

What is the Pell Grant?

The federal Pell Grant program is the “foundational” federal student aid program. The program provides grants to undergraduate students with financial need who have not yet earned their first bachelor’s degree, to help cover the costs of attending a postsecondary institution. The Pell Grant amount students receive is based on their institution’s cost of attendance and their family’s financial need, and schools must determine a student’s Pell Grant eligibility before calculating eligibility for other federal student aid programs. For the 2026-27 award year, grants will range from \$740 to \$7,395.

How is the Pell Grant funded?

The maximum Pell Grant award amount is determined annually during the congressional appropriations process for the upcoming award year. The Pell Grant program has a unique funding structure – it functions like an entitlement: a student who meets eligibility criteria receives a Pell Grant at their applicable award amount, regardless of whether sufficient funding has been appropriated.

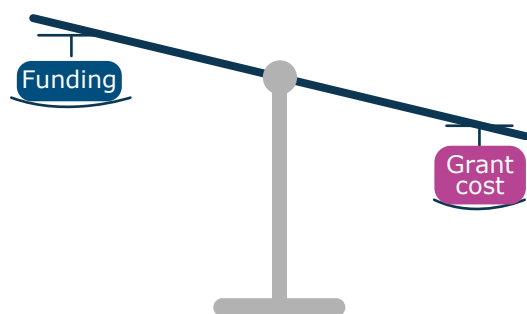
The Pell Grant is funded by both discretionary and mandatory funding. Discretionary funding is determined by Congress each year through the appropriations process, while mandatory funding is set in the law and does not require annual approval. The discretionary and mandatory funding streams are combined to determine the total funds available for the Pell Grant program, though students who receive a Pell Grant do not see that funding distinction on their financial aid offer. They simply receive a Pell Grant award if they are eligible, regardless of the funding type.

Discretionary appropriations for the Pell Grant program have remained flat for the last several years at \$22.48 billion.

What is the difference between a Pell Grant shortfall and a reserve?

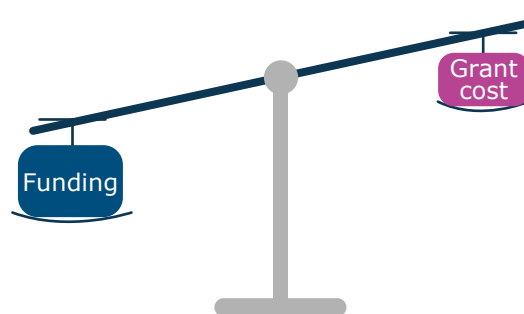
The cost of the Pell Grant program can fluctuate from year to year, with costs sometimes exceeding the amount of funding actually allocated by Congress. It is also possible that in a given year, Congress allocates more funding than what the program actually costs to administer. When the funding provided by Congress exceeds the amount needed to cover student grants, the excess is placed in a reserve, which serves as a “rainy day” fund. A number of factors can influence whether the program has reserve funds or is in a shortfall, including changes in student eligibility and increases or decreases in postsecondary enrollment.

- **Pell Grant Shortfall:** Occurs when Congress has not provided enough appropriations to cover the cost of all grants to eligible students.
- **Pell Grant Reserve:** Occurs when Congress has provided more appropriations than needed to cover the cost of providing grants to eligible students.



Cost outweighs funding

Shortfall



Funding outweighs cost

Reserve

What has Congress done in the past to address the Pell Grant shortfall?

Whenever the Pell Grant program's funding is not enough to cover the costs of all eligible grants, Congress must find a way to address the funding shortfall.

The cost of the Pell Grant program, for example, grew significantly between 2007 and 2010, during the Great Recession, due to increased college enrollment. To address the funding gap, during the FY 2011 appropriations process, Congress eliminated "year-round" Pell Grants, which allowed eligible students to use Pell grants towards the cost of their summer courses. Congress continued to make changes to the program for fiscal year (FY) 2012, establishing the Pell Grant "Lifetime Eligibility Used" (LEU), which limits a student's eligibility to six years of Pell Grant funding.

Congress has several other options to address Pell Grant funding shortfalls, including changes to the federal methodology that would alter the program's eligibility requirements, potentially decreasing the number of Pell Grant recipients. Congress could also reduce the maximum Pell Grant award to lower the program's overall costs, or eliminate other student aid programs and redirect those savings to the Pell Grant program. The Budget Control Act of 2011, for example, eliminated subsidized loans for graduate students to reduce the federal budget deficit. \$10 billion of those savings were then used to offset the cost of the Pell Grant program in FY 2012.

What is the current outlook for the Pell Grant shortfall?

The Congressional Budget Office (CBO) in February 2026 estimated that the Pell Grant will face a shortfall of nearly \$5.5 billion by the end of FY 2026 and an additional \$11.5 billion by the end of FY 2027, amounting to a total shortfall of nearly \$17 billion over both fiscal years. This shortfall is primarily driven by changes to the Pell Grant eligibility formula made by the bipartisan FAFSA Simplification Act of 2020, which expanded eligibility and led more students to become eligible for the program beginning in the 2024-25 award year.

What can Congress do to address the current shortfall and avoid future shortfalls for the Pell Grant program?

Congress needs to find a sustainable way to protect the Pell Grant program and ensure it is on sound financial footing into the future, so that the millions of students who depend on Pell Grants each year can pursue higher education opportunities without the threat of sudden funding cuts that could upend their futures. NASFAA recommends that Congress shift the Pell Grant program to full mandatory funding to better align the program's funding with how it operates: as an entitlement. Like Social Security, Medicare, and Medicaid, the three largest entitlement programs funded through mandatory appropriations, the Pell Grant program provides grants to all eligible students, so the program should be funded in a similar manner.

The annual federal budget and appropriations process adds unnecessary uncertainty to a program that plays a vital role in the lives of thousands of students every year. Pell Grants should be protected from the annual appropriations process by moving the funding stream from the discretionary year-to-year allocation to complete mandatory funding. NASFAA also urges Congress to reinstate the Pell Grant program's automatic inflation adjustment. The Pell Grant maximum award was indexed to the Consumer Price Index for All Urban Consumers (CPIU) from FY 2014 to FY 2017. That small boost, which averaged only \$69 per year, unfortunately expired at the end of FY 2017. Congress should index the maximum award to inflation, which will deliver sustained, certain annual increases needed to ensure the grant maintains its purchasing power.

Recipient and Funding History for the Pell Grant Program by Award Year



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The FAFSA Simplification Act has been fully implemented since the 2024-25 award year, which expanded access to the Pell Grant program, but the data is not yet available.

Source: [2025 National Student Aid Profile](#)

¹Fiscal year 2024 (award year 2024-25) recipient data are from [The Trends in College Pricing and Student Aid 2025](#), FIGURE SA-7