

Student Debt: Bigger and Bigger

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September 2005

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This project was made possible by support from the Rockefeller Foundation. David Rosnick provided valuable research assistance and Dean Baker and John Schmitt gave helpful comments.

Executive Summary

Nearly two-thirds of students attending a four-year public college or university take on student loans while they are in school. As of last year, the average indebted graduating senior was \$17,600 in debt on graduation day.

Our analysis of the National Center for Education Statistics' National Postsecondary Student Aid Survey finds that students from lower-income families who attend public schools are one-third more likely to take on debt than are students from high-income families. Over the past decade and a half, however, more students from higher-income families took out loans, shrinking the gap in the percentage of students borrowing money between richer and poorer students.

Among students who took on loans, the average debt owed by students from lower-income families was slightly higher than by students from higher-income families. For public-school students graduating in 2003-04 from families in the bottom quartile, the average cumulative amount of loans was \$16,438, compared to \$15,253 for students from families in the highest income quartile. Compared to students who graduated in 1989-90, this is an increase of 116 percent for students from the bottom quartile and 28 percent for students from the top quartile, after inflation.

Students who take out student loans are more likely to hold a job while in school, compared to students who did not take on loans. Among students who took on loans in 2003-04 and who attended public, four-year institutions, 83.6 percent held a job during the school, working an average of 22.8 hours per week. Among similar students who did not take on loans, 78.2 percent held a job, working an average of 21.5 hours per week.

High levels of student debt are the result of rapidly increasing college costs and policy choices that have made more loans, but not grant aid, available to students. College costs have risen by over 50 percent (adjusted for inflation) since 1990 and loans now comprise over half of financial aid packages, up from about one-fifth in the 1970s.

To put this in perspective, back in 1981, a student could work full-time all summer at a minimum wage job and earn about two-thirds of their annual college costs, leaving less than \$2,000 (in inflation-adjusted 2004 dollars) that they needed to pull together from grants, loans, working during the school year, or their parents. Today, however, a student earning the minimum wage would have to work full-time, full-year to afford one year of education at a four-year public college or university.

Higher levels of debt upon graduation have implications for how students think about post-college jobs and life-choices. Highly indebted graduates may have little flexibility in the kinds of jobs that they must take in order to afford their debts and may choose to postpone marriage, buying a house, or starting a family while they pay off their loans.

Students Take on More Debt

U.S. students are taking on record levels of student loans in order to finance their college education. Rapid increases in college costs, far outpacing inflation, have created a need for more debt or more aid from other sources. For the most part, students cannot reasonably work more, as most students already are employed during the school year, at an average of over 20 hours per week.

Analysis of the National Center for Education Statistics' National Postsecondary Student Aid Survey finds that students from lower-income families are more likely to take on debt than are students from higher-income families.¹ Students graduating from public, four-year institutions in 2003-04 from families in the bottom quartile of family incomes were a third more likely to take on student loans during their college career than are students from families in the top quartile. Even so, over the past decade and a half, students from higher-income families started taking on more loans, shrinking the gap in loans by family income background.

Among students who took on loans, the average amount borrowed by students from lower-income families was slightly higher than by students from higher-income families, a reversal of the prior trend. For public-school students graduating in 2003-04 from families in the bottom quartile, the average cumulative amount of loans was \$16,438 compared to \$15,253 for students from families in the highest income quartile.

Getting a college degree is a good investment if the student can find a well-paid job after graduation. This investment has paid off for many graduates. Recent college graduates currently receive about 80 percent more in pay than recent high-school graduates. This is up from about 40 percent more in pay in the late 1970s (Mishel, Bernstein, and Allegretto 2005).

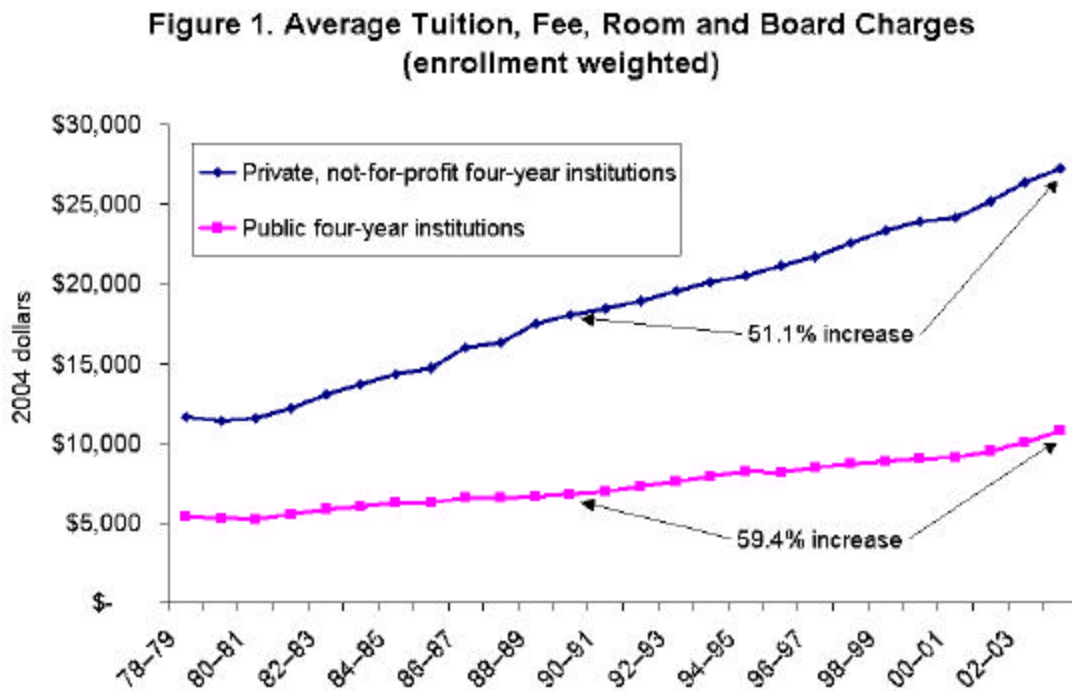
Because of the historically low interest rates over the past few years and a strong labor market for new graduates prior to the recession of the early 2000s, many recent graduates do not have higher monthly debt burdens than those graduating a few years ago, even though the value of loans have risen (Choy and Li 2005). Further, there are now more options for extended repayment options, further decreasing the monthly burden of student loans. However, it remains the case that students will have to pay these loans for many years into the future, making it harder to afford their first house, save for their retirement, or start their own family.

¹ For this report, we analyzed online data available from the National Center for Education Statistics' Data Analysis System (National Center for Education Statistics 2005). Our sample included fourth and fifth years students graduating with a bachelor's degree, who were "dependents" in terms of their financial aid (that is, they were seen as reliant on their parent's for financial support), and for all years, the sample was comparable to the 1987 survey and included only students living in the 50 states or the District of Columbia.

Policymakers Responded to Rising College Costs by Offering Students More Loans

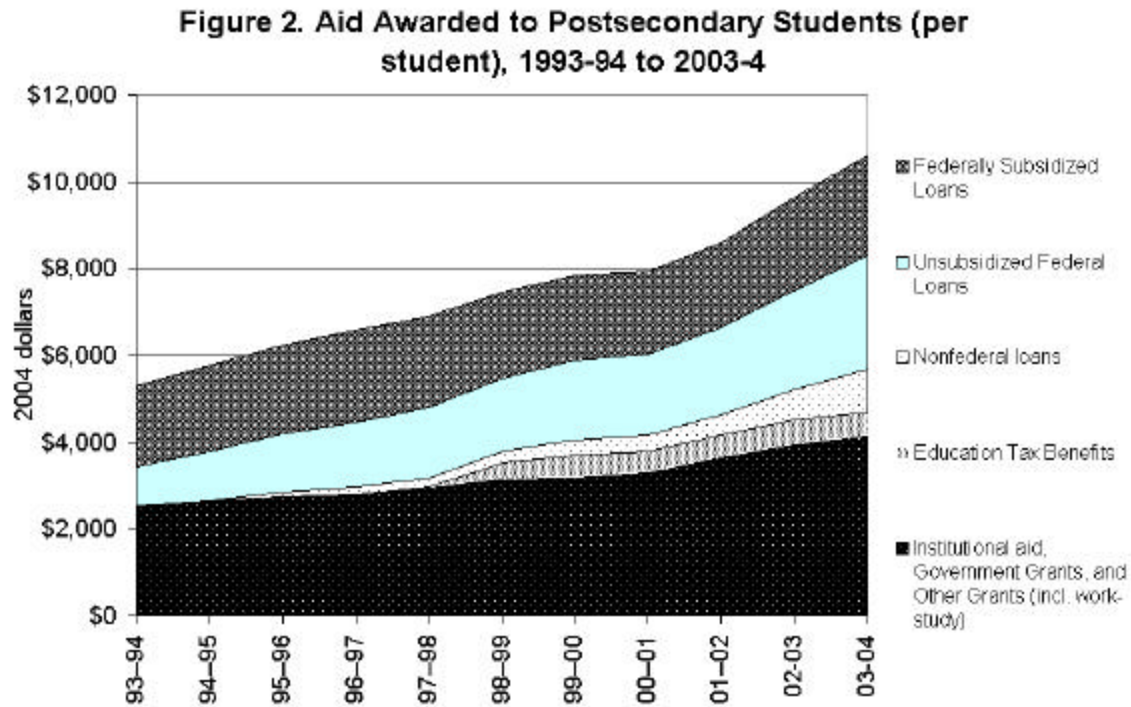
The explosion in student debt has been propelled by rapid increases in college costs, far outpacing the rate of inflation, and by the increased availability of loans due to the 1992 Reauthorization of the Higher Education Act.

Over the past few decades, the average tuition, fees, room, and board charges at public and private four-year institutions have risen far faster than the rate of inflation. At private, four-year colleges and universities, expenses have risen by 51.1 percent since 1990, after taking into account inflation (Figure 1). At public, four-year colleges and universities, expenses have risen even more, by 59.4 percent. Looking over the past 23 years, since the 1978-79 school year, costs—after inflation—doubled at public schools and more than doubled at private schools, increasing by 134.2 percent.



Source: Author's analysis The College Board 2005b.

As college costs have risen, students have been taking on more loans from both federal and state governments, as well as private lenders, to cover the higher costs. Figure 2 shows how loans, and specifically unsubsidized loans, have become an increasing share of the total aid package that students receive from their school. Another recent development has been the increase in nonfederal loans, of which the overwhelming majority (94.0 percent in 2004) are private sector loans, and the remainder are state loans.



Source: Author's analysis of The College Board 2005a

Students are receiving more loans, compared to grant aid, because of policy changes during the 1990s. In 1992, Congress passed the Reauthorization of the Higher Education Act. This legislation increased the amount of money students could borrow under the student loan program, changed the definition of need so that it was easier for dependent students to qualify, and made unsubsidized loans available to dependent students for the first time (Ellwood and Kane 2000). Two of the most dramatic consequences of the 1992 legislation were the rapid increase in the share of students from higher-income families who took out student loans and the significant increase in the share of loans that are unsubsidized rather than subsidized.²

Even though students are graduating with more debt, due to historically low interest rates over the past few years, their monthly debt payments have not risen, compared to those graduating a few years ago. Also, there are now more options for extended repayment, further decreasing the monthly burden of student loans. This could change, however, in the near future as interest rates begin to rise. Further, Congress may act to increase the cost of repaying student loans.

Legislation currently being debated, H.R. 609, would cut nearly \$9 billion dollars from the student aid budget. About half of this would come from an increase in the interest rate cap from 6.8 percent to 8.25 percent in 2006, leading to higher future repayments, and an increase in loan origination fees.

² Subsidized loans do not accrue interest while the student is in school or in a grace period, whereas unsubsidized loans begin to accrue interest from the date of disbursement. Subsidized loans are a part of a student's aid package, and a student must meet need qualifications in order to receive them. Some unsubsidized loans also require that the student be financially needy under student aid guidelines, but some, such as Parent Loans for Undergraduate Students (PLUS), are available regardless of need, up to the total cost of attendance (minus any aid received).

At the same time, students have unprecedented access to credit cards. Analysis of the National Center for Education Statistics' National Postsecondary Student Aid Survey, finds that 11.5 percent of students in school in 2003-04 carried a credit card balance, and the average balance was \$2,044 at the time of the survey. Among these students, 25.0 percent used a credit card to pay some or all of their tuition; among all students, 5.3 percent used a credit card to pay some or all of their tuition.

Students Taking on a Long-term Burden as Debt Loads Rise

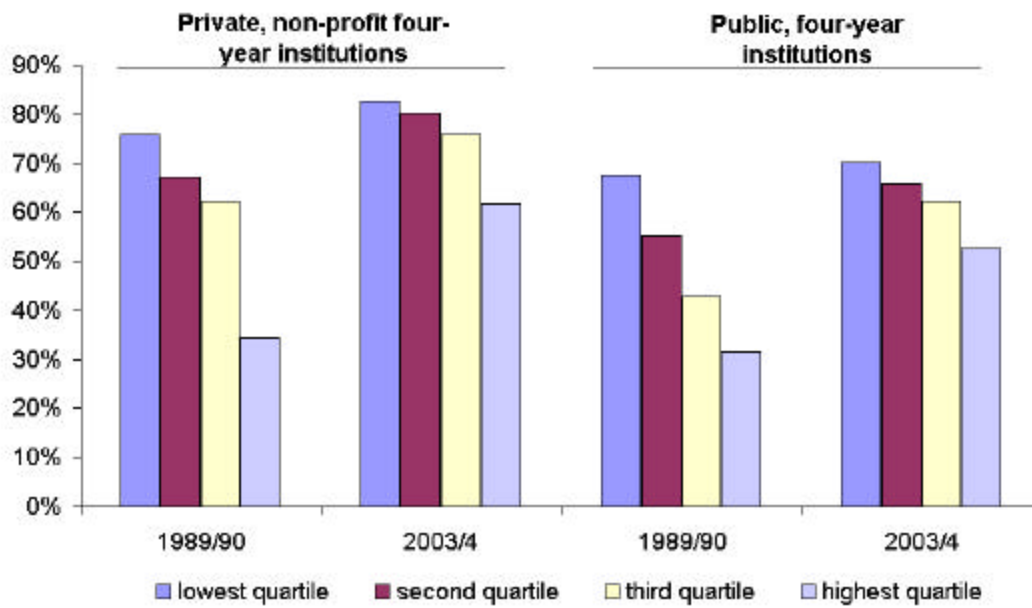
The result of loans being a larger share of student aid packages is that students are graduating with increasingly high levels of debt. Among fourth or fifth year graduates at public, four-year institutions in 2003-04, nearly two out of every three students (61.7 percent) took out loans at some point during their college career. The average amount owed by these students upon graduation was \$15,662, in 2004 dollars. Both the share of students taking on loans and the amount of loans are significantly larger than a decade and a half ago. Among students graduating in 1990, less than half (46.2 percent) took on student loans and, at \$9,798 in 2004 inflation-adjusted dollars, the average total debt was only about two-thirds of what students take on today.

Students at private, four-year institutions have seen their debt levels rise even more. Among students graduating in 2004, three-quarters (73.2 percent) will have some student debt and the average amount of loans totaled \$22,581, nearly a third more than the total debt of students graduating in 1990, in inflation-adjusted dollars.

Figure 3 shows the share of graduating students who have student debt by the income quartile of their families, at both public and private four-year institutions. Families in the bottom income quartile have less income than 75 percent of families, while families in the top quartile have more income than 75 percent of families. The share of students from families in the bottom quartile taking out student loans grew slightly; however, there was an even larger increase in the share of students from higher income families who have taken on loans. The increase in loans among higher-income students is a direct result of the 1992 Reauthorization of the Higher Education Act. It remains the case, however, that lower-income students are more likely to take out student loans.

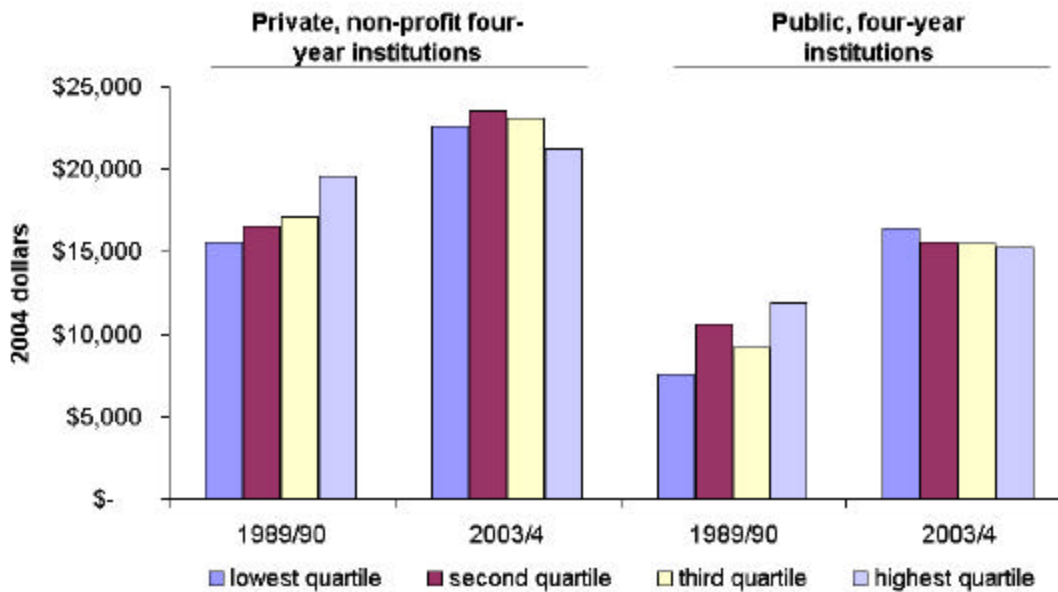
Among students graduating in 1989-90 from either public or private schools, those from higher income families ended up with a higher average amount of debt. However, among students graduating in 2003-04, this was not the case. The distribution of total debt flattened, with those from lower-income families taking on slightly higher debt loads (Figure 4). The average total debt for students from the bottom quartile of families who graduated from public, four-year institutions in 2003-04 was \$16,438, compared to \$15,253 among students from the top quartile.

Figure 3. Percent of graduates who borrowed for college by family income



Source: Author's analysis of National Center for Education Statistics 2005.

Figure 4. Cumulative amount borrowed by graduates by family income



Source: Author's analysis of National Center for Education Statistics 2005.

Students Hard at Work

Because of the rising costs of higher education, even students who take out loans are working a significant number of hours while in school (Table 1). Since the average number of hours worked is already above 20 hours per week, there is not a great deal of room for students to work more and stay in school full-time.

Among students at public, four-year institutions who took out loans in 2003-04, most (83.6 percent) reported working during the school year, putting in an average of 22.8 hours per week.³ The share of students without loans who had jobs was slightly lower, at 78.2 percent in 2003-04. Students at private schools who had loans worked just as much as their counterparts at public schools. However, private schools students without loans worked slightly less than other students. In 2003-04, students worked slightly fewer hours on average than they did in the 1989-90 school year. In 1989-90, working students at public, four-year institutions put in an average of 26.7 hours per week, compared to 22.8 in 2003-04.

Table 1. Work experience of students

	Private, not-for-profit four-year institutions		Public four-year institutions	
	1989-90	2003-04	1989-90	2003-04
Share of students working during school year				
No student loans	66.6%	67.9%	77.5%	78.2%
Has student loans	86.1	83.8	84.5	83.6
Average hours spent working among student workers				
No student loans	23.9	19.5	26.5	21.5
Has student loans	25.5	22.4	26.7	22.8

Source: Author's analysis of National Center for Education Statistics, 2005.

³ Most students held regular jobs, but about one-in-ten held a work-study job. These rates of employment are higher than reported by the Bureau of Labor Statistics. This may be because students are reporting work over the entire school year, rather than only during one month. Further, the sample is only graduating seniors, who may be more likely to hold a job, compared to other students.

Conclusions

The relatively high work hours put in by college students, combined with the high level of loans, shows just how much of the burden of college costs students are taking on. College is beneficial for worker's wages: in 2003, the ratio of entry-level wages of recent college graduates to recent high-school graduates was 177 percent for men and 162 for women (Mishel, Bernstein, and Allegretto 2005, p. 158).

However, the question of equity remains. Students from low-income backgrounds take on more debt than their peers from higher-income families. These students' families are also less likely to help them to pay off that debt later on. One out of every five students from the top quartile receives help paying off their loans from their parents, compared to only one-in-ten from the bottom quartile (Choy and Li 2005).

Students with high debt levels may forgo or postpone other personal decisions until they can address their debt. We have been seeing higher debt burdens for over a decade, which has occurred alongside the continuing rise in age of first marriage and women delaying motherhood. While their parents benefited from more generous federal and institutional support, today's students can only depend on their potential future earnings to afford college.

To put this in perspective, in 1981, a student could work the entire summer at a minimum wage job, save all their money, and pay two-thirds of their school expenses at a public, four-year institution. They would need to find another \$2,000 (in 2004 dollars) from working during the school year, or from grants or aid from their parents. Today, a student would have to work full-time at a minimum wage job for an *entire year*, saving every penny, and would still be a couple hundred dollars short of being able to pay one full year of her expenses.

One common sense way for the government to reduce the burden of student loans is to make loans directly to students rather than funneling those loans through a private company. The Direct Loan Program already does this for about 25 percent of student loans, but Congress has resisted efforts to expand the program. According to the data reported in the 2005 budget, administrative costs for loans issued through private lenders are 13 times higher than loans issued under the Direct Loan Program. While these excess fees provide income for the financial industry, they come directly out of student's pockets. Reducing the administrative costs of student loans is a simple way of alleviating some of the debt burden they currently face.

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