



The Federal Role in Education: A Guide to Federal Student Aid

Center Forward Basics

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Overview

Within the United States, education is primarily a state and local responsibility. It is states and communities, as well as public and private organizations of all kinds, that establish schools and colleges, develop curricula, and determine requirements for enrollment and graduation. The structure of education finance in the United States reflects this predominant state and local role. The federal government's contribution to elementary and secondary education is about 8%, which includes funds not only from the U.S. Department of Education but also from other federal agencies, such as the U.S. Department of Health and Human Services and the U.S. Department of Agriculture. Although the Department of Education's share of total education funding in the U.S. is relatively small, the Department works hard to make the most of taxpayer-provided funding by targeting its funds where it can do the most good. This targeting reflects the historical development of the federal role in education as a kind of "emergency response system," a means of filling gaps in state and local support for education when critical national needs arise.

Federal student aid in the United States plays a pivotal role in enabling millions of students to pursue higher education each year. Administered by the U.S. Department of Education, federal student aid encompasses grants, loans, and work-study programs designed to help students cover the costs of tuition, fees, room and board, books, and other educational expenses. The primary aim of federal student aid is to make higher education more accessible and affordable for students from diverse socio-economic backgrounds. By providing financial assistance, the federal government aims to ensure all individuals can pursue postsecondary education and enhance their career prospects. This Basic provides background history and a breakdown of federal student aid, along with a review of recent legislation.

Historical Viewpoint

The history of federal government involvement in education dates to the early years of the United States. However, significant expansion occurred in the 20th century, particularly following World War II, as policymakers recognized the importance of education in fostering economic prosperity and national development. The original U.S. Department of Education was created in 1867 to collect information on schools and teaching that would help the states establish effective school systems. While the agency's name and location within the Executive Branch have changed over the past 130 years, this early emphasis on gathering best practices in education for teachers and education policymakers to share continues to the present day.

World War II led to a significant expansion of federal support for education. The Lanham Act in 1941 and the Impact Aid laws of 1950 eased the burden on communities affected by the presence of military and other federal installations by making payments to school districts. One of the landmark initiatives was the passage of the GI Bill in 1944, which provided

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In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common sense solutions.

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educational benefits to millions of returning veterans, facilitating their transition to civilian life, and contributing to the growth of the American middle class. Subsequent legislation, such as the Higher Education Act of 1965, further solidified the federal government's role in supporting higher education by establishing financial aid programs to assist low-income students.

In 1980, Congress established the U.S. Department of Education as a Cabinet-level agency. Today, it oversees programs that touch on every area and level of education. The Department's elementary and secondary programs annually serve nearly 18,200 school districts and over 50 million students attending roughly 98,000 public schools and 32,000 private schools. Department programs also provide grant, loan, and work-study assistance to more than 12 million postsecondary students. Over the decades, federal student aid programs have evolved and expanded to address changing needs and priorities, reflecting the ongoing commitment to promoting access to education as a cornerstone of social and economic progress. However, despite its extensive reach, the DOE does not directly manage schools; rather, it provides support and oversight from a peripheral position on these programs. While DOE programs and responsibilities have grown substantially over the years, the Department itself has not. In fact, the Department has the smallest staff of the 15 Cabinet agencies.

Federal Student Aid

Federal student aid stands as a cornerstone of educational accessibility and equity in the United States, offering a lifeline to millions of aspiring students seeking to embark on the transformative journey of higher education. As college tuition costs continue to rise, federal student aid programs play a pivotal role in bridging the gap between financial need and academic ambition. Grants, loans, and work-study opportunities ensure that socioeconomic status does not hinder educational attainment. The Department of Education's Office of Federal Student Aid (FSA) provides roughly \$120 billion annually in financial aid to promote student access and affordability in higher education. FSA programs include Pell Grants, federal student loans, and campus-based aid. Overall, federal student aid not only opens doors to knowledge and opportunity but also fosters social mobility and economic prosperity by empowering individuals to pursue their academic and professional goals without the burden of overwhelming financial constraints. Here is a breakdown of these three types of FSA programs that are offered:

- **Pell Grants** - The Pell Grant program is the federal government's largest source of need-based grant aid for higher education. Pell Grants are a cornerstone of federal student aid in the United States, providing need-based grants to undergraduate students to help them pursue higher education. Unlike loans, Pell Grants do not need to be repaid, making them a vital resource for low-income students who may not have the financial means to afford college otherwise. The amount of Pell Grant funding a student receives depends on several factors, including their expected family contribution, the cost of attendance at their chosen institution, whether they are attending full-time or part-time, and their plans to attend school for a full academic year or less. Pell Grants can be used to cover tuition, fees, room and board, and other educational expenses, making them flexible in addressing the diverse financial needs of students. Over the years, Pell Grants have undergone changes in eligibility criteria and funding levels, reflecting shifts in federal education policy and economic conditions. Despite these changes, Pell Grants remain a critical source of financial assistance for millions of students each year, particularly those from low-income backgrounds who are striving to achieve their academic and career goals.
- **Federal Student Loans** - Federal student loans are loans offered by the U.S. Department of Education to eligible students to help cover the cost of higher education. These loans typically offer more favorable terms and conditions compared to private student loans, making them a popular choice for financing education. Several types of federal student loans are available, each with its own terms and eligibility criteria. Direct subsidized loans are available to undergraduate students with demonstrated financial need. The federal government pays the interest on these loans while the student is in school at least half-time and during the grace period after leaving school. Direct unsubsidized loans are available to both undergraduate and graduate students, where no requirement is needed to demonstrate financial need. Interest accrues on these loans from when the loan is disbursed, and students are responsible for paying the interest on these loans while in school and during all other periods. Direct PLUS loans are available to graduate or professional students and parents of dependent undergraduate students. PLUS loans require a credit check and do not

require a financial need to be demonstrated. Unlike other federal loans, PLUS loans are not capped by statute. Loan amounts are limited only by what a school determines to be the cost of attendance, minus other aid. Federal student loans offer several benefits, including fixed interest rates, flexible repayment options, and the ability to defer repayment while enrolled in school at least half-time. Additionally, borrowers may qualify for loan forgiveness, income-driven repayment plans, and other repayment assistance programs.

- **Campus-Based Aid** - Campus-based aid refers to federal financial assistance programs administered directly through participating colleges and universities. Unlike federal student loans, which are disbursed and managed by the U.S. Department of Education, campus-based aid programs are awarded and managed by the institutions themselves. These programs include the Federal Supplemental Educational Opportunity Grant, Federal Work-Study, and Federal Perkins Loan programs. Campus-based aid programs supplement other forms of federal student aid and are intended to provide additional financial assistance to students with demonstrated financial need. The amount of aid awarded through these programs varies depending on factors such as the student's financial need, the availability of funds at the institution, and institutional policies. Each participating college or university sets its own criteria for awarding campus-based aid and determines the specific amounts awarded to eligible students.

Recent Legislation

Legislation concerning federal student aid in the United States has been on the rise for several years. During the height of the COVID-19 pandemic, the Coronavirus Response and Relief Supplemental Appropriations Act was signed into law, which provided additional funding for higher education institutions and allocated funds for emergency financial aid grants to students affected by the COVID-19 pandemic. These grants were aimed at helping students cover expenses such as food, housing, course materials, technology, healthcare, and childcare. Overall, while these grants provided essential support during a critical time, the effectiveness of their implementation varied, and some schools may not have utilized the funds as effectively as possible. The Consolidated Appropriations Act, also passed in December 2020, included provisions to simplify the Free Application for Federal Student Aid (FAFSA) form, expand Pell Grant eligibility to incarcerated individuals, and restore Pell Grant eligibility for students who attended institutions of higher education that closed due to fraud or mismanagement. Enacted in March 2021, the American Rescue Plan Act included provisions to further support students and higher education institutions during the ongoing pandemic. This legislation provided additional funding for emergency financial aid grants to students, and funding for institutions to address pandemic-related challenges and support safe reopening efforts.

As the United States returned to a state of normalcy post-pandemic, the focus shifted to debt repayment. President Biden, Vice President Harris, and the U.S. Department of Education have announced a three-part plan to help working and middle-class federal student loan borrowers transition back to regular payment as pandemic-related support expires. This plan includes public loan forgiveness of up to \$20,000. The Administration feels that their one-time student debt relief plan is necessary to address the financial harms of the pandemic, provide borrowers with a smooth transition back to repayment, and help borrowers at the highest risk of delinquency or default once payments resume. In addition, borrowers who are employed by nonprofits, the military, or federal, state, Tribal, or local government may be eligible to have all of their student loans forgiven through the Public Service Loan Forgiveness program.

As the country looks ahead, the FAFSA Simplification Act represents a significant overhaul of the processes and systems used to award federal student aid starting with the 2024–25 award year. This includes the FAFSA form, need analysis, and many policies and procedures for schools that participate in federal student aid programs. The law will also affect every state using FAFSA data to award state grant aid, and every school participating in the federal student aid programs.

Federal student aid stands as a testament to the United States' commitment to fostering equality of educational opportunity. By providing grants, loans, and work-study programs, the federal government aims to ensure that all individuals, regardless of their financial circumstances, have access to the transformative power of higher education. While challenges persist, federal student aid remains a vital tool in breaking down barriers to education and empowering students to pursue their academic

and professional aspirations. As we look to the future, continued investment in federal student aid will be essential in building a more prosperous society where higher education is truly accessible to all.

Links to Other Resources

- AAMC - [Federal Direct Loans | Students & Residents](#)
- AAMC - [Public Service Loan Forgiveness \(PSLF\) | Students & Residents](#)
- Federal Student Aid - [The Biden-Harris Administration's Student Debt Relief Plan Explained](#)
- Office of the U.S. Department of Education - [What is the FAFSA Simplification Act? | Federal Student Aid](#)
- Sallie Mae - [Federal Student Loans Explained | Sallie Mae](#)
- U.S Department of Education - [Federal Student Aid](#)