cap figure is not used in the calculation of a student's award, it only represents the maximum amount a student can theoretically receive over time when accounting for unproductive credits.

The 150 percent cap also aligns with the 600 percent Pell LEU principle currently in place. Under today's rules, assuming \$5,775 represents 100 percent of one annual scheduled award, \$34,650 would represent 600 percent.<sup>20</sup> Students only use 600 percent if necessary, which is the same principle at work with SAMI.

Adherence to the 67 percent productive unit expectation will be necessary to ensure students do not exhaust funds before completing the academic program. However, policymakers will also need to develop rules providing institutions with the necessary discretion to address unique circumstances that may arise. While every student will be strictly limited to the 150 percent cap, there may be situations where it is appropriate for a student to receive Title IV aid in a term of enrollment following one in which the student falls below the 67 percent pace requirement. This discretion will help balance the need to address unusual situations, while protecting taxpayers with an overall awarding cap of 150 percent. Rules will need to be developed to ensure these situations are addressed in an equitable manner that is efficient to administer. This method will also improve tracking and reporting of institutional performance related to productive units.

It will be critical that students understand the cumulative effect of unproductive units. The 150 percent cap combined with the 67 percent productive unit requirement, will serve as a powerful incentive for students to progress at a satisfactory rate. Institutions will be able to incorporate this caution with student advising, since the long-term impact of unproductive units is predictable.

In addition to the 150 percent cap, cost of attendance (COA) will continue to serve as another limiting factor on a student's maximum awards in each enrollment period, as mentioned above. For example, the maximum award total for private student loans and other aid still cannot exceed a student's COA and other financial assistance within the enrollment period. This limiting element will be more effective under SAMI, however, due to the use of a per-unit COA.

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<sup>18</sup> [34 CFR 668.34](#)

<sup>19</sup> [34 CFR 690.6\(e\)](#)

<sup>20</sup> Assumes no increases in annual maximum Pell award over time, for simplicity.

## SAMI Awarding

The following sections provide additional details about calculating each type of award under SAMI.

### Pell Grants

Since SAMI awards Pell for the entire academic program, it is important that award amounts reflect the differences between two- and four-year programs, at minimum.<sup>21</sup> To accomplish that, there will be (at least) two maximum Pell Grant program-level award amounts.

The following table is an example of what the maximum Pell Grant program-level awards and corresponding 150 percent caps might be, using current 2015-16 Pell Grant award amounts as a baseline. As a reminder, these figures are not funding recommendations, just illustrations to approximate current award levels.

<i>Credential Level</i>	Program-Level Pell (@ 0 EFC)	150 Percent Award Cap
<i>2-year Associate</i>	\$11,550	\$17,325
<i>4-year Bachelor's</i>	\$23,100	\$34,650

In the example above, students enrolled in an associate degree program have a maximum program Pell Grant award of \$11,550, while students enrolled in a bachelor's level program have a maximum program-level Pell Grant award of \$23,100.

It is important to note that any amount received at the two-year level is not subtracted from the four-year program award, but is counted toward the overall 150 percent cap.

Students who begin in a two-year associate program and then transfer to a four-year bachelor's program will move up to the four-year bachelor's maximum Pell Grant program-level amount. Any amount of Pell utilized during the two-year associate enrollment is counted toward the student's 150 percent cap. This ensures the maximum program-level Pell Grant award, and the corresponding 150 percent caps are appropriate for each credential level, reflecting the differing lengths of those programs.<sup>22</sup>

In practice, students pursuing a transfer path such as associate-to-bachelor's, would have very similar per-unit awards in each program. As the example below illustrates, the award is the same on a per-unit basis, assuming the associate program is approximately half the length in credit-hours of the bachelor's program. Not every scenario will yield an exact per-unit match as students move between schools or programs, but this method accounts for the typical difference in length between two and four-year programs.

For example, assuming a bachelor's-level maximum program-level Pell Grant award of \$23,100:

- *2 Year/Associate: \$11,550 / 60 units = \$192.50/unit*
- *4 Year/Bachelor's: \$23,100 / 120 units = \$192.50/unit*

In either case, the per-unit award is the same, but students enrolled at the associate level are limited to 150 percent of the two-year associate level award (\$17,325), whereas students enrolled at the bachelor's level have a higher cap (\$34,650).

The following tables illustrate the difference between SAMI and the current awarding method by providing two basic examples.

<sup>21</sup> Program-level award values for programs shorter than two years will need to be developed.

<sup>22</sup> Policymakers will need to decide how reverse-transfers are treated, such as in cases where a student begins in a four-year program, but subsequently transfers to a shorter program.

Example 1: Assume the student is enrolled in a 120-unit, four-year bachelor's program, with an EFC of 0. The per-unit Pell Grant award is \$192.50/unit.

SAMI		Current Method	
Term 1	Term 2	Term 1	Term 2
12 Units	15 Units	12 Units (full-time)	15 Units (full-time)
Pell: \$2,310	Pell: \$2,888	Pell: \$2,888	Pell: \$2,887
Total: \$5,198		Total: \$5,775	

Example 2: This scenario shows an even greater disparity in enrollment between the two terms. Assume the student is enrolled in a 60-unit, two-year associate degree program, with an EFC of 0. The per-unit Pell award is \$192.50/unit.

SAMI		Current Method	
Term 1	Term 2	Term 1	Term 2
11 Units	17 Units	11 Units (3/4 time)	17 Units (full-time)
Pell: \$2,118	Pell: \$3,273	Pell: \$2,166	Pell: \$2,888
Total: \$5,391		Total: \$5,054	

In the Term 1 example, the current method results in the student receiving too much Pell Grant funding relative to degree progress. In the Term 2 example, the current method results in the student receiving too little Pell Grant funding relative to degree progress.

In both examples, SAMI ensures the Pell Grant award is proportional to the actual number of units attempted in each enrollment period.

### Loans

As with Federal Pell Grant awards, loans are awarded at the program level under SAMI. This eliminates the need for award year maximum loan amounts based on grade level. This also eliminates the need to differentiate loan award amounts based on the student's dependency status. This is a significant simplification to the current program, and facilitates prorated awarding of loans based on the student's enrollment.

Currently, there are four separate federal student loan programs: Direct Subsidized, Direct Unsubsidized, Direct PLUS, and Perkins.<sup>23</sup> The examples presented here assume the convergence of the unsubsidized and subsidized portions of the current Federal Direct Loan program into a single type of federal loan, as well as the ultimate expiration of the Federal Perkins Loan program.<sup>24</sup> These assumptions are made for the sake of simplifying the examples, and reflect prevailing momentum and legislation aimed at simplifying the federal student aid programs.<sup>25</sup>

The examples also assume the continuation of the Direct PLUS Loan program. Under SAMI, PLUS Loans would not have a program-level award, since loan amounts will be variable based on a student's remaining eligibility (*Enrollment*

<sup>23</sup> <https://www.congress.gov/bill/114th-congress/house-bill/3594>

<sup>24</sup> SAMI will also eliminate the necessity of the 150% subsidized loan limit.

<sup>25</sup> <https://www.congress.gov/bill/114th-congress/senate-bill/108>

*Period COA – Enrollment Period EFA = Enrollment Period Remaining Eligibility*). The same limiting mechanism would apply to private student loans.

Under SAMI, program-length loan amounts, adjusted by credential level and prior borrowing will be calculated for each student. Just as was described with Pell Grants, program-length loan awards will be subdivided by the number of units in the program, to enable prorated awarding in each enrollment period. Awarding loans based on actual enrollment will ensure proportional funding based on the student’s progress toward completion.

Since loans will be awarded for the entire academic program, it’s important that the initial program award amounts reflect the differences between two-year, four-year, and graduate-level programs. To accomplish this, three loan award tiers will exist (at minimum).

The figures and tiers presented in this section are for illustrative purposes only, and are not policy recommendations. Policymakers will need to carefully consider appropriate borrowing amounts for each level of postsecondary education, and determine which loan programs will be available. Note that there may be additional types of academic programs not included in these examples that may warrant unique program loan award amounts, such as programs formerly covered under the Health Education Assistance Loan (HEAL) Program.<sup>26</sup>

Here’s an example of what each basic program loan award might look like under SAMI:

<i>Federal Direct Loans</i>	Program-Level Loan Award	150 Percent Cap
2-Year Associate/Certificate	\$20,000	\$30,000
4-Year Bachelor’s	\$40,000	\$60,000
Graduate	\$90,000	\$135,000

As with Pell Grant awards, the amount awarded at lower credential levels counts toward the 150 percent cap, but is not subtracted from the program-level award at the higher credential level. This ensures per-unit awards remain proportional to the program units, while the 150 percent cap remains in place to limit total borrowing.

To calculate a student’s loan award for an enrollment period, a per-credit loan amount will be calculated and multiplied by the number of units in the enrollment period. To calculate the per-credit award, divide the program-level loan award by the number of required units in the program.

This example assumes a loan award of \$40,000 for a 120-unit four-year bachelor’s program.

***Program-Level Loan Amount / Units in the program = Per-unit award***

***\$40,000 / 120 = \$333.33***

Multiply the per-unit award by the number of units attempted in the enrollment period to calculate a student’s award.

For example, if the student enrolls in 15 units in a term, the loan award would be \$5,000.

***Units in enrollment period X Per-unit award = Award***

***15 X \$333.33 = \$5,000***

The following tables illustrate the difference between SAMI and the current awarding method with basic examples.

<sup>26</sup> <https://ifap.ed.gov/fsahandbook/attachments/1516FSAHbkVol3Master.pdf>



Example 1: Assume the student is a sophomore, enrolled in a 120-unit, four-year bachelor's program with no prior borrowing.<sup>27</sup> The per-unit loan award under SAMI is \$333.33/unit.

SAMI		Current Method	
Term 1	Term 2	Term 1	Term 2
12 Units	15 Units	12 Units (full-time)	15 Units (full-time)
Direct Loan: \$4,000	Direct Loan: \$5,000	Direct Loan: \$5,250	Direct Loan: \$5,250
Total: \$9,000		Total: \$10,500	

Example 2: This scenario shows an even greater disparity in enrollment between the two terms. Assume the student is a sophomore enrolled in a 120-unit, four-year bachelor's program, with no prior borrowing. The per-unit loan award under SAMI is \$333.33/unit.

SAMI		Current Method	
Term 1	Term 2	Term 1	Term 2
8 Units	15 Units	8 Units (1/2 time)	15 Units (full-time)
Direct Loan: \$2,667	Direct Loan: \$5,000	Direct Loan: \$5,250	Direct Loan: \$5,250
Total: \$7,667		Total: \$10,500	

Example 3: This scenario introduces the element of COA, to illustrate how COA caps the amount of a PLUS or private loan, after awarding a Direct Loan. Assume the student is a sophomore, enrolled in a 120-unit, four-year bachelor's program with no prior borrowing or other awards.<sup>28</sup> The per-unit loan award under SAMI is \$333.33/unit. Also assume the program COA is \$120,000 for SAMI, which yields a per-unit COA of \$1,000/unit. The academic year COA is \$30,000 under the current method scenario.

SAMI		Current Method	
Term 1	Term 2	Term 1	Term 2
12 Units	15 Units	12 Units (full-time)	15 Units (full-time)
COA: \$12,000	COA: \$15,000	COA: \$15,000	COA: \$15,000
Direct Loan: \$4,000	Direct Loan: \$5,000	Direct Loan: \$5,250	Direct Loan: \$5,250
PLUS Loan: \$8,000	PLUS Loan: \$10,000	PLUS Loan: \$9,750	PLUS Loan: \$9,750
Total: \$27,000		Total: \$30,000	

In each example, SAMI ensures the awards are proportional to the number of units attempted in the enrollment period. To reiterate, the program-level loan amounts used in these examples are based loosely on the existing aggregate loan limits as a benchmark, but are not funding recommendations.

<sup>27</sup> All three scenarios on this page assume the student is independent for the "current method" calculation examples. Dependency status is not a variable under SAMI.

<sup>28</sup> Direct loan award displayed for "current method" example is simplified to combine subsidized and unsubsidized portions into a single loan value for illustrative purposes.



It is important to clearly communicate to students both the program award amount (used in awarding for each enrollment period) and the 150 percent cap, as well as the impact of prior borrowing on the 150 percent cap, which can affect future awards. For example, a student transferring to a four-year bachelor's program might expect to have a \$40,000 program award. However, if that student already borrowed \$25,000 at the two-year associate/certificate level due to unproductive units, only an additional \$35,000 could be borrowed at the four-year level, since the four-year bachelor's 150 percent cap is \$60,000.<sup>29</sup>

In that scenario, when calculating a student's award for each enrollment period, \$40,000 is still used to determine the per-unit award, but the student would not be able to continue borrowing once \$35,000 of additional loans have been disbursed, thus reaching the 150 percent cap of \$60,000.

As another example, if a student had borrowed only \$20,000 at the two-year associate/certificate level, it would be possible to borrow the full \$40,000 four-year program amount, since the combined loan balance would not exceed the 150 percent cap of \$60,000.

In practice, however, it would be unlikely the student would borrow \$40,000 to complete a four-year bachelor's program in that scenario, since only a portion of the program would likely remain after accounting for transfer credits earned at the two-year level.

A similar situation exists for graduate level loans. An incoming graduate student might expect to have a program award of \$90,000. Assuming the student had borrowed no more than \$40,000 at the undergraduate level, it would indeed be possible to borrow the additional \$90,000, since the combined amount would be \$130,000 - below the 150 percent cap of \$135,000.

However, if that same student borrowed \$50,000 at the undergraduate level due to unproductive units, the remaining potential loan eligibility would be \$85,000. As with the undergraduate scenario, \$90,000 is still used to calculate the per-unit loan award, but the student would lose Direct Loan eligibility once the total loan balance reaches the 150 percent cap, which in this case is \$135,000.

The preceding examples assume maximum potential awards are reached. Since students' actual awards are also limited by per-credit proration and COA for each enrollment period, many students will not hit the 150 percent cap if they maintain a reasonable rate of progress. This is further reinforced by the 67 percent productive unit requirement.

## **Areas for Further Research and Examination**

Policymakers need to examine several important questions to successfully implement SAMI. Here are some issues that cannot be addressed within the confines of this report:

1. Program Awarding Limitations
  - a. What are appropriate time limits for program-level awards? To help ensure predictable costs for appropriators, policymakers will need to address issues such as the maximum length of time for which a student's awards remain valid. They also need to consider when to warrant a reassessment of a student's financial situation (e.g. when progressing to higher credential level, after extended periods of non-enrollment, special financial circumstances, etc.).
2. Campus Based Programs
  - a. How will schools apply SAMI to the Campus-Based Programs? The unique aspects of these programs such as school allocation, and Federal Work-Study payments, will require further examination.

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<sup>29</sup> Policymakers will need to decide how reverse-transfers are treated, such as in cases where a student begins in a four-year program, but subsequently transfers to a shorter one.

### 3. Program Levels

- a. How many program levels should exist for federal student aid awarding? The Pell Grant examples in this report use two amounts, one for two-year associate programs and one for four-year bachelor's program. The loan examples include three, accounting for graduate/professional programs. Should additional program award tiers exist for programs such as certificate programs that are less than one year in length? Should additional tiers exist for graduate, professional, and doctorate programs? Policymakers must also develop guidelines to ensure appropriate program classifications.

### 4. Implementation

- a. How will current federal student aid recipients be treated during the phase-in of SAMI? Will students remain with the current methodology, or will they be transitioned into SAMI mid-program?

### 5. Appropriations

- a. Will lawmakers ensure annual appropriations are sufficient to meet the obligations to students who receive program-length awards? Will appropriators limit any potential decreases to the federal student aid programs to future participants? Conversely, will increases in aid funding affect continuing students, or just future ones?

## Conclusion

The Student Aid Modernization Initiative (SAMI) is an innovative approach to financial aid awarding. SAMI awards financial aid for the full length of a student's academic program, and directly links a student's financial aid awards with their educational progress.

This method will empower students, protect taxpayers, and support institutions of higher education. SAMI has the potential to ensure federal student aid programs are administered as effectively and equitably as possible, while enabling innovation in postsecondary education. SAMI is a simple and intuitive method that utilizes the existing federal student aid infrastructure as a foundation upon which to improve. Lawmakers and other policymakers should thoughtfully consider these recommendations during reauthorization and consider incorporating SAMI as a cornerstone of the Higher Education Act.