

Changes to Pell Grants

Contained in the 2025 Reconciliation Bill (OBBB)

Insights from PocketSmith

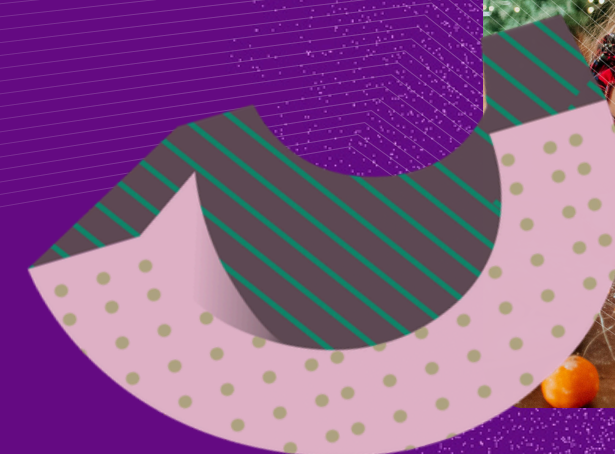
INCOME			
Salary \$	---	---	---
Rental income	---	---	---

EXPENSE			
Rent	---	---	---
Groceries 🥕	---	---	---
Coffee ☕	---	---	---



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Who We Are

About PocketSmith

PocketSmith champions the quiet yet transformative work of the Household CFO — the individuals who manage the financial heartbeat of their homes. Founded in 2008 in New Zealand, we are an independent, bootstrapped company built on the belief that financial tools should be as dynamic and adaptive as the lives they support.

Today, we proudly serve a global community of over 300,000 users across 190+ countries — including the U.S. From meticulous planners striving for early retirement to parents planning for their children's college education, PocketSmith equips individuals and families with powerful forecasting, flexible planning, and real-time insights to achieve their financial goals.

A Compass Through Financial Storms

Household CFOs in America are undergoing a time of great financial upheaval. Whether it's the cost-of-living crisis or legislative changes that affect your personal finances, sometimes it can be difficult to get your bearings. PocketSmith calms the financial anxiety by allowing you to plot your own path forward with innovative budgeting tools.

Data privacy is at the heart of our approach — data belongs to our customers. We have never sold or used data for advertising purposes, and never will.



The PocketSmith Team

Executive Summary

In July, the 2025 Reconciliation Bill — otherwise known as the “One Big Beautiful Bill” or OBBB — passed Congress and was signed into law.

OBBB’s Impact on Pell Grants

The OBBB imposes sweeping changes across American life, including college funding. Of particular note are changes to the Pell Grant.

These grants, which are \$7,395 for the 2025-26 school year, help low- and middle-income Americans reduce the amount they need to borrow through student loans.

In many cases, federal grants can be the difference between securing a college education and not participating in higher education at all.

The math behind who does and doesn’t qualify — and how much they actually qualify for — could be changing in significant ways with the passage of the OBBB. Here are key components to think about as you fill out the FAFSA moving forward.



Potential Reduction in Full Pell Grant Amount

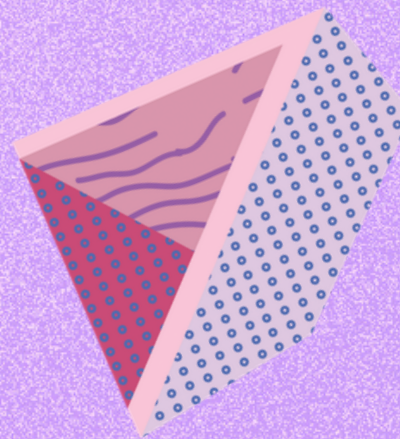
ED has signalled a likely reduction, though Congress has provided additional funding.

We do not know what the final amount will be for 2026-27 maximum Pell Grant awards just yet. This number will likely be revealed in January or early February of 2026.

America does have a reason to be anxious about it, though. Ahead of the 2026-27 school year, there's anxiety that award amounts could actually go down year-over-year for the first time in three decades. In the Department of Education's initial 2026 budget proposal, it requested a \$1,700 year-over-year decrease in maximum Pell Grant awards for the 2026-27 school year. However, in the final Reconciliation Bill (OBBA), Congress provided extra funding over the next few years in order to counteract any claims of budget shortfalls.

Theoretically, one would hope this means that Pell Grant amounts will not decrease for the upcoming 2026-27 school year. However, there have been past years where funding went up, yet maximum student awards went down. The last time this happened was between the 1992-93 and the 1993-94 school years. This was also the last time we saw a year-over-year reduction in the maximum Pell Grant award. Ever since, the award has either stayed the same year-over-year or gone up.

We won't know what will happen for the 2026-27 school year until early 2026. Optimistically, Pell Grant amounts may stay the same. But given what the administration has signalled throughout 2025, more somber planners may want to prepare for a reduction in the maximum award amount.



Changes to Pell Grant Refunds

Getting money back in students' pockets is about to get trickier

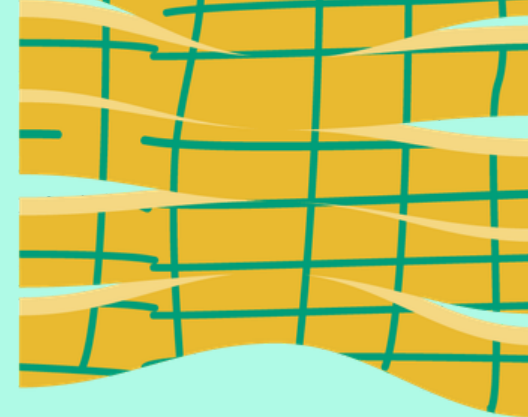
Historically, students whose tuition was covered in full were eligible for Pell Grant refunds. When this happens, the college or university will disperse any extra Pell Grant money either directly to your bank account or through a written check. Technically, the refund money was supposed to be used for related costs of attendance (COA) like housing, food, childcare, books, and other related expenses that enabled your studies.

Every year, your school sends a COA form to the Department of Education (ED) estimating these costs. But your individual circumstances may vary. For example, some students may incur childcare costs while others do not. The refunds haven't typically been followed up on — usually, no one was checking your bank statement to ensure your expenses aligned with your COA.

With the passage of OBBB, Pell Grant amounts will be strictly limited to those COA estimates. Any overages will not be refunded to the student. This means if you get a lot of scholarships or educational support from your employer, your Pell Grant award may be reduced instead of ending up back in your pocket. This may not be a problem if your COA accurately measures your individual expenses, but if your school sends ED a blanket COA that doesn't apply to your individual situation, covering your individual expenses could get harder.

This will apply to student athletes, as the headlines report. But one of the groups that most commonly receives Pell Grant refunds is community college students. Community college students are more likely to be paying market rates in their local community for things like food and housing rather than having a dorm or meal plan. They are also more likely to be nontraditional students supporting a family and incurring childcare costs.

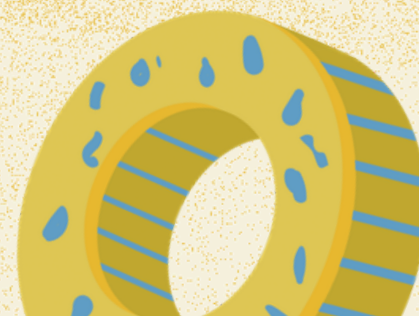
Again, if your school includes these expenses in your COA, you may not notice a difference, depending on how the new rule is actually implemented. However, many schools will not tailor your COA estimate to your individual circumstances. If you are concerned about this new rule, it may be wise to sit down with your school's financial aid office now to see if you can get a custom COA prepared and submitted to ED prior to submitting your FAFSA. Your school may not be willing to do so, but asking at least opens the door.



Part-Time Students Still Qualify for Pell Grants

Prior to the OBBB's passage, there were several versions of the bill. One would have redefined the parameters of what makes a "part-time" student altogether, imposing a higher course load requirement on students that often would have resulted in tuition bills exceeding the difference in award amounts. This was especially significant as even prior to the bill's passage, part-time students only received a pro-rated Pell Grant award.

Fortunately, these changes were not included in the final version of the bill, which did become law.



Addition of Workforce Pell Grants

Using Pell Grants for Workforce Training

One big change for Pell Grants in the OBBB is the creation of Workforce Pell Grants. This program opens up Pell Grant eligibility for those training in a workforce program that does not result in a degree. These programs will tend to be between 8 and 15 weeks. Notably, grant eligibility is open to those who already have their Bachelor's degree, as long as they have not claimed their lifetime maximum of Pell Grant funding.

This program could be advantageous for those who don't want to pursue college but do need to complete training programs to enter their career field of choice. With recent labor market shifts, this program could also be advantageous for mid-career professionals making a pivot to better align with current market demands.

The number of programs that qualify for the 2026-27 school year will be small. The OBBB passed in July 2025. Both the federal and state governments had to collaborate to set rules for these programs and certify them by November 1, 2025. This tight timeline means you may not see programs that meet your needs open up in meaningful numbers until the 2027-28 school year or later.

Caution When Engaging with Workforce Pell Grant Programs

For all the positives of Workforce Pell Grants, there are some potential pitfalls to watch out for. With traditional Pell Grants, there was a history of for-profit colleges exploiting lower-income students based on their Pell-Grant eligibility. In these instances, the schools did not provide adequate career outcomes for their students, and typically spent a large portion of their marketing budget recruiting students from economically disadvantaged backgrounds, as these students were likely to bring "free" government money into their programs through Pell Grants.

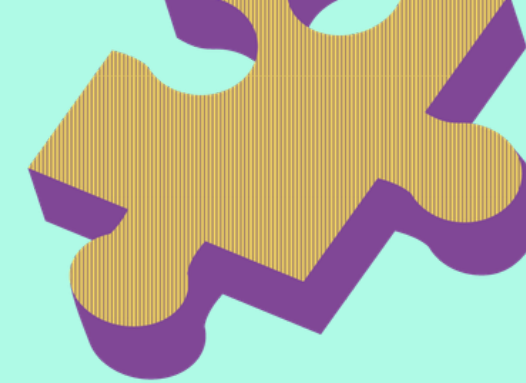
They also received revenue from federal student loans, which students had to repay. This issue was so pressing that eventually the government provided student loan forgiveness programs for specific students who were exploited. Consequences for these exploitative programs were often enforced by the Consumer Financial Protection Bureau (CFPB). The CFPB has been weakened in recent months.

There is a real potential for the same thing to happen in the realm of Workforce Pell Grants. Rules are still being written for these programs, and there will likely be some exploitative programs that slip through. Before entering a program, research it thoroughly to ensure it will provide you with real career opportunities. The burden to evaluate the risk may be shifted to you as the individual, with government watchdog organizations such as the CFPB potentially shutting down entirely in coming months.

Changes to FAFSA Calculations

“SAI” stands for “Student Aid Index.” If you’re a parent helping your child fill out the FAFSA, you may recognize this metric by an older name: **EFC** or **Expected Family Contribution**.

The OBBB codified some significant changes in SAI calculations, which ultimately affect how much grant assistance you or your child can receive.



Changes at a glance

- ➔ **New rules for income and asset calculations for SAI**
- ➔ **Foreign earned income automatically included in SAI calculations**
- ➔ **New exclusions of certain assets in SAI calculations**

Income & Asset Calculations for SAI

Single Parents are Hit the Hardest

In the past, you would not be eligible for a Pell Grant if your SAI was equal to or greater than the maximum Pell Grant award amount. However, if your income was low enough, you weren't put through the SAI calculator. This meant that if your income was below a certain threshold, assets like tax-favored retirement account contributions and distributions weren't taken into the equation.

Your adjusted gross income (AGI) had to fall below the following numbers to avoid the asset calculations for your SAI. Thresholds were tiered based on your familial circumstances. Single-parent households tend to have higher costs across certain expenses. For example, auto insurance rates are higher for those who are not married, and childcare needs tend to be higher when there is only one parent in the household. Thus, AGI limits were higher for these households.

Family Circumstance	AGI Limit as a Percentage of the FPL	AGI Limit in Real Dollars for Households with 1 Child	AGI Limit in Real Dollars for Households with 3 Children
Dependent Student from Two-Parent Household	225%	\$59,962.50	\$84,712.50
Dependent Student from Single-Parent Household	325%	\$68,737.50	\$104,487.50
Independent Student – Single Parent	400%	\$84,600	\$128,600
Independent Student — One of Two Parents in Household	350%	\$74,025	\$112,525

Source: US Department of Education

Independent students who were not parents had an AGI cap of 275% of the FPL for their household under the old rules.

For reference, the median American household income in 2024 was \$83,730.

With the passage of the OBBB, your SAI may be calculated with assets regardless of your income level — depending on how rules surrounding the new law are implemented. This could have an impact on middle- and higher-middle-income households who contribute to tax-deferred retirement accounts throughout the year. It could also have an impact on students whose parents are retired and take tax-exempt distributions from their retirement accounts.

While the changes hold the potential to exclude many families saving for retirement from Pell Grant access, the calculated SAI limit has also increased. The OBBB bumps the maximum calculated SAI to qualify for a Pell Grant to twice the maximum Pell Grant award in any given year.

Inclusion of Foreign Earned Income in SAI Calculations

When you're an American living abroad who meets program requirements, there is a certain amount of foreign-earned income that does not count on your 1040 during tax season. In 2025, the foreign earned income exclusion is \$130,000.

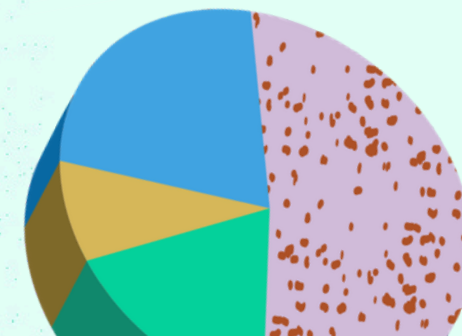
In the past, this exclusion carried over on the FAFSA — unless a financial aid advisor individually reviewed your case and included the income, or you managed to fall under the old calculated SAI rules despite claiming the foreign income exclusion.

The OBBB changed that. While the foreign earned income exclusion will still apply to your taxes, this income will no longer be excluded for FAFSA purposes as a rule rather than an exception. This change will affect SAI for many households and, therefore, Pell Grant eligibility.

This could create a funding gap for those who had been planning on sending their children to school in the U.S. It is most likely to impact those who have children attending college over the next few years. With such a massive change being implemented so quickly, there is little time to find an additional \$7,395 per year in the household budget.

This burden may be exaggerated by the very nature of working abroad. There are very few markets where local currency has the same power as the USD, making it more difficult to fill the gap in funding. Some European currencies, such as the Euro or GBP, represent the few exceptions.

For those working in foreign markets with foreign salaries, planning software that has multicurrency functionality can help reduce the complex math as you figure out how to address the shortfall created by the new Pell Grant changes.





Exclusion of Certain Assets in SAI Calculations

There are certain demographics that may benefit from new SAI calculations. The following assets will no longer be counted on FAFSA applications with the passage of the OBBB:

- Farms — if your family has residency on the land.
- Family-owned businesses with 100 or less full-time-equivalent employees.
- Commercial fishing businesses which are both family-owned and family-controlled.

Planning for Uncertainty

Any time a new law is passed, it takes time to cement the rule-making process surrounding the new legislation. While the OBBS is already being implemented, it is so new that even many college and university financial aid administrators have questions about how to run the calculations. That means America's college-bound will have to do their financial planning in an environment of uncertainty.

The More You Know

Much of the financial aid administered by your college or university — often including scholarships — can only be decided upon after you fill out your FAFSA.

The Implications of Prior-Prior Tax Year Calculations

FAFSA calculations are based on your prior-prior tax year. That means for the 2026-27 school year, the information on the 1040 you filed for the 2024 tax year will be used to calculate your SAI.

While there's not much you can do to strategize for this upcoming school year, given the retrospective nature of these calculations, you may be able to implement changes for the 2025 tax year. This would affect your SAI calculations for the 2027-28 school year. The exact strategies you may want to implement for your individual situation may be cloudy at this point in time, though.

Handling the Unknowns of Pell Grant Amounts & Rulemaking

Given the unknowns surrounding the implementation of OBBS changes, one of your best bets for getting your college expenses covered may be scholarships. Scholarships are like grants in that they generally do not have to be repaid. While federal student loans are an option, the OBBS also included legislation that makes taking out these loans more disadvantageous, such as lowering the amounts graduate students can borrow and changing the structure of federal repayment programs.

Many times, securing a scholarship is about playing the odds. It's true that you'll have better odds if you write a strong essay that highlights your leadership capabilities, tailored to the scholarship committee's essay prompt. Your chances will improve even more by locating scholarships with a lower application pool.

For this reason, scholarship experts typically recommend starting your search at the hyperlocal level. Your high school, college, and even your city or municipality may have scholarship opportunities for which very few people qualify. After you've located these opportunities, you can expand your search to the county level, then the state level.

While national scholarships can be worth applying to — especially if they are tailored to your skills and life experiences — they do tend to have larger applicant pools. When more people are applying for the same pot of money, this lowers the chances that your excellent essay will win, simply because there is more competition.

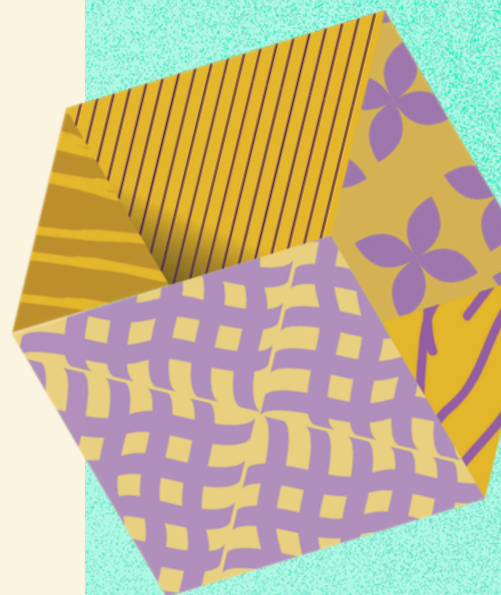
With the changes to Pell Grant refunds, you may feel worried about getting a large scholarship. It's important to remember that if you get your full COA covered, it doesn't matter whether the money is coming from scholarships or federal grants. In fact, the security of

knowing your costs are covered by scholarships may provide you with more peace than counting on a Pell Grant at this point in time, as we are still unsure of maximum Pell Grant award amounts.

Maintaining an Agile Budget for Multiple Future Scenarios

Many Americans will not find themselves with an abundance of money to cover the full costs of tuition, nonetheless the full COA. Especially if you're middle-income, you may find yourself still trying to optimize your SAI. Your best bet for future planning is to sit down with a financial advisor. This expense is typically only "worth it" if you have money with which to strategize. Lower-income students may simply find themselves at the mercy of the new rules, making scholarship applications particularly pertinent.

Whatever your financial situation, given the uncertainty of the implementation of the new rules set out in OBBS, it can be helpful to plan for multiple scenarios. Using a versatile budgeting tool like [PocketSmith](#) can help you imagine multiple potential forecasts all at once, all while maintaining the budget in front of you today. Planning for multiple different outcomes means you're more prepared to pivot in case of the worst — or the best, depending on your outlook.





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