The Real College Debt Crisis:

How Student Borrowing Threatens Financial Well-Being and Erodes the American Dream

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Financial Aid: The End of Normal Science

- Normal science—Kuhn, 1962
  - Researchers identify questions to investigate based on existing knowledge
  - Resulting 'reforms' mostly tweak around the margins
- Financial aid in normal science
  - Student loans viewed almost exclusively as a way to help people pay for college
  - Metrics constrained to that function, then
  - Identified problems addressed through modifications:
    - Income-Based Repayment
    - Pay-As-You-Earn
- Scientific revolutions sparked when current paradigm is unable to solve problems facing the field, or when external events provoke demand for a different vision

The Eroding American Dream and Seeds of a Revolution

- Class gap in educational attainment has widened in recent decades (Reardon, 2011)
  - Today, 41% of low-income students with top math scores graduate from college compared to 74% of high-income students with top scores.
  - Low-income students with the top math scores have the same chance of graduating college as high-income students with *next to the lowest* math scores (NCES, 2015).
- Public funding for higher education has declined
  - Nationwide, states spent 28% less on higher education in 2013 than in 2008, cuts that are directly correlated with cost increases and reductions in educational quality (Oliff et al., 2013).
- As costs shift increasingly to students and parents, higher education seen as increasingly unaffordable
  - In 1980, tuition accounted for about 20% of major universities' budgets, but by 2006 this share had more than doubled, to 43% (Geiger and Heller, 2011).
  - Average total cost of attendance at an in-state, public, four-year college for the 2012-2013 school year was $8,655, an increase of 4.8% from the prior year and a continuation of years of nearly uninterrupted increases (College Board, 2012).

The role of education in the American Dream

- Upward mobility is limited in the United States, despite rhetoric about this 'land of opportunity'.
- Higher education is the primary vehicle of ascent, making the widening chasm in attainment an urgent crisis imperiling the American Dream.
  - Without a college degree a child born into the lowest income quintile has a 45% chance of remaining in that quintile as an adult and only a 5% chance of moving into the highest quintile (Greenstone, Looney, Patasknik, & Yu, 2013).
  - However, children born into the lowest quintile who do earn a college degree have only a 16% chance of remaining in the lowest quintile and a 19% chance of breaking into the top quintile.
- Student debt may compromise this education-mobility link, however, by exacerbating inequality and reducing borrowers' return on degree.
  - 18- to 39-year-olds with 2- or 4-year degrees with outstanding student debt are less likely to perceive an immediate payoff from having gone to college than similarly-situated young adults without outstanding student debt (63% versus 81%, respectively) (Fry, 2014).

Resistance is to be Expected

- Paradigm shifts are difficult
- Some cling to the old, narrow analysis:
  - *Are indebted college graduates better off than if they had never gone to college?*
- Others use straw men ($100,000 in debt) to obscure damage caused by student loans.
- Some fear what could come in student loans' wake.
- Asset-empowered alternatives may be discounted as mere financial products, instead of potentially transformative tools for catalyzing mobility and increasing equity

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Are students who have to borrow to finance their college educations able to attain equitable outcomes—the same chance at the American Dream—compared to those who did not have to borrow for higher education?

A new question for a new paradigm

Today's Reality

- Total borrowing for college hit $113.4 billion in the 2011-2012 school year, up 24% from 5 years earlier (College Board, 2012).
- Today, the average bachelor student graduates with about $21,000 in student debt and the average graduate student graduates with over $55,000 in student debt.
- Low-income students are more likely to have student loans. About 76% of low-income and only 53% of high-income individuals with bachelor's degrees have student loans (Elliott, Lewis, & Johnson, 2014).

Evidence of the Failure

- *Social Choices*
  - Student loan debt drives graduates away from low-paying and public-sector jobs (Minicozzi, 2005; Rothstein & Rouse, 2011). Student debtors delay of marriage and family formation (Gicheva 2011).
- *Financial Instability*
  - Of borrowers who began repayment, 30% were delinquent (60 to 120 days late on payments) at some point in 2012 (Brown, et al. 2014). Even those with small loans are not immune; 34% of students with just $5,000 of outstanding debt default on their student loans (Brown, et al., 2015). Students with student loans have credit scores that are 24 points lower than students without such loans (Brown & Caldwell, 2013).
- *Wealth Inequality*
  - An average student debt load for a dual-headed household with bachelor's degrees from 4-year universities leads to a wealth loss of nearly $208,000 (Hiltonsmith, 2013). Homeownership rates of 30-year-old borrowers decreased by more than 5% compared with non-borrowers (Brown & Caldwell, 2013). 4-year college graduates with median debt of $23,300 had about $115,000 less in retirement savings than those with no student loans by the time they reach age 73 (Egoian, 2013).

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CSAs: An Alternative

- Because higher education is the principal path to prosperity and cornerstone of our economic mobility system, the U.S. needs a financial aid system that enhances, rather than compromises, education's potency as an equalizer.
- Children's Savings Accounts (CSAs)
  - Initiated at birth or kindergarten
  - Family savings leveraged with initial deposit and/or matching funds, progressively funded
  - Ideally delivered universally, to help children build assets over their lifetimes
- Analysis has found that parental savings—of the type that can be amplified by a CSA initiative—can reduce the incidence and extent of student indebtedness (Elliott, Lewis, Grinstein-Weiss, & Nam, 2014).
  - Considered in the aggregate, there is substantial evidence, then, that CSAs can fuel asset accumulation that may, in fact, be a viable *alternative* to student debt—not just a complement.

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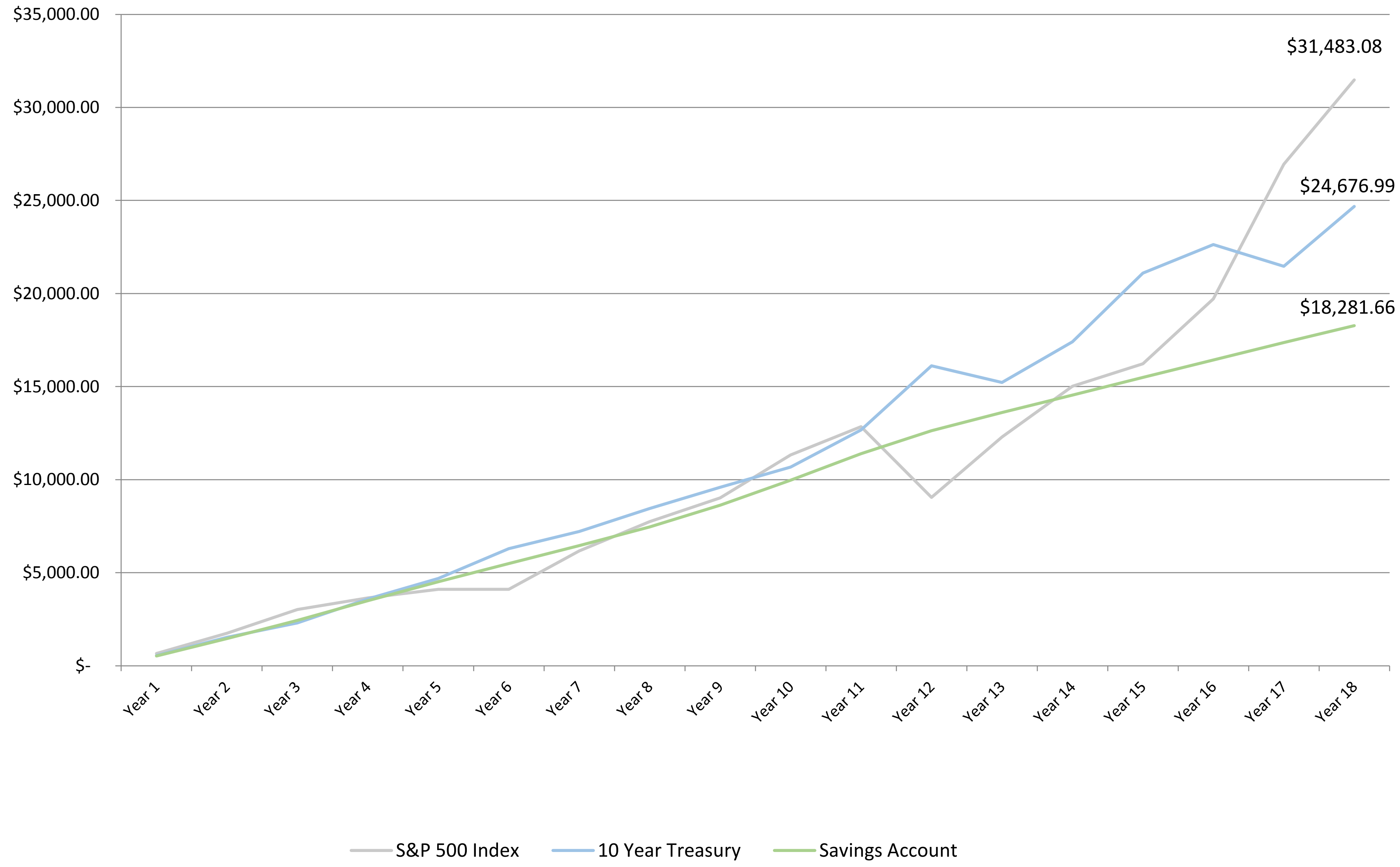
Asset Accumulation can be Significant



And CSAs are more than just an alternative way to finance college

Making the case for asset-empowered financial aid requires articulating assets' potential for improved outcomes along the educational trajectory

CSA Evidence: College Preparation

- SEED OK's experimental test of CSAs finds infants from households with incomes lower than 200% of the poverty line who were randomly assigned to receive CSAs demonstrated significantly higher social-emotional skills at age four than their counterparts who did not receive a CSA (Huang et al., 2014).
  - These skills may be particularly important in closing the achievement gap. Durlak and colleagues (2011) find that children with improved social and emotional skills display attitudes, behavior, and academic performance that reflected an 11 percentile-point gain in achievement, compared to controls.
- Kim, Sherraden, Huang, and Clancy (2015) find that parents in the treatment group (CSAs) have higher expectations for their children, and that their expectations are more likely than parents in the control group to remain constant or increase. Importantly, Hess, Holloway, Dickson, and Price (1984) find that mothers' expectations when their child is in preschool are positively linked to their child's sixth grade math and vocabulary.

CSA Evidence: Post-Secondary Enrollment and Completion

- Correlational research suggests that children's savings show some potential for improving a student's chances of making it all the way to graduation, educational outcomes widely touted as rationale by CSA champions today.
- Children in low- and moderate-income households with college-saver identities and school-designated savings of $500 or less are about three times more likely to graduate college than children who have a college-bound identity only (Elliott, Song, & Nam, 2013).
  - Confirming these effects through more direct tests of CSAs will be an important research frontier as CSA programs around the country 'come of age'.

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CSA Evidence: Post-College Financial Health

- Friedline and Elliott (2013) find that children between ages 15 to 19 who have savings are more likely to have a savings account and other assets at age 22 to 25 than if they did not have savings as youth.
- Friedline, Johnson, and Hughes (2014) find that the overwhelming majority of young adults owned a savings account at or before the acquisition of all financial products.
  - Friedline et al. (2014) find that while owning a savings account as a young adult only contributed $50 toward liquid assets, the added contribution of combined stock and retirement accounts—themselves products of savings account ownership—was $5,283.
- This asset building may position young adults for significantly improved lifelong economic outcomes.
  - The Pew Charitable Trust (2013) finds capital income has a strong relationship with moving up the economic ladder. Americans who move from the bottom of the income ladder had 6 times higher median liquid savings, 8 times higher median wealth, and 21 times higher median home equity than those who remained at the bottom.

CSAs as conduit for 21st Century wealth transfer

- As inequality grows, the logic of wealth transfers as aligned with the ideal of effort and ability as deciding who succeeds and fails becomes increasingly clear to many Americans.
    - In a recent poll, 6 in 10 Americans said the government should do more to reduce the gap between the rich and poor (New York Times, 2015).
    - An equal proportion believes that only a few people at the top have an opportunity to advance.
- Progressively-seeded CSAs could be the Homestead Act or GI Bill of the next generation:
    - Pell Grant savings accounts
    - Early scholarships
    - Pivot away from student loans, and repurposing of government investments
    - Reinvestment of foregone revenue from education tax credits

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