Achieving Success in Postsecondary Education: The Facts About Student Debt

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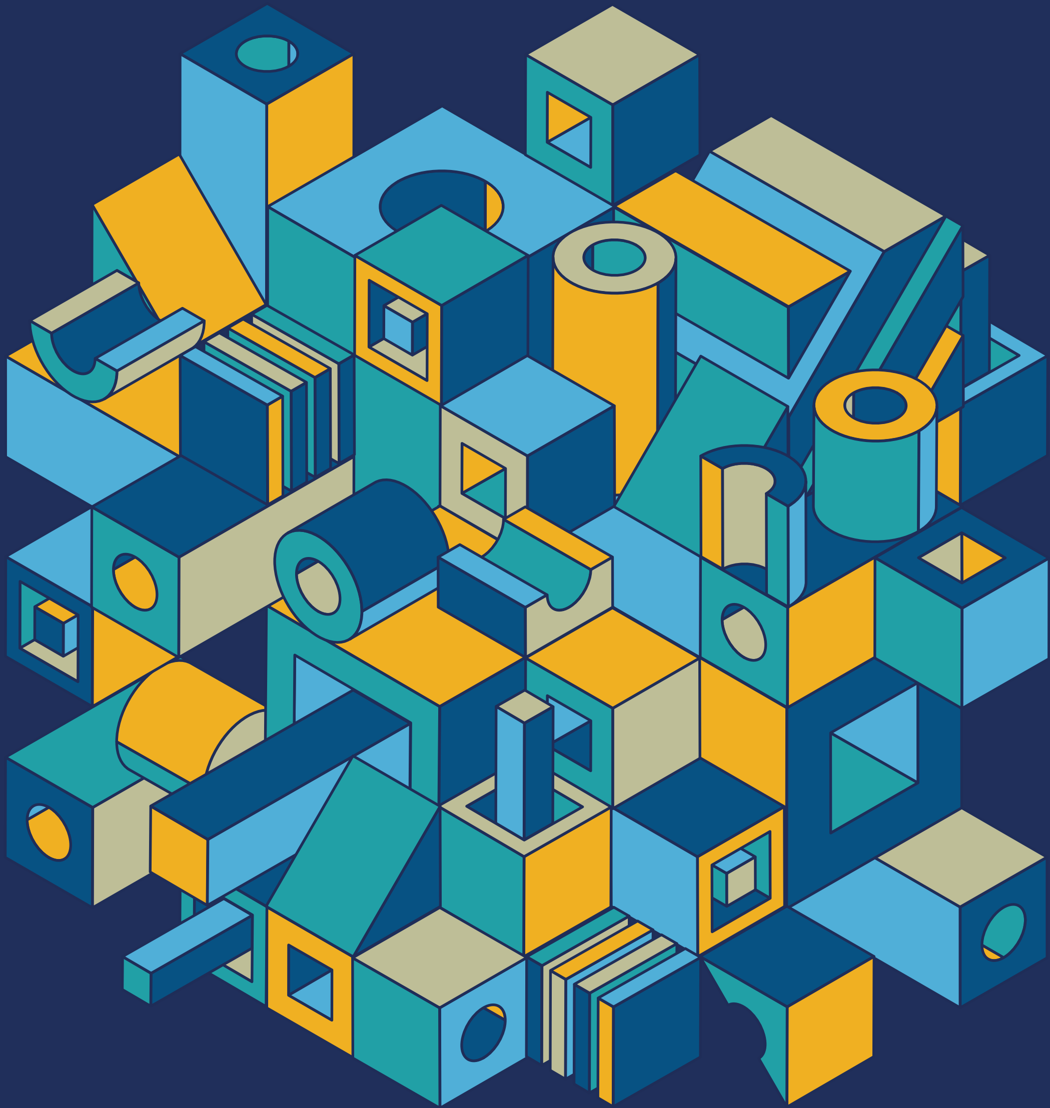

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About This Project

As institutions of higher education struggle with increasing costs and decreasing public funding, many students are unable to complete their degrees or are left with unsustainable amounts of debt. Rockefeller Philanthropy Advisors and the TIAA Institute partnered to look at the landscape of student debt in the U.S. as well as trends and innovative approaches in private funding of higher education. Together, we hope these resources advance the conversation on how to support college completion, avoid the burden of over-indebtedness and improve financial security for all students.

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TIAA Institute

The TIAA Institute helps advance the ways individuals and institutions plan for financial security and organizational effectiveness. The Institute conducts in-depth research, provides access to a network of thought leaders, and enables those it serves to anticipate trends, plan future strategies and maximize opportunities for success. To learn more, visit www.tiaainstitute.org.

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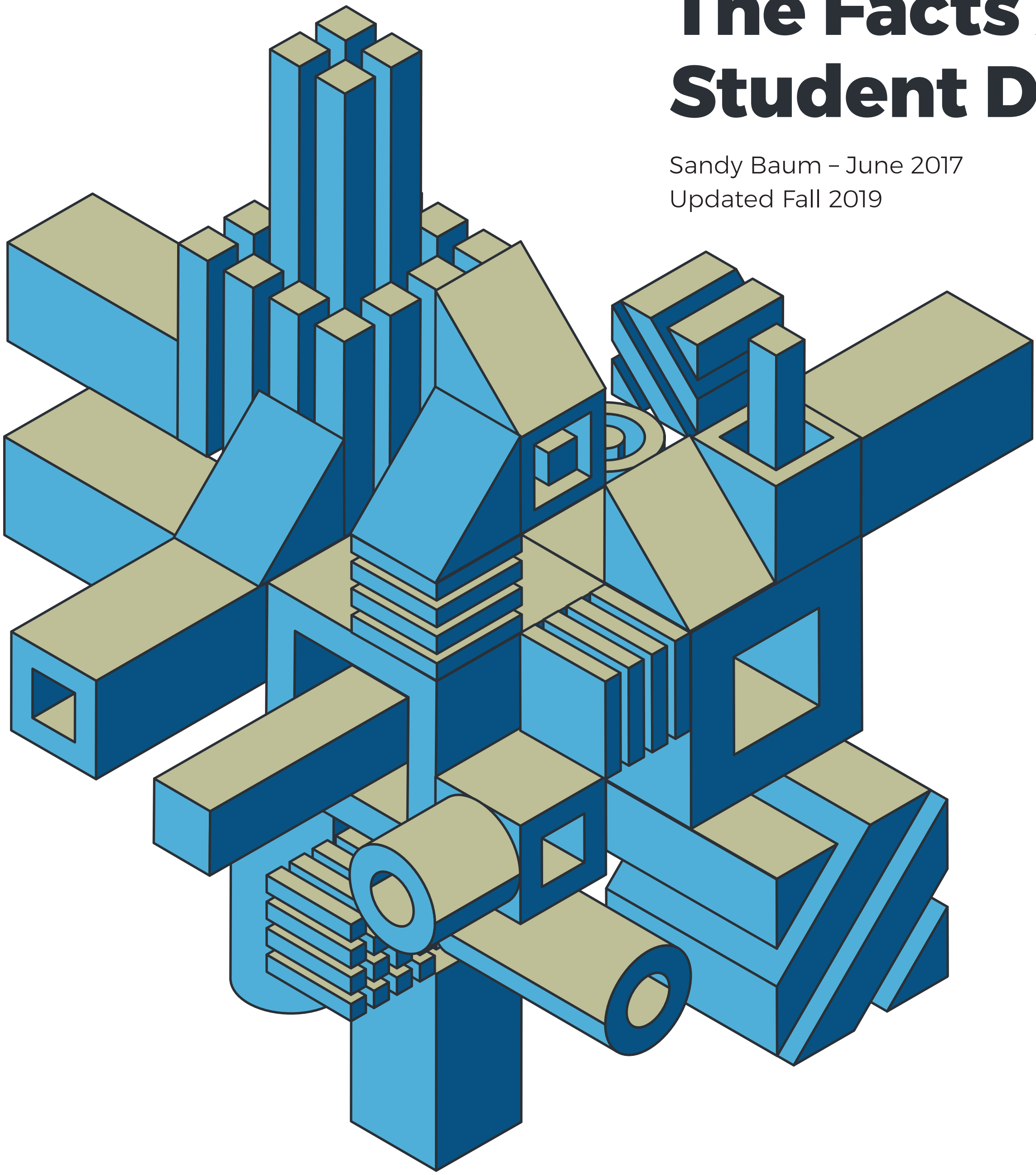
Achieving Success in Postsecondary Education

The Facts About Student Debt

Sandy Baum – June 2017
Updated Fall 2019



The idea of a student loan crisis, with student debt ruining the lives of a generation of former students and having a serious negative impact on the economy, has taken hold in the press, among policy makers, and in the minds of the public. This perception is leading to wide-ranging proposals to relieve the existing debt burdens of all students or to make future public higher education investments "free" to students. Since the 2016 election, most of these efforts have been at the state level, but the campaign for 2020 has renewed the national conversation. The fear of student debt poses a significant threat to educational opportunity in the United States. The fact is that many people will not be able to go to college without borrowing and not going to college will severely limit their occupational options and their earning power for the rest of their work lives.

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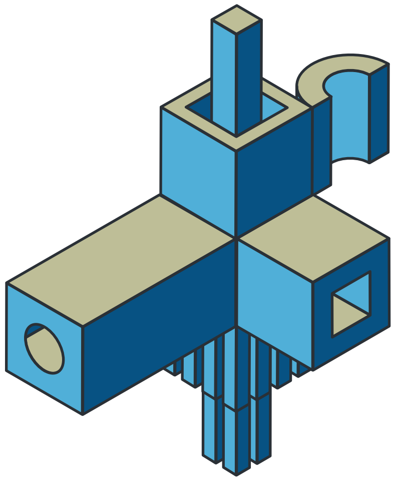
Anecdotes about former students with low earnings struggling to repay large amounts of student debt fill media coverage of issues relating to college finance. These stories sometimes reveal significant systemic problems in the college financing system. But more often, they frame rare circumstances in a way that suggests these situations are typical or obscure important information about how the repayment system can provide relief to borrowers facing unmanageable federal loan burdens. And we rarely hear about how the student loan system increases educational opportunities for students, improving their long-term career options and financial prospects.

Despite having increased considerably over time, the amounts most students borrow are much lower than widespread anecdotes suggest. This paper reviews these data, as well as the variation in debt levels associated with students with different characteristics and different educational histories. This information, along with evidence about the factors associated with repayment difficulties, points to policy solutions such as efforts to diminish problematic borrowing and an improved income-driven repayment system. Reforms should target the very real and serious problems with student loans, not be based on misperceptions about student borrowing.



Basic facts about student debt

The story of a generation drowning in debt is misleading for a number of reasons. Borrowing the large amounts frequently represented in the media is actually rare among undergraduates, and the typical borrower struggling with student debt is not the 22-year-old recent bachelor's degree recipient frequently pictured in news coverage. Rather, she is an older adult who either left school without completing her program or graduated with a short-term degree or certificate that may improve her circumstances, but not enough to provide a middle-class lifestyle.

Looking at national aggregates for student debt can create an exaggerated impression of a crisis. Total outstanding education debt now stands at about $1.5 trillion. It is significantly higher than outstanding credit card balances (Federal Reserve Bank of New York, 2019). But it's not clear that this is a meaningful comparison. Student loan debt is the result of investments in human capital, whereas credit cards, which carry much higher interest rates, are designed to finance short-term consumption needs. No one would be better off if students put all of their borrowing on credit cards.

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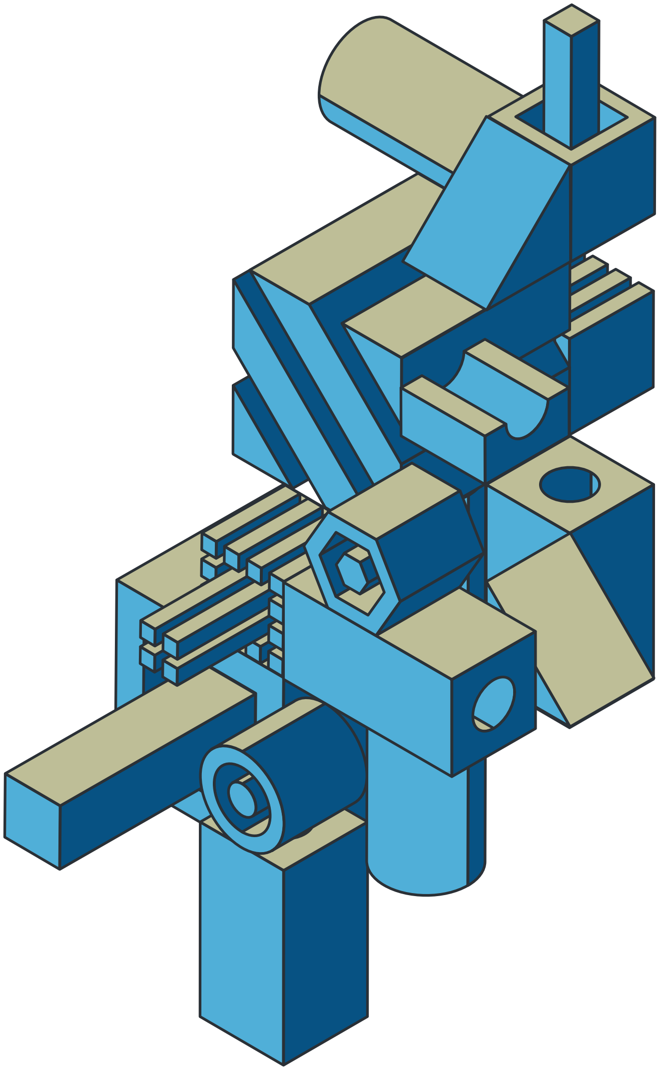
How much do individual students borrow?

Media stories tend to frame student loan issues around anecdotal extremes. The *New York Times* found a young woman who owes $220,000. She earned a bachelor's degree and started graduate school, but she works in a yogurt shop (or did when interviewed for the article) and is paid to drive an autistic child to and from school (Bernard, 2015). But as table 1 indicates, only 1 percent of borrowers with outstanding student loan debt owe as much as $200,000. Two-thirds of borrowers owe less than $25,000.

Table 1. Distribution of Outstanding Education Loan Balances First Quarter 2018

Loan balance	Percentage of Borrowers
Less than $5,000	18%
$5,000 to $9,999	17%
$10,000 to $19,999	21%
$20,000 to $39,999	21%
$40,000 to $59,999	9%
$60,000 to $79,999	5%
$80,000 to $99,999	3%
$100,000 to $199,999	4%
$200,000 or more	2%

Source: Sandy Baum, Jennifer Ma, Matea Pender, and CJ Libassi (2018). *Trends in Student Aid 2018*, New York: The College Board, trends.collegeboard.org, Figure 11.

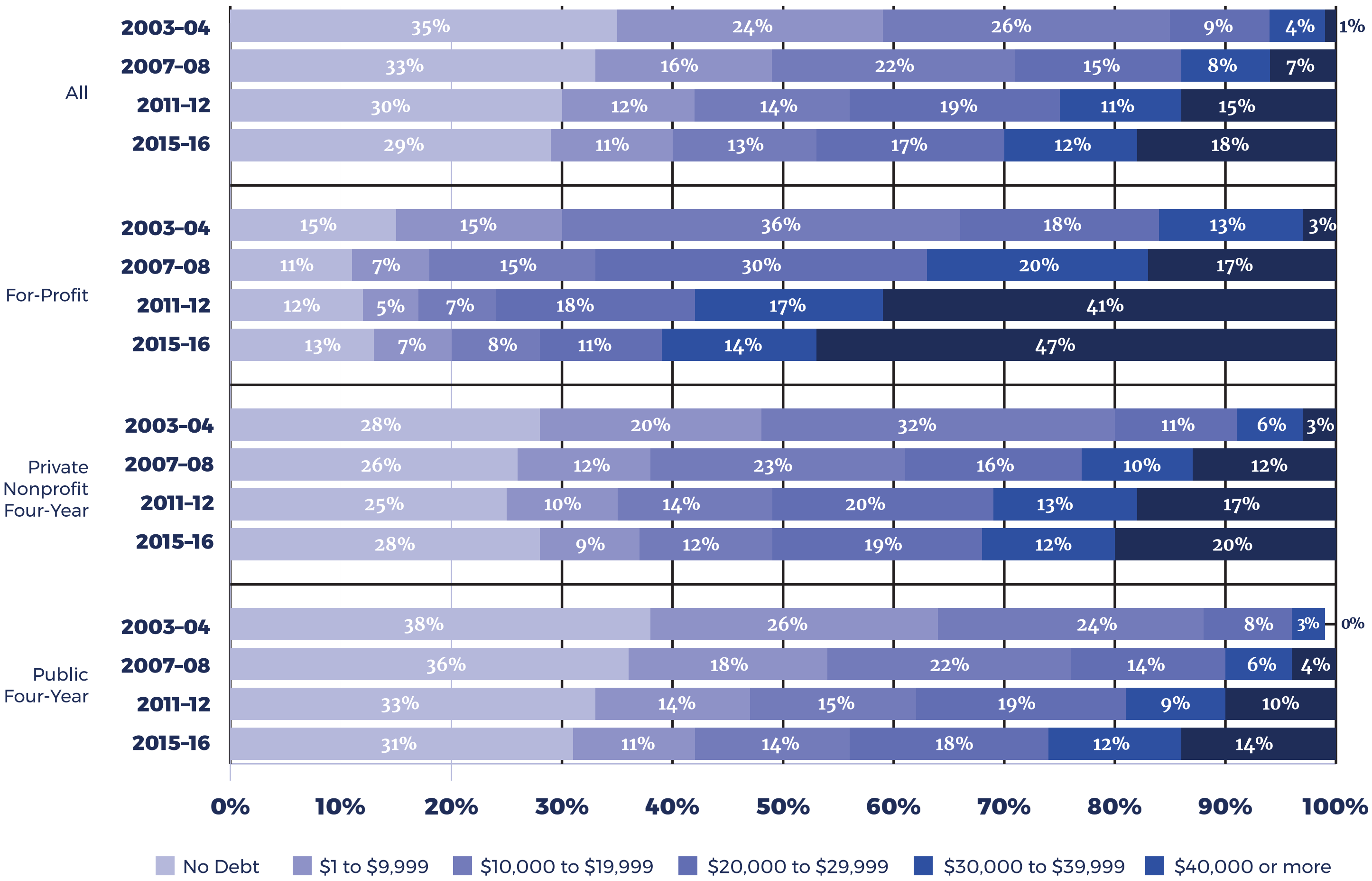


Cumulative Debt of Degree Recipients

The average debt of 2016–17 bachelor's degree recipients at public and private nonprofit colleges and universities who took student loans was $28,500. About 41 percent of these graduates did not borrow at all (Baum et al, 2018). In light of the fact that median earnings for 25-to-34-year-olds with bachelor's degrees were $19,182 higher than the median for those with only a high school diploma in 2017 (U.S. Census Bureau, 2017), this is not a daunting amount.

But debt levels have increased significantly in recent years and averages can be misleading. Between 2003–04 and 2015–16, the percentage of bachelor's degree recipients who had borrowed $40,000 or more (in 2016 dollars) rose from 1 percent to 18 percent. The share of students with this level of debt increased in all sectors. But the increase in public colleges and universities, which award almost two-thirds of all bachelor's degrees, was from less than 1 percent to 14 percent, while in the for-profit sector—which awarded 9 percent of bachelor's degrees in 2015-16 and is not included in the $28,500 average debt figure cited above—the increase was from 3 percent to 47 percent (figure 1) (NPSAS 2016).

Figure 1. Cumulative Debt of Bachelor's Degree Recipients by Sector, 2003-04, 2007-08, 2011-12, and 2015-16 (2016 Dollars)



Source: NCES, National Postsecondary Student Aid Study 2004, 2008, 2012, 2016.

Associate degree recipients borrow less, on average, than students earning four-year degrees. They are typically in school for a shorter period of time and many of them attend low-tuition community colleges. But even among these students, debt levels have risen. Ten percent of 2015-16 degree recipients graduated with $30,000 or more in debt—including 33 percent of those whose degrees were from for-profit institutions (NPSAS 2016). Because associate degrees generally lead to substantially lower earnings than bachelor's degrees, it makes sense to be concerned about lower levels of debt for these individuals than for those with bachelor's degrees.

Recent Trends

Borrowing per student has declined in recent years. The average federal loan rose from $4,100 (in 2017 dollars) per full-time equivalent undergraduate student in 2003-04 to $5,800 in 2010-11, but declined to $4,500 in 2017-18 (table 2). Federal loans per graduate student rose from $12,600 in 2003-04 to $19,200 in 2010-11, before declining to $18,000 in 2017-18 (Baum et al, 2018). This trend is not yet reflected in the debt levels of degree recipients and it may not be, if the change results primarily from reduced enrollment of students unlikely to complete degrees—particularly bachelor's degrees. But because cumulative debt levels remain manageable for most borrowers who succeed in earning bachelor's degrees, and because the federal government now bases repayment obligations on borrowers' incomes, many of the student loan problems can be mitigated even without reducing these debt levels.

Table 2. Federal Loans per Full-Time Equivalent Student, 1996-97 to 2017-18 Selected Years (2017 Dollars)

	Undergraduate Students	Graduate Students
1996-97	$3,500	$9,900
2003-04	$4,100	$12,600
2010-11	$5,800	$19,200
2017-18	$4,500	$18,000

Source: Baum et al (2016), *Trends in Student Aid 2016*, Figure 1

Federal and private student loans

The average debt levels cited above include both federal loan and loans from banks, Sallie Mae, and states. These nonfederal or private loans constituted about 11 percent of education borrowing in 2017-18. But from 2004-05 through 2007-08, more than 20 percent of student and parent loans came from private sources (Baum et al, 2018 figure 6).

Because private loans are not eligible for the borrower protections that are part of the federal loan programs—including income-driven repayment plans—students holding these loans are more vulnerable that those whose loans are all federal. Only 6 percent of undergraduates used private student loans in 2015-16, a decline from 14 percent in 2007-08. Students at private nonprofit and for-profit institutions are more likely than those enrolled in public colleges and universities to take private loans (NCES, 2016). Because of the higher prices in private institutions, more students seek to borrow beyond federal loan limits.

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How do students' borrowing patterns differ?

One of the difficulties with talking about a "student debt crisis" is that it fails to differentiate among students with different characteristics or in different circumstances. For example, high debt levels tend not to be correlated with repayment difficulties because many of those who borrowed large amounts completed graduate degrees, while many with relatively low levels of debt are former students who left school with no credential. In other words, examining the burden of student debt repayment without the context of educational outcomes and earnings can be misleading and lead to proposed solutions that do not benefit those most in need of relief.

For this reason, looking only at students with the same level of educational attainment can be instructive. Table 3 displays the distribution of cumulative debt for 2015-16 bachelor's degree recipients with different characteristics.

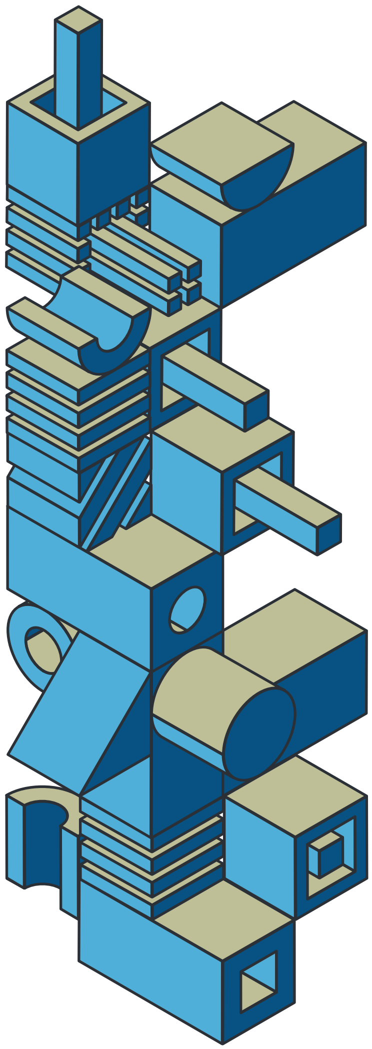


Table 3. Cumulative Debt of 2015-16 Bachelor's Degree Recipients

	No Debt	Less than $10,000	$10,000 to $19,999	$20,000 to $29,999	$30,000 to $39,999	$40,000 or More
All Bachelor's Degree Recipient						
Total	29%	11%	13%	17%	12%	18%
Age Completed Degree						
23 or Younger (60%)	33%	10%	14%	21%	11%	11%
24 to 29 (21%)	24%	9%	12%	14%	14%	26%
30 to 39 (11%)	19%	12%	10%	11%	13%	35%
40 or Older (7%)	22%	10%	11%	10%	11%	35%
Dependency Status						
Dependent (54%)	32%	11%	14%	21%	11%	11%
Indep. No Dependents (28%)	26%	10%	12%	14%	14%	25%
Indep. with Dependents (18%)	24%	11%	11%	11%	11%	32%
Time Elapsed Between First Enrollment and Degree Completion						
Within 4 Years (40%)	36%	12%	14%	20%	8%	11%
5 Years (18%)	29%	11%	12%	20%	15%	14%
6 Years (10%)	24%	9%	14%	17%	19%	18%
7 to 9 Years (13%)	24%	10%	12%	13%	12%	29%
10 Years or Longer (19%)	20%	11%	11%	11%	14%	33%

	No Debt	Less than $10,000	$10,000 to $19,999	$20,000 to $29,999	$30,000 to $39,999	$40,000 or More
Sector						
Public Four-Year (60%)	31%	11%	14%	18%	12%	14%
Private Nonprofit Four-Year (27%)	28%	9%	12%	19%	12%	20%
For-Profit (9%)	13%	7%	8%	11%	14%	47%
Race/Ethnicity						
Asian (7%)	41%	11%	14%	16%	9%	9%
Black (12%)	14%	12%	10%	15%	16%	33%
Hispanic (16%)	33%	14%	15%	15%	10%	13%
White (61%)	30%	10%	13%	18%	12%	18%

Source: NCES, NPSAS 2016.

Many stories about student debt repayment focus on people in their early twenties who are struggling to establish themselves as adults. But older students tend to borrow more than traditional-age college students. Only 11 percent of students who completed bachelor's degrees in 2015-16 when they were age 23 or younger had borrowed as much as $40,000, but 35 percent of those who completed their degrees at age 30 or older had accumulated at least this much debt (NPSAS 2016). Older students frequently have work and family obligations that make it difficult for them to carry a full course load. They may also have weaker academic backgrounds than those who enroll and graduate from four-year colleges immediately after high school. Older students should be a focus of any investigation into problems in our higher education financing system.

The longer the time period from first enrollment to degree completion, the more likely students are to accumulate high levels of debt.

Another critical factor affecting student debt burdens is the amount of time students spend in school. The longer the time period from first enrollment to degree completion, the more likely students are to accumulate high levels of debt. Only 11 percent of 2015-16 bachelor's degree recipients who graduated within four years of beginning college borrowed $40,000 or more. In contrast, more than 30 percent of students who took at least seven years to earn their degrees had this much debt. Many of these students stopped in and out of school over this time period, but many were enrolled and paid tuition for more than four academic years. Inadequate academic preparation explains some of the extended time to degree, because students may have to take remedial courses or repeat courses in which they do not succeed. Students who change majors or transfer from one institution to another frequently end up accumulating more credits before they graduate than other students. Programs that increase the share of students who graduate quickly have the potential to significantly reduce student debt levels.

One area of particular concern is differences across racial and ethnic groups. Black bachelor's degree recipients are much less likely to graduate without debt and much more likely than members of other racial/ethnic groups to borrow $40,000 or more. Thirty-three percent of 2015-16 black bachelor's degree recipients borrowed this much, compared with 13 percent of Hispanic, 18 percent of white and just 9 percent of Asian graduates.

Diminishing this differential requires a better understanding of its causes. It is well known that black families have lower asset levels than others, limiting their ability to help their children pay for college (Rockeymoore and Guzman, 2014; Sullivan et al., 2015). But a number of other factors are also relevant. Black students tend to come from families with lower incomes; a higher percentage of black students than of those from other racial and ethnic groups earn their degrees from for-profit institutions; black students tend to be older than others when they complete their degrees and take longer to finish their degree programs; and, as noted above, debt levels are highest in this sector (Baum et al., 2015).

Graduate students borrow much more than undergraduates

In 2015-16, when under a quarter of the degrees completed were graduate degrees, 62 percent of the all students graduating with $50,000 or more in debt—and 94 percent of those with $100,000 or more in debt—had completed master's or doctoral degrees (NCES, 2016). Thirteen percent of graduate students who completed their programs in 2015-16 (and 19 percent of those who borrowed) had accumulated $100,000 or more in debt for their undergraduate and graduate studies combined. Among those receiving professional practice degrees such as law and medicine, 50 percent overall and 62 percent of those who borrowed had this much debt (NCES 2016).

In 2013, the 25 percent of households with the highest incomes held 47 percent of all outstanding student debt.

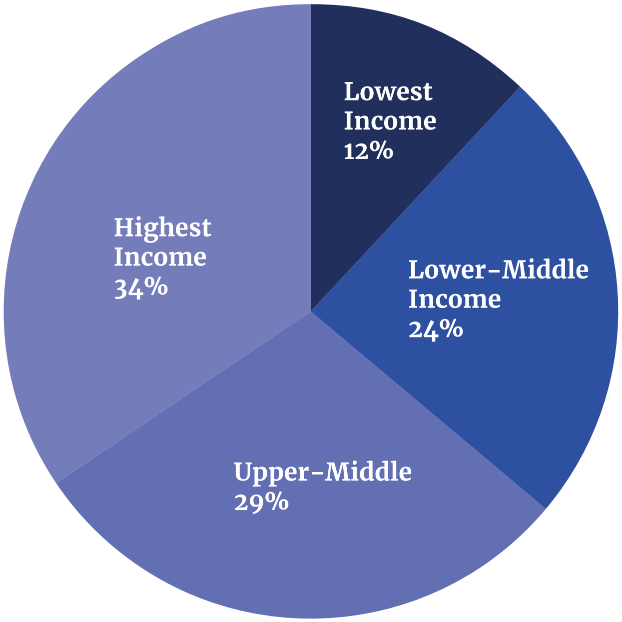
The policy considerations relating to graduate students are quite different from those relating to undergraduates. The individuals incurring this debt already have bachelor's degrees and are among those in the labor force with the highest lifetime earnings potential. They are also older and more educated than most people making decisions about undergraduate debt. In most cases—although certainly not all—earnings can support this debt and graduate borrowers have relatively low default rates.

Who is in debt?

The misperception that bachelor's degree recipients with very high levels of debt are typical co-exists with the misperception that individuals who have borrowed for college are among the groups in society struggling most. In fact, because of the strong correlation between higher levels of educational attainment and higher earnings, workers holding student loan debt tend to be relatively well off.

In 2016, the 25 percent of households with the highest incomes held 34 percent of all outstanding student debt. The 25 percent of households with the lowest incomes held 12 percent of the debt (figure 2) (Baum et al, 2019). Student debt is correlated with education and with earnings. The people who are having the most financial difficulty are those who have not gone to college and may not even have graduated from high school.

Figure 2. Distribution of Outstanding Education Debt by Household Income Quartile, 2016



Note: Income quartiles are based on 2015 household income. The upper limits for the first three quartiles are $27,000, $52,000, and $97,000. Source: Baum et al., "*Which Households Hold the Most Student Debt?*", Urban Wire. The Urban Institute. Based on data from the Survey of Consumer Finances.

Who Goes to College?

There is no doubt that rising college prices and stagnant income levels have contributed to increasing reliance on borrowing to pay for college. But it is also true that the population of college students has changed over time. There are certainly people who could have gone to college 10 or 20 years ago without borrowing, but now find no other way to finance their education. However, many more people now go to college than was the case a generation or even a decade ago.

In the late 1970s, less than one-third of high school graduates from the lowest family income quintile went straight to college. In 2016, two-thirds of this group started college right after high school. (Immediate college matriculation went from about two-thirds to over 80 percent for those at the top of the income distribution over this time period) (NCES, 2017, Table 302.20).

In the late 1970s, less than one-third of high school graduates from the lowest family income quintile went straight to college. In the twenty-first century, more than half of this group starts college right after high school.

Total postsecondary enrollment increased 30 percent between 1970 and 1975, as the number of students attending public two-year colleges grew from 2.2 million to 3.8 million over just five years. Over the next 30 years, the number of postsecondary students rose from 11.2 million to 17.5 million. The share of all enrollments that were in the for-profit sector went from 0.3 percent in 1975 to 5.8 percent in 2005. Over the following five years, fueled by the Great Recession, total enrollment leapt by 20 percent—and the size of the for-profit sector doubled. One million of the 3.5 million new students attended these institutions. Enrollment declined as the economy recovered, but was 30 percent higher in 2016 than at the turn of the century; 1.2 million students—6 percent of the total attended for-profit institutions (NCES, 2017, Table 303.30).

As noted above, students in the for-profit sector borrow significantly more than those with similar levels of education in the public and private nonprofit sectors. These students tend to be from lower-income backgrounds, to be older when they enroll, are disproportionately black and Hispanic, and have relatively low completion rates and weak labor market outcomes. Overall, both the demand for and supply of higher education have changed substantially, with new subgroups of the population going to college and a new set of institutions enrolling many of these students. A large number of these people come from middle- or lower-income families. Many are adults who are supporting themselves and sometimes their families. A generation ago there were jobs available to high school graduates that provided living wages and job security. As that opportunity has faded, people who would have gotten on-the-job training now go to college. They rely heavily on student aid—including student loans—to finance their education.

The student debt picture would look quite different if the only people going to college were the relatively privileged, mostly young people drawn from traditional college-going populations who went to college 20 or 30 years ago. Student loan programs have helped provide a channel for millions of Americans to attain a level of education that seemed out of reach to prior generations.

When borrowers don't repay their debts

Default on student loans is a serious problem for taxpayers, but the consequences for individuals are most serious. Borrowers may incur high collection charges and have their wages garnished or tax refunds confiscated. Defaulters are likely to have difficulty accessing credit, renting an apartment, or even getting a job.

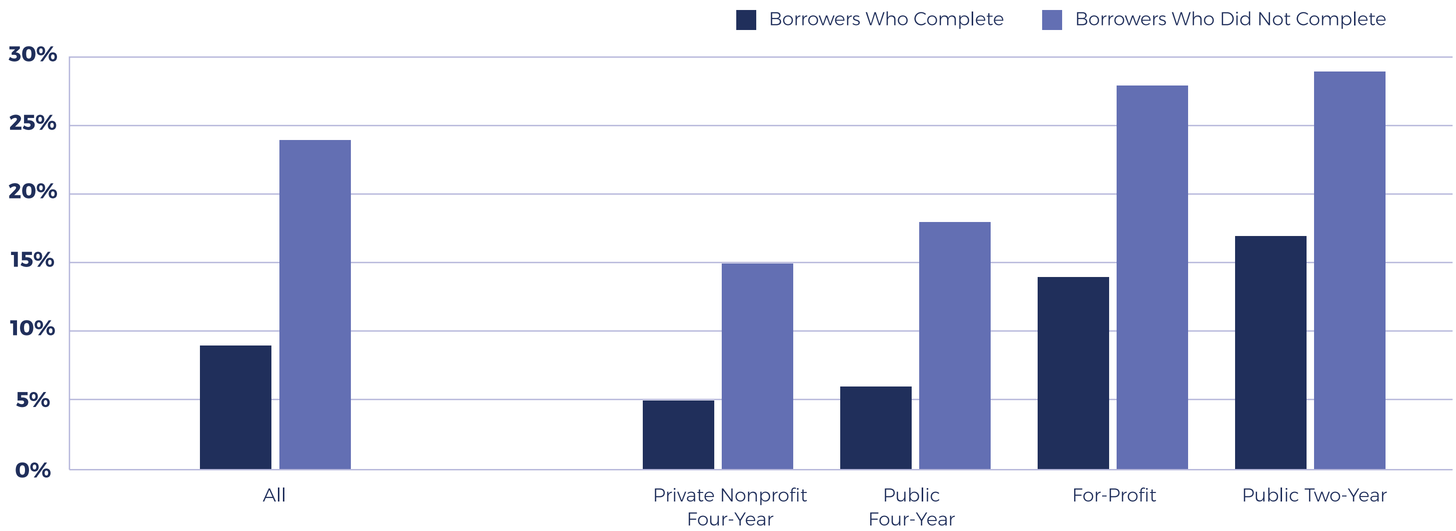
Perhaps the most consistent finding about student loan defaults is the role of degree completion.

The official federal student loan three-year default rate for borrowers who should have begun making loan payments in 2014-15 was 11 percent, a decline from 15 percent five years earlier (U.S. Department of Education 2015, 2018). Largely because of underwriting standards and requirements for co-signers, the default rate on private student loans, which account for about 8 percent of outstanding loan debt, is only about 2 percent (Feshbach et al, 2019). However, these loans do not qualify for income-driven repayment and lack other protections included in the federal student loan program.

Insufficient resources surely explain a considerable fraction of default. However, the federal income-driven student loan repayment options in which a quarter of all borrowers now participate limit monthly payments to an affordable share of income. Moreover, in addition to objective financial constraints, attitudes and priorities affect how borrowers approach loan repayment.

Some borrowers may view student loan payments as an add-on to all consumption and to other obligations, including car loans and other forms of credit. It is the student loan payments that people view as putting them over the edge. It is easy to forget that the education financed by student loans generates the income for other expenses.

Figure 3. Two-Year Federal Student Loan Default Rate Among Borrowers Entering Repayment in 2011-12, by Sector and Degree Completion Status



Source: Baum et al (2015), Figure 14A. Based on data from Adam Looney and Constantine Yannelis (2015).

Predictors of default rates

Perhaps the most consistent finding about student loan defaults is the role of degree completion. Among borrowers who were supposed to begin repaying in 2011-12, 24 percent of those who had not completed a degree or certificate had defaulted within two calendar years, compared with 9 percent of those who graduated. Default rates among students who borrowed to attend for-profit and two-year public institutions are much higher than the rates among students from four-year public and private nonprofit colleges and universities (figure 3) (Baum et al 2015, Figure 14A). To put these figures into perspective, it is important to note that in 2011-12, when 42 percent of all undergraduate students took loans, only 18 percent of community college students borrowed. In contrast, about 70 percent of those attending for-profit institutions borrowed (Radwin et al, 2013).

Again, it is not the traditional college students frequently making the front page of the newspaper, but the non-traditional students—likely older, independent, seeking occupational preparation—who are most likely to encounter repayment problems.

Smaller debts, bigger problems

Notably, it is not borrowers with high levels of debt who are most likely to default. Most of the 4 percent of borrowers carrying debts of $100,000 or higher will repay those debts—they have graduate degrees and relatively high earnings. Rather, default rates are highest for those with the lowest levels of debt and two-thirds of defaulters enter repayment owing $10,000 or less (table 4) (Council of Economic Advisers, 2016, Figure 27).

It is also important to remember that when borrowers default on their federal student loans, if the government never recovers the money, taxpayers pay the cost.

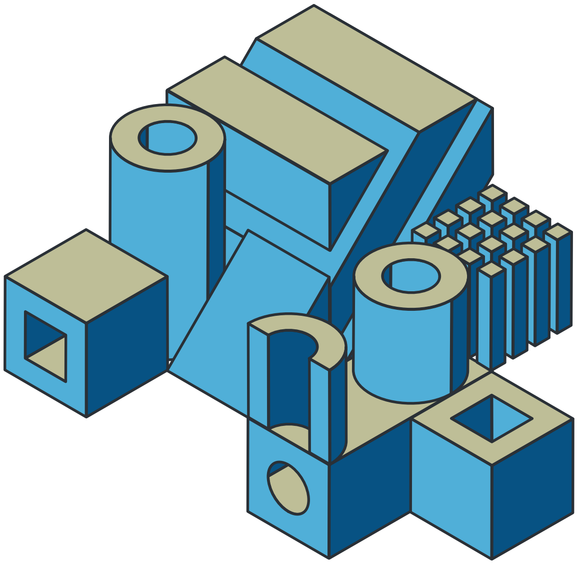


Table 4. Share of Defaulters and Three-Year Federal Student Loan Default Rate Among Borrowers Entering Repayment in 2010-11, by Loan Balance

Loan Balance	Share of Defaulters	Default Rate
Less than $5,000	35%	24%
$5,001 to $10,000	31%	19%
$10,001 to $20,000	18%	12%
$20,001 to $40,000	11%	8%
More than $40,000	4%	7%

Note: Loan balance is as of the time the borrower entered repayment.
Source: Council of Economic Advisers (2016), Investing in Higher Education: Benefits, Challenges, and the State of Student Debt, Figure 27.

Many borrowers who owe just a few thousand dollars were in school for just a short period of time. They may be struggling with their debt because they did not complete the investment in education necessary to get a real payoff in the labor market—a better job and higher earnings.

The default rate on student loans is cause for real concern. A system that puts many people into this situation needs repair. It is also important to remember that when borrowers default on their federal student loans, if the government never recovers the money, taxpayers pay the cost. It is one thing for society to decide to dedicate tax revenues to better fund higher education institutions and their students, but quite another to provide unplanned and arbitrary subsidies to students selected on the basis of failing to meet their repayment obligations.

Why the misperceptions about the student debt?

The public faces of the student debt crisis do not coincide with the actual individuals struggling most with paying for college. Some young people from middle-class families did accumulate startling amounts of debt in the process of earning bachelor's degrees and if they graduated into the depths of the recession, many struggled to find well-paying jobs.

Despite being less likely to default on debt, these former students are very appealing subjects for the media and they know how to make their voices heard. The older adults who went back to school seeking associate degrees or certificates and never completed a credential are much less compelling subjects for the press.

That these images have created widespread concern is not surprising. Examples of uncommon events can be frightening and garner disproportionate attention. For example, in a 2014 Gallup Poll, Ebola was the third most commonly cited health issue for Americans, with 17 percent of respondents seeing it as the nation's most urgent health problem. Yet there were only four reported cases in the United States (Saad, 2014). Simple ideas are easier to latch onto than more nuanced realities. Media reports can lead to strong public reactions, leading politicians to propose policy solutions addressing the emotion, rather than considering the most effective strategies for dealing with the problems emerging from solid evidence and analysis. Anyone who claims that the danger is overstated is suspected of association with a cover-up (Kahneman, 2011). This phenomenon rings true to researchers who have tried to counter some of the misperceptions about student debt.

Is student debt causing serious economic problems?

To better understand how student debt affects individuals and how the amount borrowed to pay for education affects society and the economy as a whole, we need a counterfactual—an alternative scenario to use as a comparison. It is obvious that individuals with student debt will be unable to save and consume as much as similar individuals with the same incomes and no debt, but the alternative is definitely not everyone having the same level of education without anyone paying for it. If students don't borrow, either they will have to pay in another way or someone else will have to pay.

Parental resources make it possible for some students to graduate without debt while their classmates are forced to borrow. But the children of affluent parents enjoy much more than just college without debt. Their parents may support them after graduation so they can take an unpaid internship that will open professional doors, pay the security deposit when they rent an apartment, and provide at least part of the down payment for a house. In other words, the absence of student debt and the accumulation of assets—including buying a house—may both be the result of parental support.

This reality casts doubt on many of the studies that purport to analyze the impact of student debt on areas such as home ownership. If the absence of debt meant lower levels of educational attainment, this group of students would have lower incomes and diminished wherewithal to finance home purchases. If their parents had paid higher taxes to better fund the state governments that have cut back on their financing of public higher education, they might not have been able to help as much with college or with the down payments for their children's houses.

Despite widespread assertions about the relationship between student debt and home ownership, entrepreneurial activity, and asset accumulation, there is no good causal evidence. Clearly if people had the same incomes and no debt payments, they would have more options. But in fact, the alternatives are that someone else will pay—probably through higher taxes—or fewer people will go to college.

The real problems and promising solutions

The alarmist narrative distracts from the serious problems with student debt that could be addressed without totally transforming the system of higher education finance or arbitrarily and disproportionately shifting burdens from the people who benefit most from higher education to taxpayers in general.

There are problems, but they are different from the problems that many policy proposals are designed to address. For instance:

- Students are borrowing to enroll in colleges and programs from which they are unlikely to graduate and/or which, even if they do graduate, are not likely to lead to positive labor market outcomes.

- Many recent college graduates (and non-graduates) have entered the labor force while the economy is weak, unemployment is high, and opportunities are scarce.

- State disinvestment in higher education has led to rapidly rising tuition levels in public colleges. The combination of higher tuition and diminished family support has contributed to rapid increases in borrowing.

- In the absence of a strong workforce development system, reasonable support for job training that does not involve borrowing, and a strong safety net for individuals and families with inadequate labor market earnings, too many adults who find that their only hope for getting a good job is to go back to school end up borrowing to enroll in expensive for-profit colleges.

- The federal student loan system does not place reasonable limits on the amount graduate students and parents of dependent students can borrow.

These problems do not imply that the majority of people who have gone to college are suffering "crushing" student debt or that individuals with student debt are, overall, among the most financially strained groups in the nation. They do not imply that borrowing to finance an investment in higher education is a self-destructive decision or that public policy should be focused either on forgiving the debt of most of those who have borrowed for education or on preventing students from having to borrow in the future.

Policy solutions

Policy approaches to problems of student debt vary widely. The student loan system could be designed to pay a part of the cost of education for all borrowers through, for example, interest-free loans.[1] Under this system, anyone who borrows, regardless of their financial circumstances before or after college, would benefit from taxpayer subsidies. Because students who do not borrow would miss out on this funding, this type of system creates the incentive to borrow as much as possible and to postpone repayment for as long as possible.

At the other end of the spectrum, the system could be self-financing, with borrowers essentially paying for insurance that causes those with the best outcomes to subsidize those with the worst outcomes. Students who repay their loans in full in a timely manner would subsidize those who face difficulties, rather than having taxpayers take on this responsibility.

A reasonable compromise is to limit the across-the-board subsidies—which are best delivered through general funding for all students, not just those who borrow—but to use the federal loan program to support those whose educations do not end up paying for themselves. Borrowers who reap the typical financial benefits from higher education would repay their loans; the cost of loan defaults or other payment problems would be borne by taxpayers in general, not only by the more successful borrowers.

The student loan issue is not monolithic. Graduate students face issues that are quite different from those faced by typical undergraduates. The circumstances of many older students, enrolling in college after having been in the labor force for a number of years and frequently having dependents of their own, are quite different from those of recent high school graduates. Students borrowing to attend for-profit institutions are particularly vulnerable. And perhaps most important, too many students borrow for college when they have little chance of completing their programs.

The prevalence of non-completion would be a serious problem even absent student loans. It is too often a sign of wasted time, effort, and money, in addition to shattered dreams. We urgently need stronger pre-college academic preparation, better guidance about choosing schools and programs, better policing of postsecondary quality, and better student support systems. These changes should

1 Under the current system, subsidized Direct Loans to undergraduate students with documented financial need are interest-free while the student is enrolled. These loans constituted 22 percent of the federal loans issued in 2017-18 (Baum et al, 2018). Other federal loans charge interest from the time they are disbursed.

minimize the number of students who enroll in programs they are not likely to complete, not just ensure that they don't borrow excessively to fund these dead-end paths.

We are much more likely to be able to fund these efforts amply if we carefully target public subsidies to those who need them. Because most students experience significant financial benefits from their college education, most of them can repay loans. We should not direct our limited dollars away from more urgent needs to repaying loans for people with high levels of education and high earnings potential.

Policies that could reduce the prevalence of borrowing that is unlikely to support productive investments include:

1) Stricter rules for institutional eligibility for federal student aid programs;

2) Stronger incentives for institutions to improve performance and reduce student debt levels, possibly through a system forcing institutions to bear part of the financial risk of unpaid student loans;

3) Better guidance—not just general information—for students making decisions about what, where, when, and with what intensity to pursue postsecondary studies, with systems tailored for the differing needs of recent high school graduates and older adults;

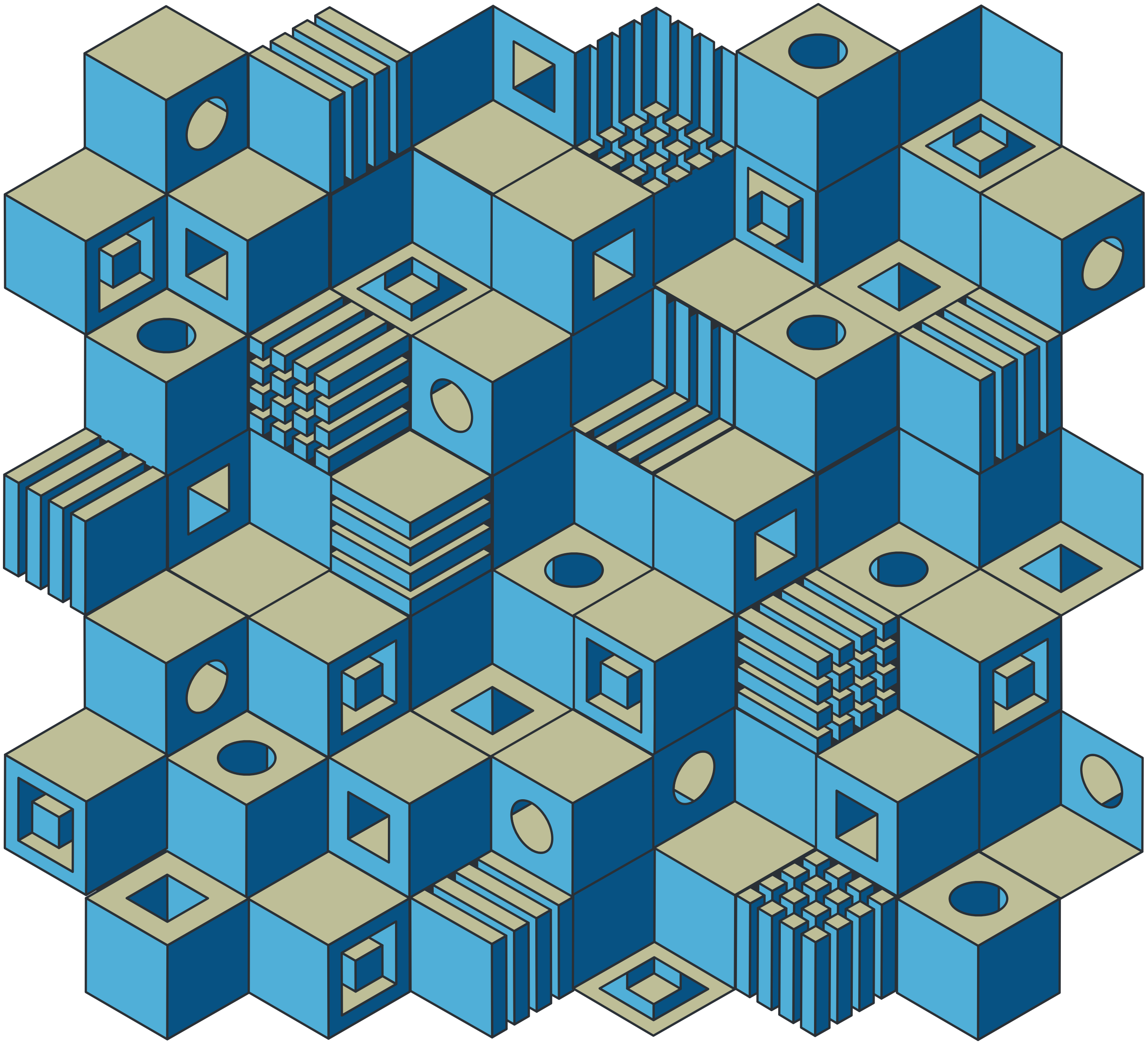
4) Better tracking of student success across institutions so they do not borrow for an unsuccessful course of study at one school and then move on to a different school, accumulating more debt without any progress toward a credential;

5) Lower loan limits for part-time students;

6) Modifying the policy allowing graduate students and parents of undergraduates to borrow up to the full cost of attendance (including tuition, fees, room, board, and other expenses) less grant aid from the federal government—no matter how high those costs.

In addition to working to prevent problematic borrowing, it is imperative that we improve the student loan repayment system to make it easier for borrowers to navigate and to appropriately allocate the risks between students and taxpayers. There is growing consensus across the political spectrum for a single income-driven repayment plan into which borrowers would be placed automatically. Having payments withheld from paychecks would ease the repayment process for borrowers, allow payments to change automatically when earnings change, and ensure that repaying student loans is not last on the list of personal budget priorities.[2]

2 For discussion of the many details involved in the design of an income-driven repayments system, see Baum and Johnson (2015). An effective payroll withholding system would include provisions for self-employed workers similar to the estimated tax payment system.



The details of such a plan are, of course, critical. Forgiving unpaid balances after a set period of time seems reasonable, but terms should be set so most borrowers repay their entire balances. In contrast to current provisions, total payments should bear some relationship to the amount borrowed and there should be limits on the amount of debt that can be forgiven. Forgiven balances should no longer be taxable.

There are other fixes short of this comprehensive plan that could ease some of the problems currently facing too many struggling borrowers. For example, eliminating the privileged category of private student loans and treating these loans like any other credit in bankruptcy proceedings, ending the practice of garnishing Social Security payments for student debts owed, and improving collection practices could all make a difference.

A significant share of the difficulties related to student loan repayment arises from failure to complete degrees and from poor labor market outcomes for some types of credentials.

Other constructive interventions

Given both the public interest in increasing educational attainment and the role of the federal government in providing student loans, improving the system for both students and taxpayers should be high on the federal policy agenda. However, it is reasonable to ask what kinds of nonfederal interventions might mitigate current problems related to student debt. Some of these interventions might involve working directly with students, while others might be directed toward strengthening state policies.

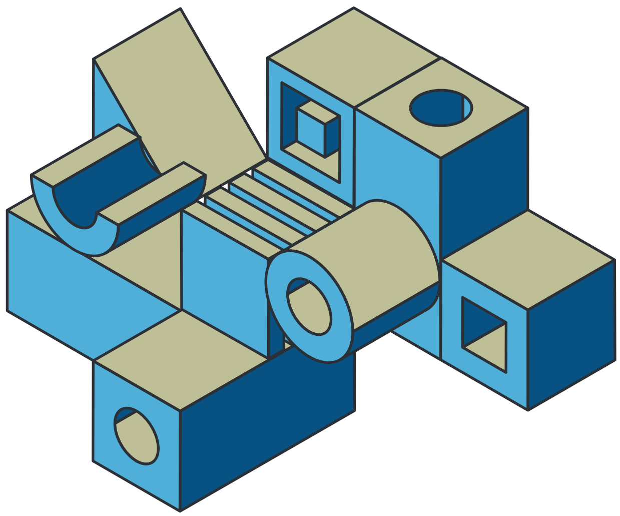
Mitigating student debt problems does not have to involve providing funding either for current college students or for those repaying their loans. Inadequate guidance generates much of the difficulty. Federal student aid programs essentially provide vouchers, allowing students to take these funds to any accredited institution of their choosing. There is a serious lack of support for students making these transformative decisions. Many high school students have no access to well-trained guidance counselors who have the time and knowledge to help them make wise choices. Older students are left even more to their own devices, frequently making decisions based on internet ads or casual word-of-mouth. The federal government is not the only potential source for solving these problems.

Personalized efforts on the part of parties with no vested interest in students' enrollment choices can go a long way toward improving decision making, guiding students into educational paths likely to lead to the desired outcomes, and making the debt incurred more manageable.

No one should borrow money to go to a postsecondary institution with an abysmal graduation rate or poor job outcomes for those who do graduate. No one should put time and effort into such an institution even if it doesn't require borrowing. But that doesn't mean that all borrowing for college is bad. It just has to be cautious and well informed.

Once they leave school and enter the student loan repayment system, borrowers frequently encounter new barriers associated with inadequate information and bureaucratic complexity. Choosing a repayment plan, managing personal budgets to prioritize student loan payments, and dealing with loan servicers all require financial skills many college students lack. Recent accusations lodged by the Consumer Financial Protection Bureau and the attorneys general of Illinois and Washington highlight the types of problems some borrowers may face.

Because a large percentage of students attend public colleges and universities, state policies and programs make a significant difference in where students enroll, how much they borrow, and whether they succeed in their studies. States are well positioned to design and fund programs providing guidance for both high school students and adults seeking to continue their education. They also have considerable influence over tuition prices, which are closely related to state appropriations for higher education. Influencing state policies may be a more manageable goal than creating federal policies to address these issues.



Conclusion

Student debt repayment is a challenge for many former students. But federal extension of credit to undergraduate students makes it possible for many individuals, particularly those with limited financial means, to go to college, to go to an appropriate college, and to succeed in college. Because of the positive impact of postsecondary education on employment and earnings, relatively high-earning households carry a disproportionate amount of the outstanding student debt. This reality means that some policies to alleviate debt burdens that sound progressive can actually skew subsidies away from those who need them most.

It is not borrowers with high levels of debt—most of whom have graduate degrees and very few of whom have less than a bachelor's degree—who are struggling most with student debt repayment. Rather, it is those who borrowed relatively small amounts but did not emerge with educational credentials of value in the labor market. In other words, forgiving debt across the board or even lowering interest rates on that debt will provide the largest benefit to people with the greatest capacity to repay their loans.

It will leave many who lack both the financial resources and the necessary guidance to succeed in the education system and the labor market without the support they need.

A significant share of the difficulties related to student loan repayment arises from failure to complete degrees and from poor labor market outcomes for some types of credentials (Looney and Yannelis, 2015). Some of the problems could be eliminated by a combination of stronger requirements for institutions to participate in federal loan programs and better information and guidance for students. No one should borrow money to go to a postsecondary institution with an abysmal graduation rate or poor job outcomes for those who do graduate. No one should put time and effort into such an institution even if it doesn't require borrowing. But that doesn't mean that all borrowing for college is bad. It just has to be cautious and well informed.

Many students are making decisions about pursuing and financing postsecondary education without the guidance they need, leading to bad outcomes they could have avoided. And many students who have difficulty making debt repayments face bureaucratic barriers to accessing the protections they need; too many borrowers are exploited by abusive collection procedures. Policy changes could help improve the choices students make. We should also carefully consider how responsibility for repaying education debt can and should be shared by individuals and society as a whole.

Addressing the debt repayment problems facing many former students requires targeting reforms to the causes of these problems. Media sensationalism aside, most—but not all—borrowers with high levels of debt have earned graduate degrees and repay their debts out of relatively high earnings.

The more intractable problems are among those who borrowed relatively small amounts of money but did not graduate. The composition of student loan borrowers has changed over time, including an increasing number of non-completers, older adults, and former for-profit sector students. In the past, these people would have been on the no-debt side of the line—and would have no postsecondary education. Addressing their problems is not the same as treating all student debt as a crisis.

Producing high-quality education opportunities requires significant resources. Someone has to pay. Students are and should be responsible for a portion of that funding. Acknowledging that reality and working to develop a system that both prepares and protects people seeking to invest in themselves through postsecondary education should be high on the national policy agenda. Discouraging students from borrowing to enroll in institutions that are unlikely to serve them well and improving completion rates should be at the top of the agenda.

There is strong evidence supporting the idea that low college completion rates and weaknesses in the student loan repayment system explain a significant portion of the student debt problems. And there is broad consensus about the types of policies and practices likely to mitigate these problems. But designing and implementing solutions is difficult. Before making large-scale changes, it is important to conduct experiments to test promising approaches. Rigorous research should not only measure the effectiveness of alternative strategies, but should probe the reasons some interventions are more effective than others and the circumstances and populations to which particular approaches are best suited.

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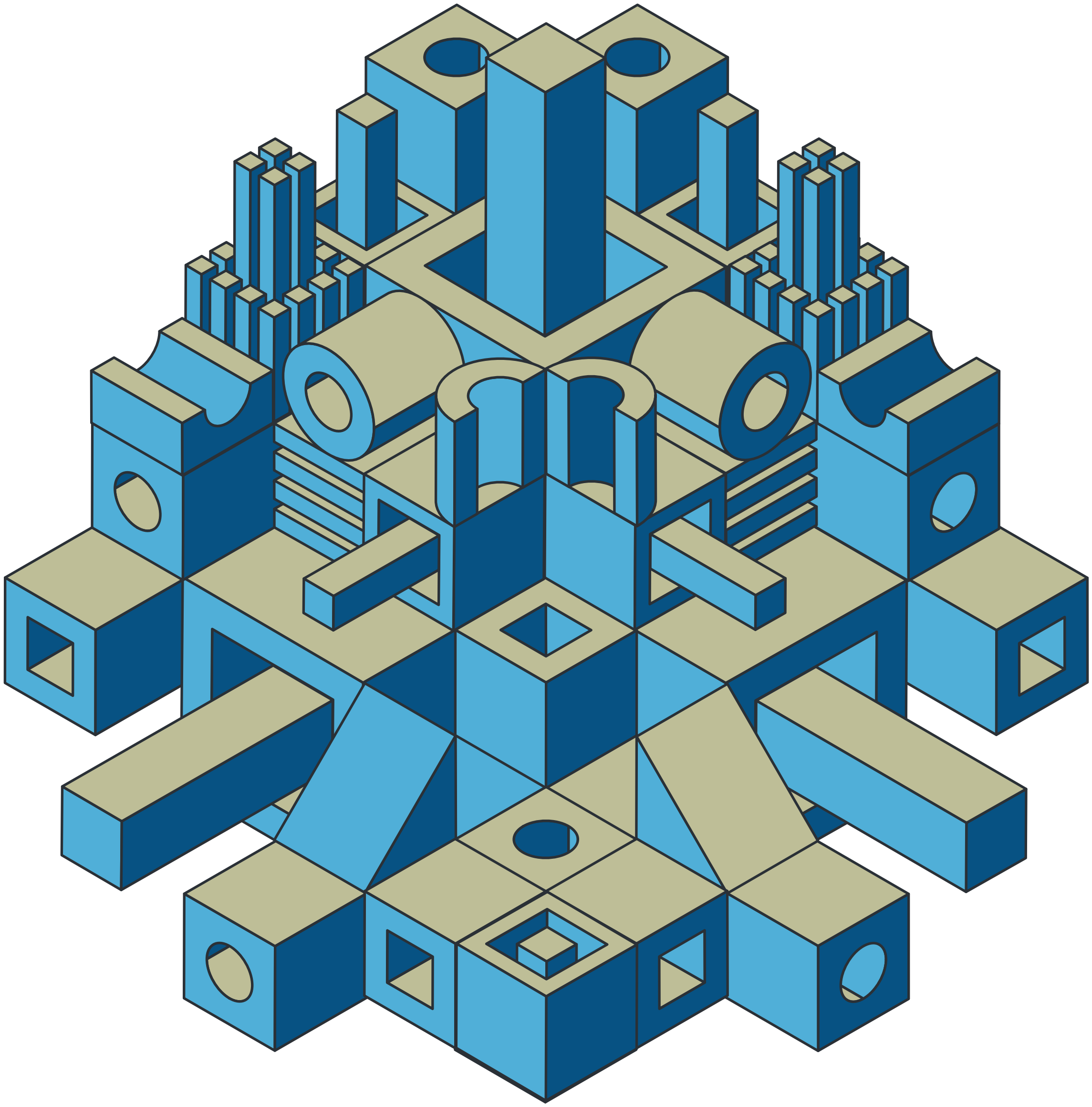

Design by:
In-House International (weareinhouse.com)

Art Direction:
Lope Gutierrez-Ruiz, Alexander Wright at In-House International

Senior Designer:
Carlos Alfredo Castro Lugo at In-House International

Illustrations:
Alexander Wright at In-House International

Typefaces:
Montserrat by Julieta Ulanovsky
Merriweather by Eben Sorkin