Achieving Success in Postsecondary Education: A Q&A on Student Loans

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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

Rockefeller Philanthropy Advisors

organization that currently advises on and manages more than $200 million in annual giving by individuals, families, corporations, and major foundations. Continuing the Rockefeller family's legacy of thoughtful,

of philanthropic growth and innovation, with a diverse

depth of knowledge across the spectrum of issue areas. Founded in 2002, RPA has grown into one of the world's largest philanthropic service organizations and, as a whole, has facilitated more than $3 billion in grantmaking to nearly 70 countries. For more information, please visit www.rockpa.org.

The amounts individual students borrow depend on where they enroll, how long they stay in school, and

students who completed their programs in 2011- 12, half of those who earned associate degrees graduated without debt, compared with 30 percent of those who earned bachelor's degrees. Eighteen percent of bachelor's degree recipients—and 47 percent of those who earned graduate degrees—had borrowed $40,000 or more (see Table 2).

Table 2. Distribution of Cumulative Debt Amounts by Type of Degree Earned, 2011- 12

patterns. Students who complete bachelor's degrees in four years tend to borrow much less than those who enroll for longer periods of time. Older students borrow more than younger students, black graduates have accumulated more debt on average than those from other racial and ethnic groups, and those from families in the upper quarter of the family income distribution borrow less than those from the lower three quarters.

Figure 1. Distribution of Cumulative Debt Levels of 2011- 12 Bachelor's Degree Recipients by Sector

Source: Baum et al, Trends in Student Aid 2015, The College Board. Retrieved from trends.collegeboard.org

3. How much and why has borrowing gone up?

Average debt levels of college graduates have risen considerably over time. In recent years, they have risen more rapidly for bachelor's degree recipients from public than from private colleges.

The percentage of public college graduates leaving school with debt rose from 54 percent in 1999-2000 to 60 percent in 2014-15. Figure 2 shows that among borrowers, average debt rose by 28 percent over these 15 years, from $20,900 (in 2015 dollars) to $26,800. This amount has been rising at an increasing rate—by 4 percent over the 5 years from 1999-2000 to 2004-05, by 10 percent over the

and 2014-15.

Because many students do not borrow at all, average debt per graduate is much lower. But among public college graduates, this amount rose by 41 percent, from $11,300 in 1999-2000 to $15,900 in 2014-15,

who borrow and the debt levels of those students.

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uates leaving school with debt ranged between 63 percent and 66 percent over the 15 years from 1999-2000 to 2014-15. Among borrowers, average debt rose by 31 percent, from $23,900 (in 2015 dollars) in 1999-2000 to $31,400 in 2014-15. The rate of increase in this amount has been declining—from 16 percent over the 5 years from 1999-2000 to 2004-05

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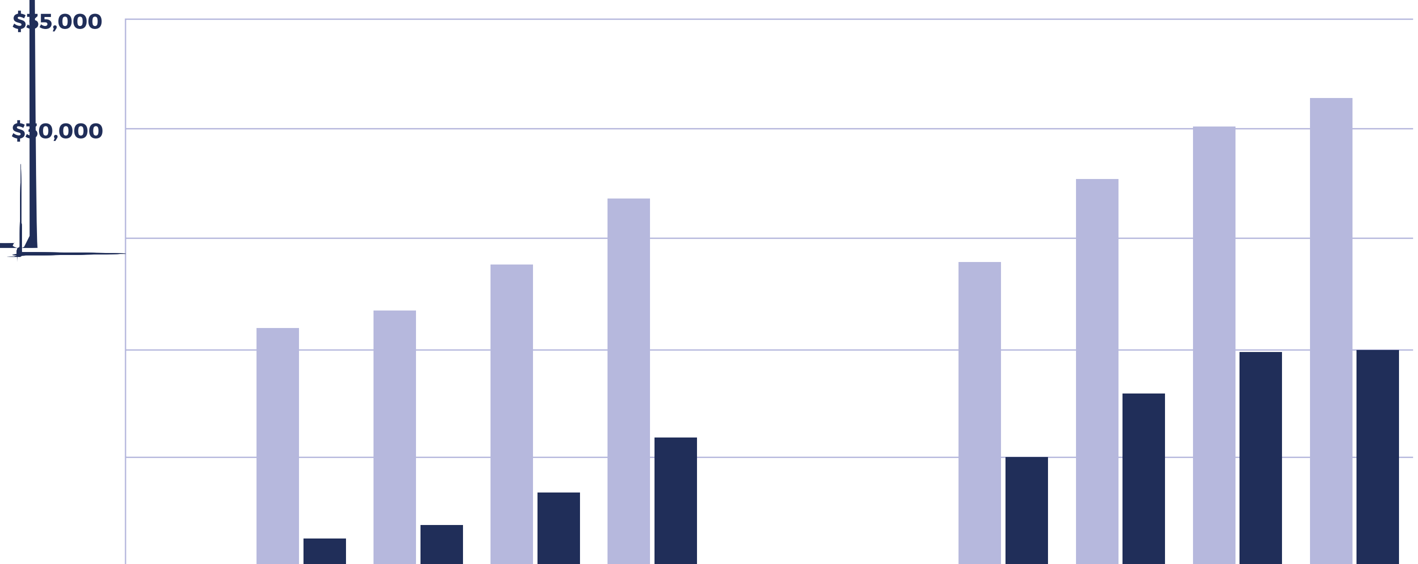
cent between 2009-10 and 2014-15.

including non-borrowers, rose by 33 percent, from $15,000 in 1999-2000 to $19,900 in 2014-15.

Figure 2. Average Cumulative Debt of Bachelor's Degree

and Universities, 1999- 00 to 2014- 15 (in 2015 dollars)



Debt levels have risen for a number of reasons. An obvious one is that tuition prices have been rising. Average tuition and fees for public four- year colleges rose from $4,850 (in 2016 dollars) in 1999-2000 to $9,240 in 2014- 15 (and to $9,650 in 2016-

was from $22,400 (in 2016 dollars) in 1999- 2000 to $31,600 in 2014- 15 (and to $33,480 in 2016- 17).

But rising tuition is not the only explanation. The Great Recession took a serious toll on both incomes and savings. Families would have been less able to pay the bills for their children's college education

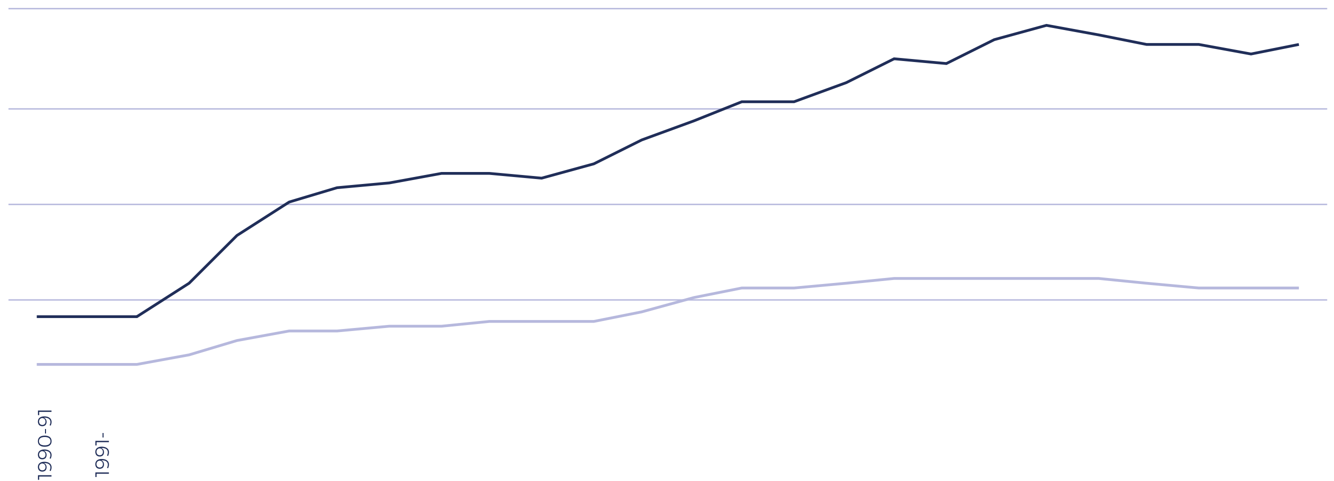
on student debt don't include the amount families borrow through home equity to help pay for college. Since the collapse of the housing market between

to obtain home equity loans. It is not clear precisely what the impact on education borrowing has been, but some of the increase in student debt actually

equity to student loans.

It is interesting to note, however, that annual borrowing levels have been declining since 2010-11. Figure 3 shows that, on average, borrowing per undergraduate—including both federal and non-federal loans— fell from $6,200 (in 2015 dollars) in 2010- 11 to $5,500 in 2015- 16. Average per- student borrowing for graduate students fell from $19,300 to

Figure 3. Annual Borrowing per Full- Time Equivalent Undergraduate and Graduate Student, 1990- 91 to 2015- 16 (in 2015 dollars)



Changes in student borrowing levels depend both on changes in the amounts that similar types of students borrow over time and in the characteristics of the students going to college. For example, the percentage of postsecondary students enrolling in

But many institutions discount their prices for a

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tional grant aid that makes the net prices students pay considerably lower than the sticker prices. And students use federal and state grant aid to reduce their net prices even farther.

In other words, if the question is whether students in general are paying more because of the availability of student loans, the answer is almost certainly no. Some individual students may in fact be paying more than they otherwise might. Students not eli

5. Is college still worth it?

The question of whether going to college is “ worth it” is not just about money. Getting a good job and making a good salary is of course important. But

graduates are healthier than others. They have lower smoking rates and exercise more often. They are more likely to have children who succeed in school, and are more likely to vote and to volunteer in their communities. Many occupations are open only to college graduates.

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ant and it is true that college prices have continued to rise even as earnings levels have stagnated. But the reality is that the earnings gap between typical

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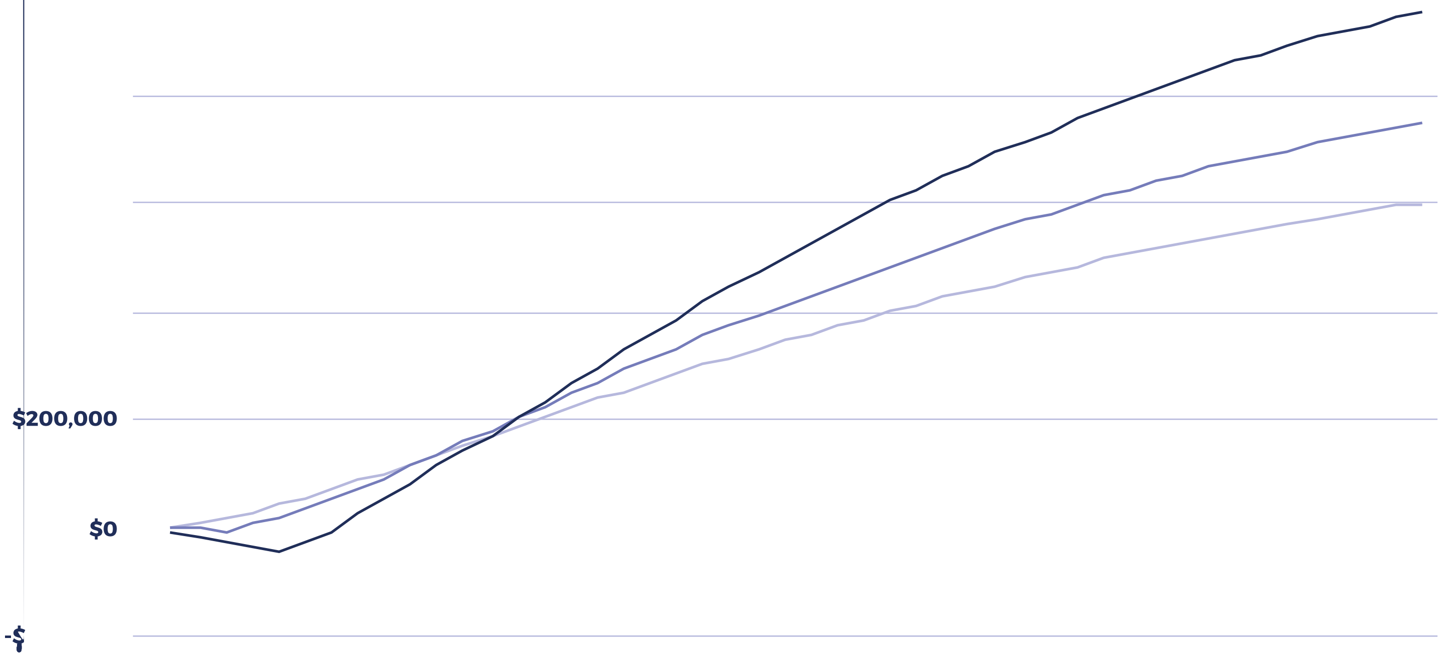
Figure 4. Breaking Even: Cumulative Net Earnings of High School and College Graduates over Time



would look like if there were more money all around, but what they would look like if there were transfers to students from someone else.

Researchers at the Federal Reserve Bank of New York have attempted to document the relationship between home purchases and student debt.[7] They suggest a relationship between declining home ownership and increases in student debt, but do not show that increases in student loan debt actually caused the change in home purchases. It is possible that the recession reduced expected earnings and led to a decline in home purchases. Other researchers

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est home ownership rates are among students who borrow for college and don't graduate, and among those with no college education. Those who earn bachelor's degrees are better able than other adults to buy houses. Graduates with advanced degrees are the most likely to own a home, even if they accumulated a lot of student debt.[8]

There is a consensus that household structure and income are very important determinants of home ownership. According to the U.S. Census, 72 percent of families (households with two or more related people) are homeowners, compared with 50 percent of non- family households. Further, 75 percent of households with incomes at or above the median own their homes, compared with 49 percent of those below the median; and 70 percent of households headed by 45- to 54- year- olds own homes, compared with 36 percent of those under the age of 35.[9]

Some comparisons ignore changes in the pattern of who has student debt and who does not. If we see that people with student debt are less likely to buy houses in 2013 than they were in 2003, and we also see that average student debt balances are higher, we might conclude that it is the rise in student debt that caused the decline in home ownership. But many more people now have student debt than in the past, and a whole segment of people who were in the non- borrower category before have shifted to the borrower category—and these new borrowers are not in a strong position to buy houses. It may not be that people who would have bought houses before are no longer buying them because they have debt. Rather, many people who are not likely homeowners did not go to college at all in the past, but because of

any postsecondary education, as well as the wide

7 Meta Brown and Sydnee Caldwell, "Young Adult Student Loan Borrowers Retreat from Housing and Auto Markets," (New York: Federal Reserve Bank of New York, 2013), http://libertystreeteconomics.newyorkfed.org/2013/04/young- student- loan- borrowers- retreat- from- housing- and- auto- markets.html#.VbpQIipViko.

8 Beth Akers, "Reconsidering the Conventional Wisdom on Student Debt and Home Ownership," Brookings Institution, Brown Center Chalkboard, May 8, 2014, http://www.brookings.edu/research/papers/2014/05/08- student- loan- debt- and- home- ownership- akers; Jason Houle and Lawrence Berger, The End of the American Dream? Student Loan Debt and Home Ownership Among Young Adults (Washington, DC: Third Way, 2015), http://www.thirdway.org/report/the- end- of- the- american- dream- student- loan- debt- and- homeownership- among- young- adults; Jamie Anderson, "Yes, First- Time Buyer Demand is Weak. But Stop Blaming Student Debt." Zillow Real Estate Research, September 16, 2015, http://www.zillow.com/research/student- debt- homeownership- 10563/; Melissa

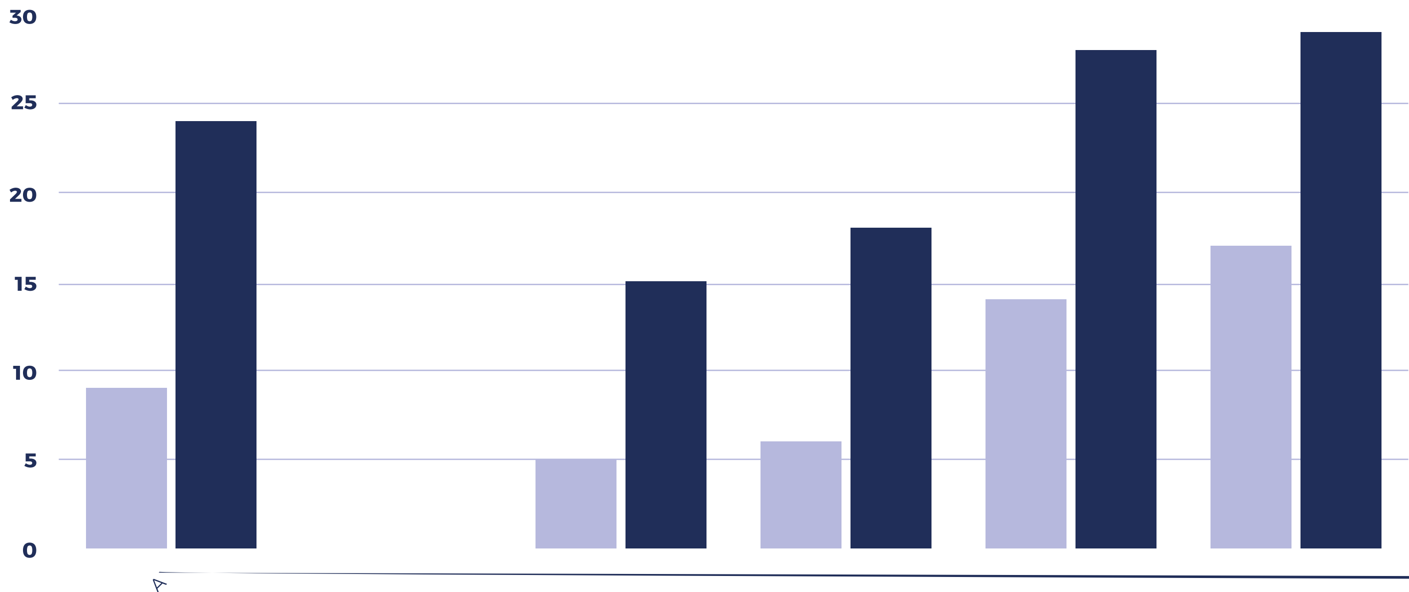
You Get a Four- Year Degree," September 16, 2015, http://www.zillow.com/

9 Jonathan Vespa, Jamie Lewis and Rose Kreider, America's Families and Living Arrangements, 2012, (Washington, DC: U.S. Census Bureau, 2013), P20- 570; Robert Callis and Melssa Kresin, Residential Vacancies and Homeownership in the Third Quarter 2015, U.S. Census Bureau News, October 27, 2015.

Default rates on student loans are inversely related to the amount owed. Among borrowers who entered repayment in 2010- 11, 24 percent of those who owed less than $5,000 defaulted within three years, compared with 12 percent who owed between $10,000 and $20,000 and 7 percent of those who owed more than $40,000. More than one third of defaulters had balances lower than $5,000, and only 4 percent had balances exceeding $40,000.

A recent study combining data from the U.S. Treasury on earnings with data from the Department Education on student debt provided powerful new insights into loan repayment patterns. Looney and Yannelis (2015) found that most of the increase in default rates is associated with the rise

schools and, to a lesser extent, two- year institutions.



Overall default rates doubled between 2000 and 2011, but default rates remained low for borrowers

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stitutions. The increase in the share of borrowers attending postsecondary institutions with relatively weak educational outcomes and experiencing poor labor market outcomes after leaving school explains most of the increase.

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dents who complete their programs, earning either

and those who leave school without a credential

2011- 12, 24 percent of those who dropped out had defaulted within two years, compared with just 9 percent of those who graduated

and two- year public sectors are similar to those for

four- year institutions. In sum, the failure to repay student loans is not associated with high debt levels. Rather, it is borrowers who do not complete their studies and those who have weak labor market outcomes who struggle—even with relatively small amounts of debt.

8. What is the federal government doing to make it easier for students to repay their loans?

The federal government has implemented policies that should prevent most borrowers from having to default on their federal student loans. Widely- available income- driven repayment plans have been available since 2009 and have gradually be- come more generous to borrowers.

The array of programs can be confusing. In addition to the standard 10- year repayment plan, under

is an extended plan that allows the payments to be spread over more years, and a graduated payment plan under which payments automatically grow over time, based on the idea that most borrowers will see their incomes growing. And there are now

base monthly payments on the borrower's income.

The most recent plan is Revised Pay as you Earn (RePAYE). This plan is available to borrowers re- gardless of when they took out their loans and caps borrowers' monthly payments at 10 percent of their discretionary income (income exceeding 150 percent of the poverty level). Any remaining loan balance is forgiven after 20 years of qualifying payments for undergraduate students or after 25 years for stu- dents who borrowed for graduate school.

In addition, the Public Service Loan Forgiveness (PSLF) program forgives remaining debt for borrow-

made regular payments under an income- driven plan for 10 years.

The share of borrowers enrolled in income- driven plans has increased rapidly, growing from 11 percent in 2013 to 25 percent in 2016. The fraction of outstanding federal student debt held by these borrowers rose from 23 percent to 43 percent over these three years.[10]

10 U.S. Department of Education, Federal Student Aid Data Center, Federal Student Loan Portfolio.en plans has increased rapidly, growinaction of outstanding federal student debt held by these

earnings do not, that is cause for concern. And if many of them leave college with debt but no degree, that is the most serious problem.

11. Why do we hear so much about a student debt "crisis"?

Total outstanding student debt is growing as more people with limited resources go to college and as fewer people retire their debts quickly. Average debt levels are growing as college prices rise and as more

in the labor market. Men ages 25 to 34 with some college or an associate degree had median earnings of $41,000 in 2015, compared with $34,800 for high school graduates of the same age with no college experience.[14] However, there is considerable vari-

which frequently have little labor market value.

It is also instructive to think about what the median earnings of $41,000 can buy. Certainly the extra $6,200 helps. But even so, there is not a lot of lee-way after paying for basic necessities. So although

loan payments, they are likely to be struggling to make ends meet. The student loan payments will loom large in considering barriers to a secure life-style, whereas the reality of the lower alternative earnings if they hadn't gone to college is likely to be much more abstract.

14 U.S. Census Bureau (2016), Current Population Survey

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