

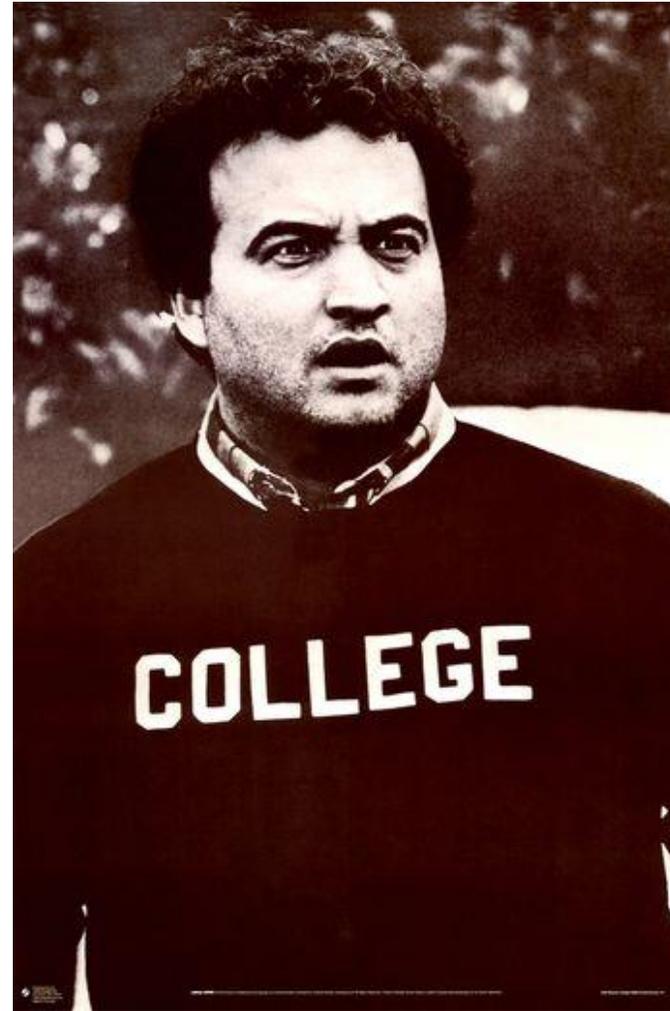
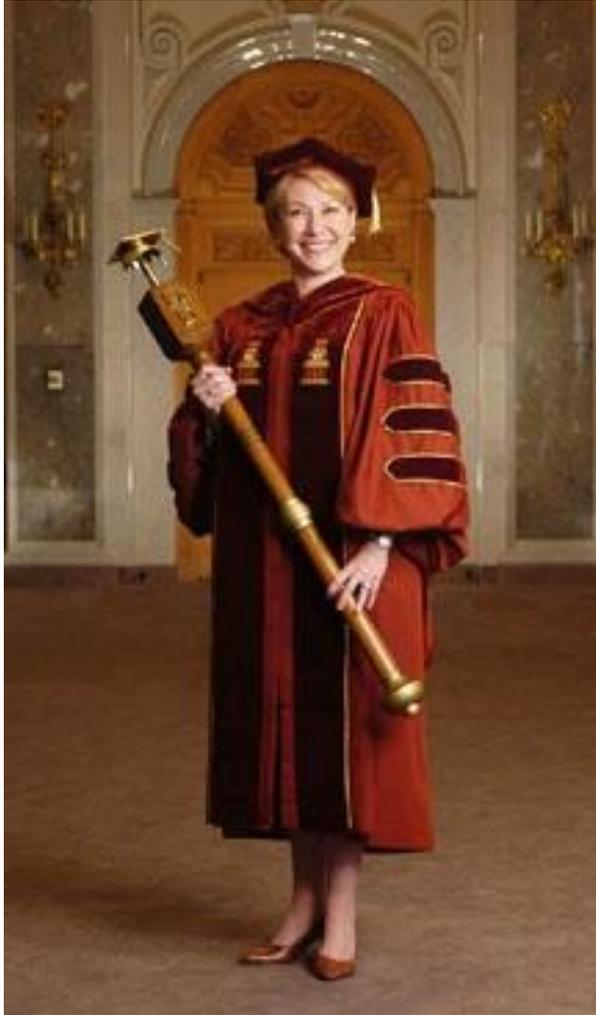
Fenaba Addo - Lorna Jorgensen Wendt Professor of Money, Relationships, and Equality (MORE) in the School of Human Ecology University of Wisconsin, Madison. Dr. Addo is also a faculty affiliate of the Center for Financial Security, Institute for Research on Poverty, Center for Demography and Ecology, and the La Follette School of Public Affairs.



J. Michael Collins - Faculty director of the Center for Financial Security at the University of Wisconsin, Madison; Fetzer Family Chair in Consumer & Personal Finance in the School of Human Ecology, a Professor at the La Follette School of Public Affairs, and a family economics specialist for the Division of Extension.



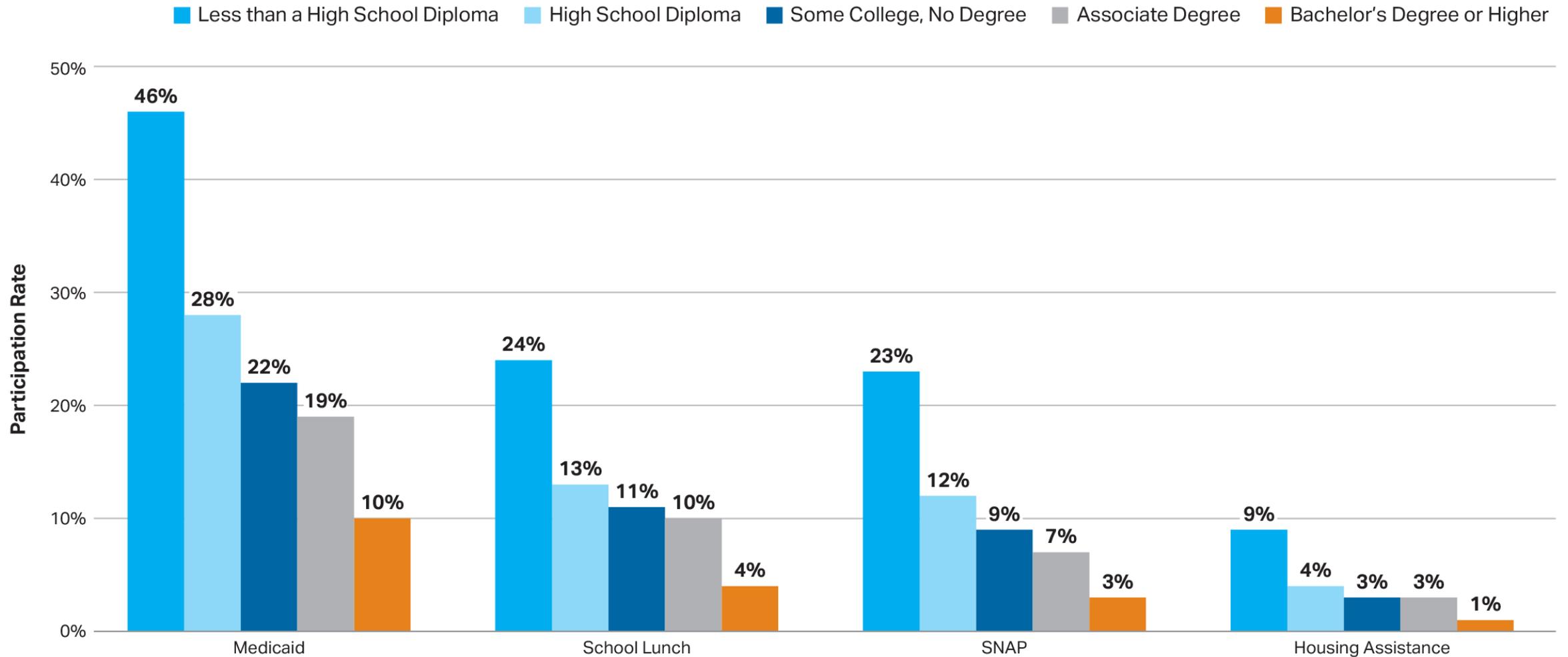
Why do we have universities?....



Higher Education as a Public Good

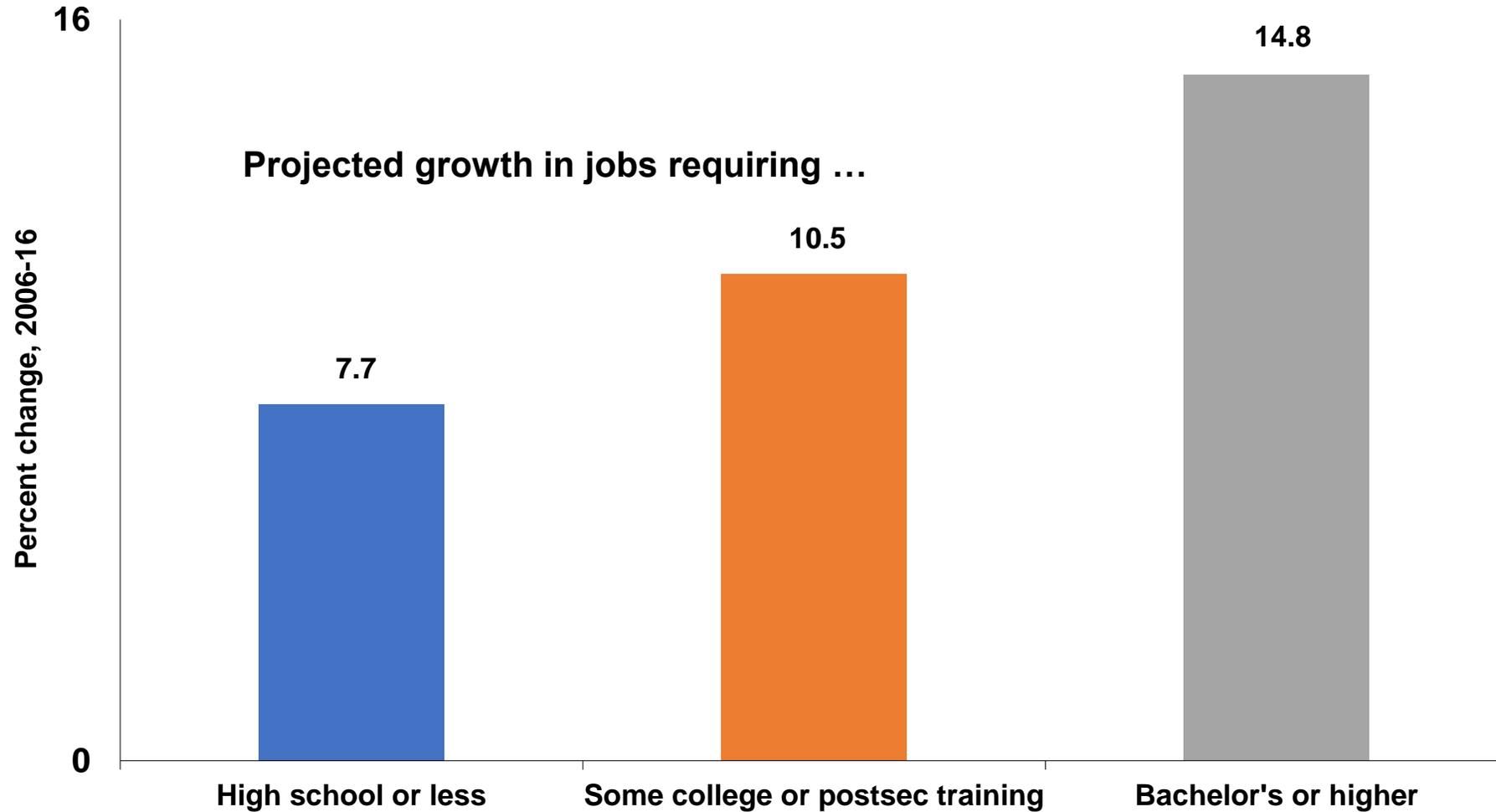
- About 85 institutions have lasted 500+ years
 - including 70 Universities...
- Before 1850s higher mostly education a private good
 - Invention of the Land Grant University
 - Public good intended for all: the “Wisconsin idea”
- Society gains from the health of its population, economic growth, lower crime, etc.
 - Develop new knowledge & creative endeavors
 - Disseminate knowledge to students
- But also still private good for students
 - Income / Employment
 - Marriage / Social networks

Percentage of Individuals Age 25 and Older Living in Households that Participated in Various Public Assistance Programs, by Education Level, 2018



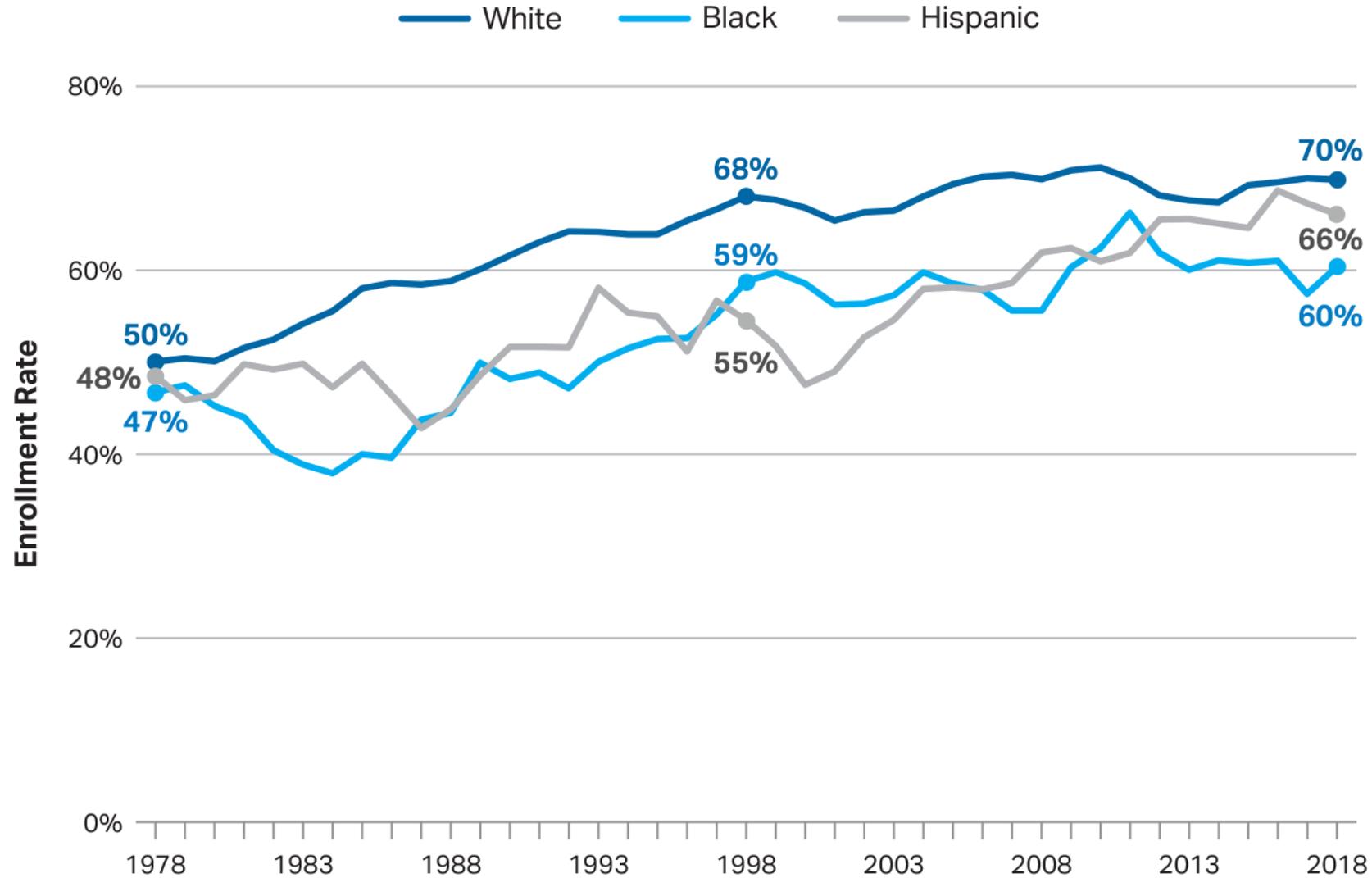
• SOURCE: The College Board, *Education Pays 2019*, Figure 2.17

More Education Required



Source: Bureau of Labor Statistics. (2008, February). *Occupational projections and training data: 2008-9 edition*. Washington, DC: U.S. Department of Labor. (p. 4, Table I-3)

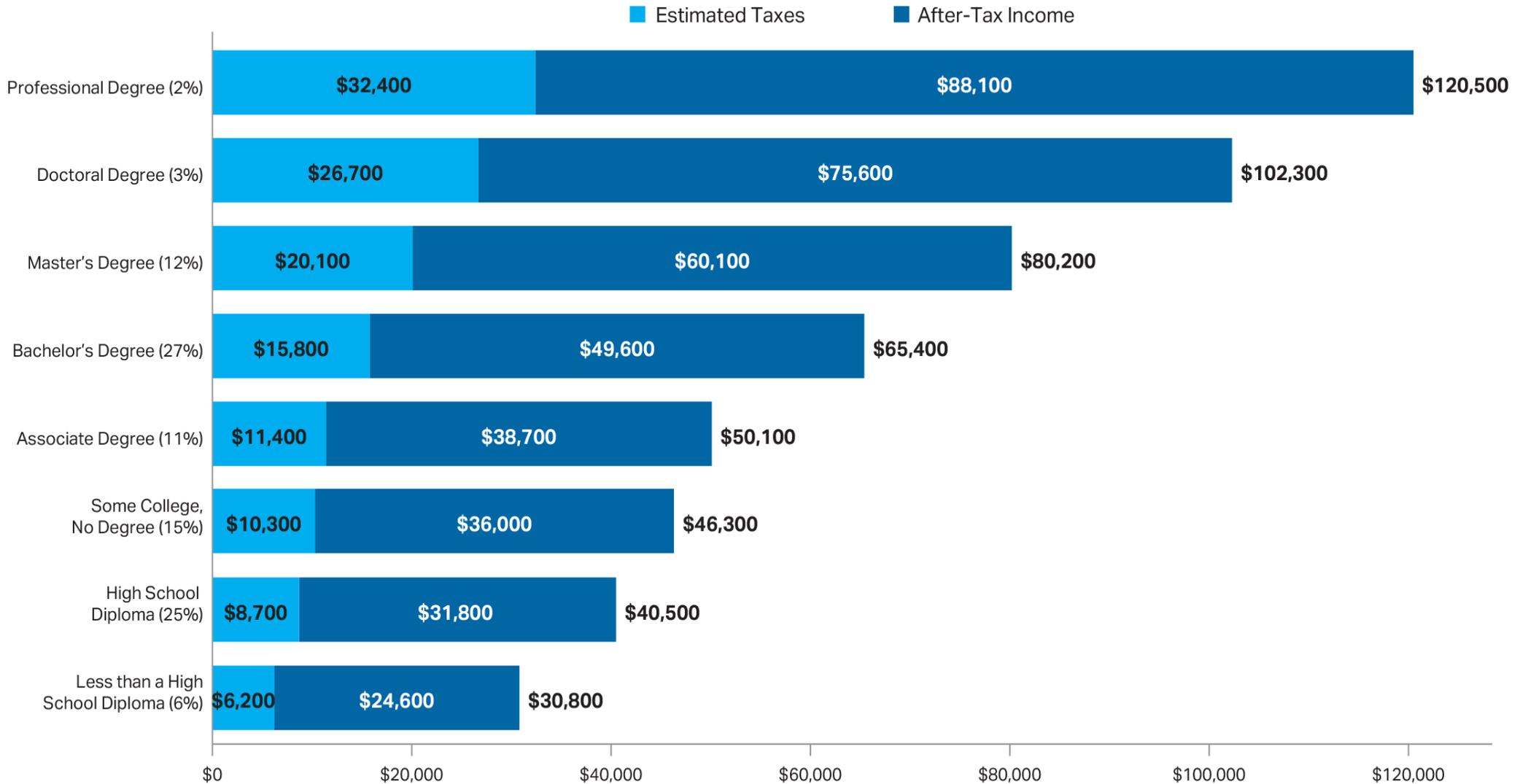
Postsecondary Enrollment Rates of Recent High School Graduates by Race/Ethnicity, 1978 to 2018



Market Failures

- “Asymmetric information”
 - It is a rare purchase
 - Very high opportunity cost
- “Experience good”
 - Student consumers may have **imperfect information** about the true quality of academics
 - Don’t really know future income potential
- Good/Selective schools have some “monopoly power” – can pick what students to let in

Median Earnings of Full-Time Year-Round Workers Age 25 and Older, by Education Level, 2018



• SOURCE: The College Board, *Education Pays 2019*, Figure 2.1

THINKING ABOUT COSTS...

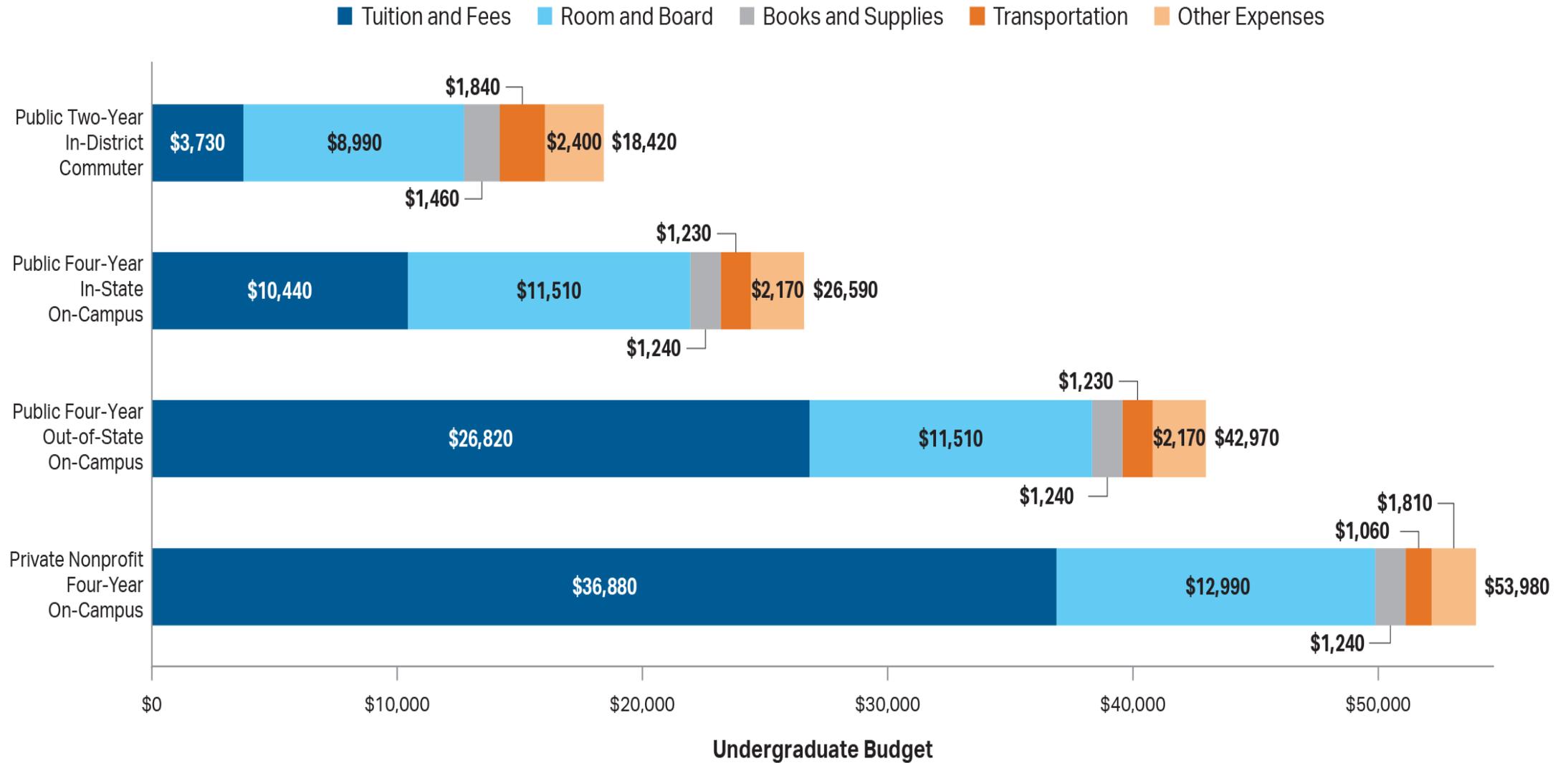
Future income benefits for students can be captured in price of education and loans paid off in future

- Net present value of future income boost = tuition

Students make rational-informed choices about future earning potential

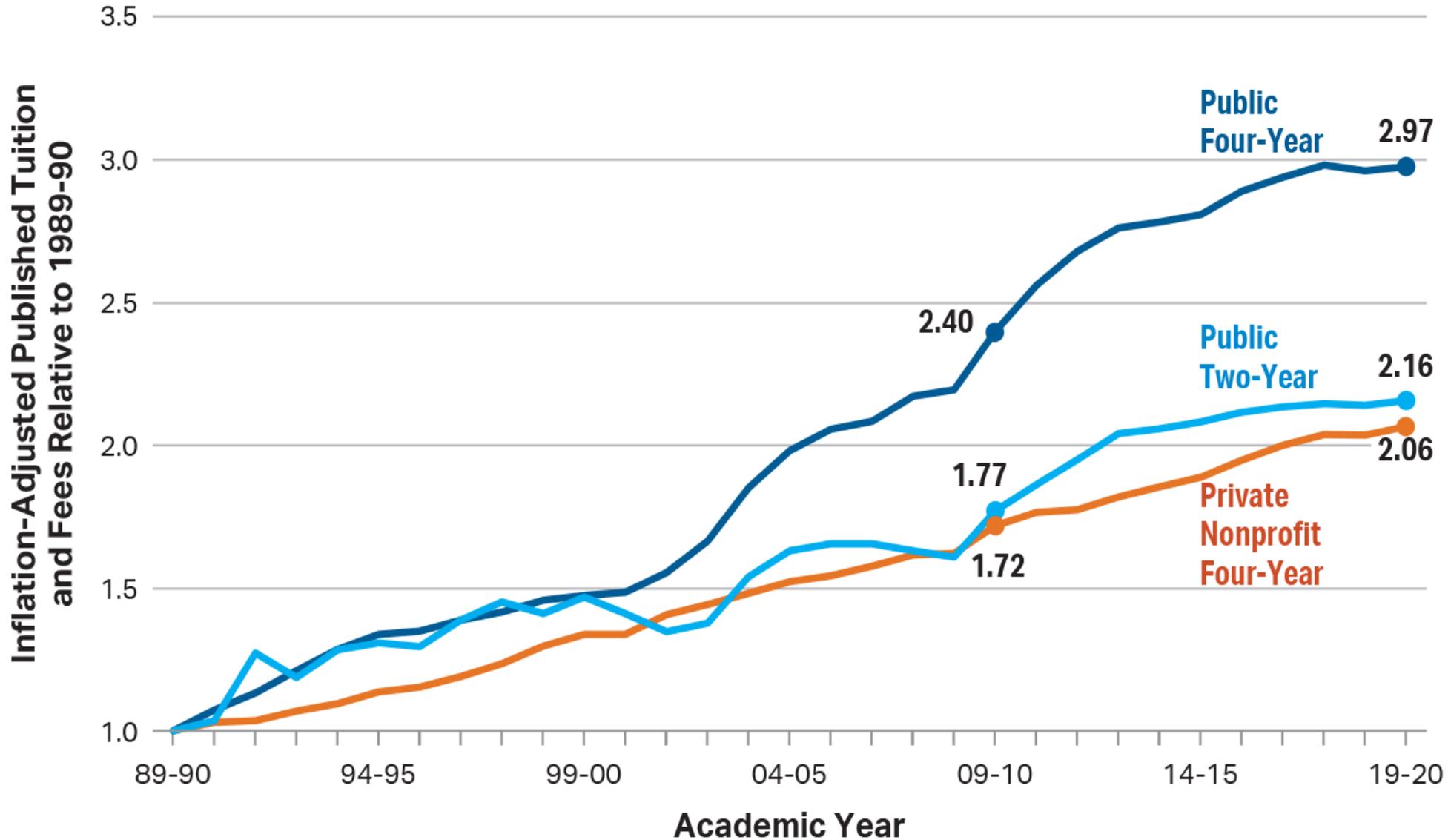
- What if wrong?
- What if misled by school?

Average Estimated Full-Time Undergraduate Budgets, 2019-20



Source: The College Board, Trends in College Pricing 2019, Figure 1.

Inflation-Adjusted Published Tuition and Fees Relative to 1989-90 (1989-90 = 1.0)



Source: The College Board, Trends in College Pricing 2019, Figure 4B.

Affordability

How much should students pay?

- Share of total cost?
- Share of future personal income?

Differential charges based on:

- Ability to pay
- Costs of programs (e.g., professional)
- Other
 - Time of class
 - Major

How much should we subsidize education?

FEDERAL SUPPORT

Free Application for Federal Student Aid (FAFSA)

- Students submit a FAFSA annually.

American Opportunity Tax Credit (AOTC)

- Up to \$160,000 income – claim on federal income tax return

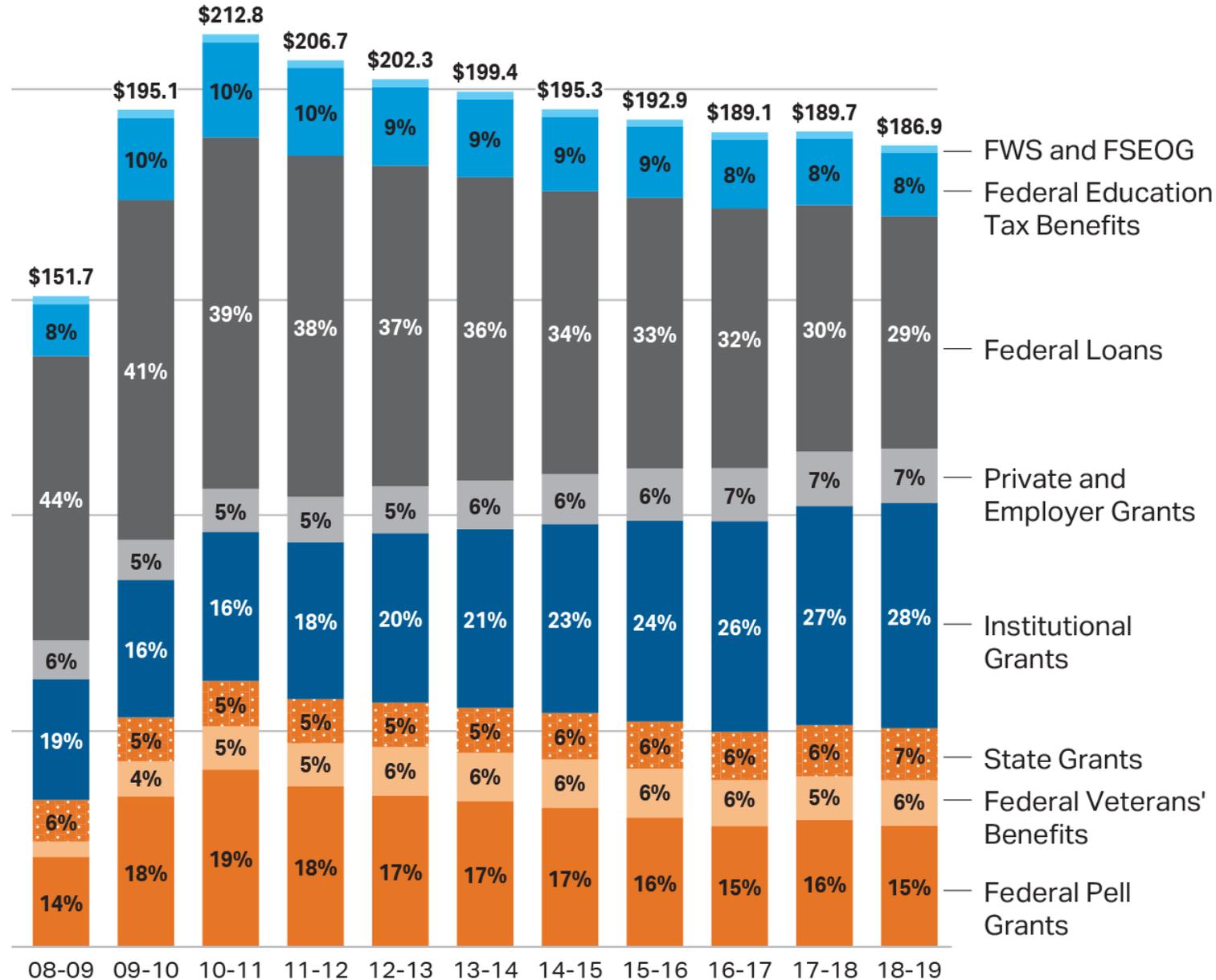
Pell Grants

- Maximum Pell Grant award to \$6,195 (income <\$60k)

Loans

- Many kinds, but federally-backed at core

Total Undergraduate Student Aid in 2018 Dollars by Source and Type (in Billions)



Source: The College Board, Trends in Student Aid 2019, Figure 3.

Free Application for Federal Student Aid

WHEN

- Must be renewed every year

WHO

- Available to H.S. seniors, college students, returning adults
- U.S. citizens and eligible non-citizens

HOW

- Available on-line (preferred way) www.fafsa.gov

WHY

- Determines eligibility for federal and state financial aid programs
- Used by colleges and universities to award institutional aid

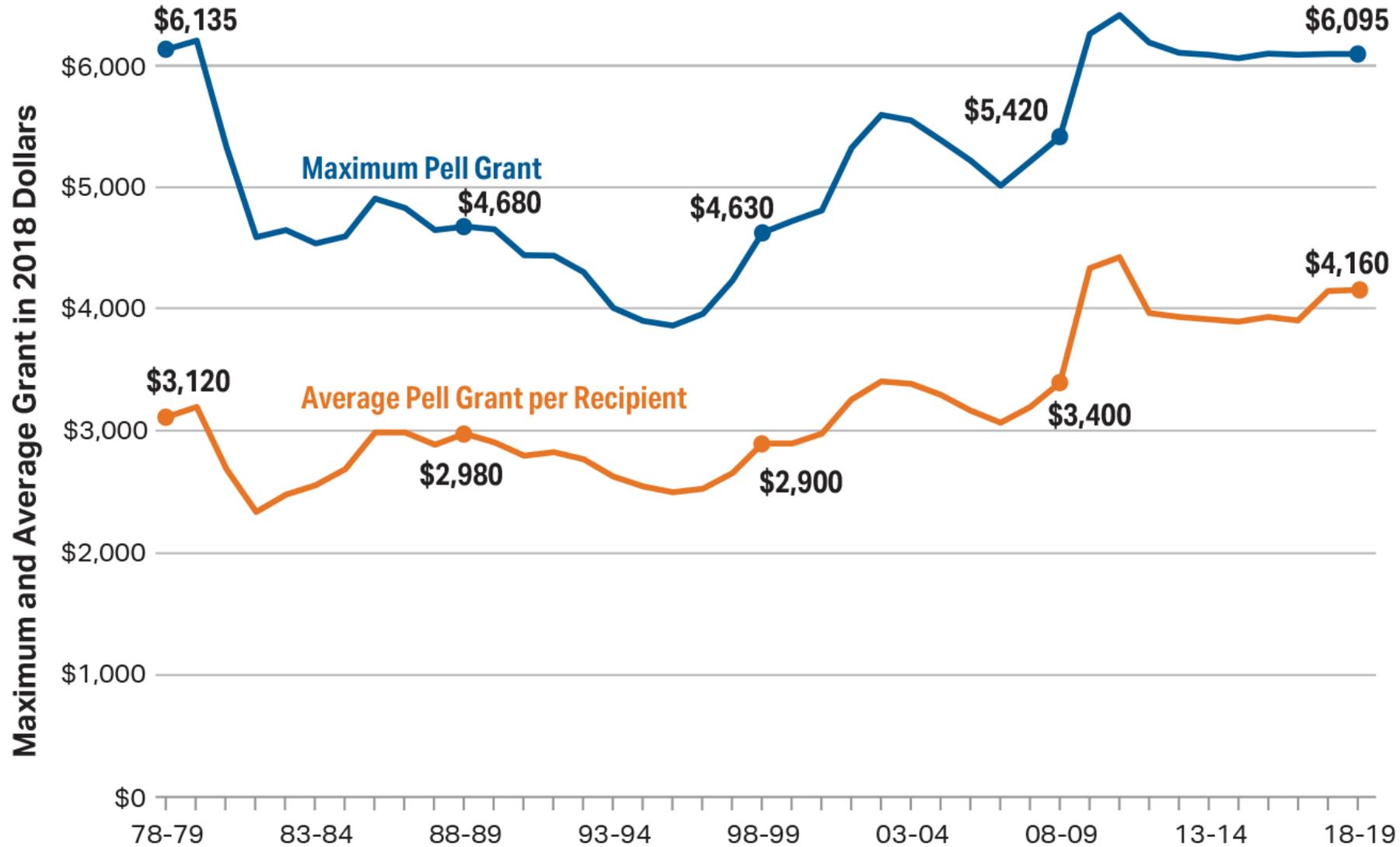
Expected Family Contribution



Formula established by Congress determines a student's **Expected Family Contribution**; using information reported on the FAFSA.

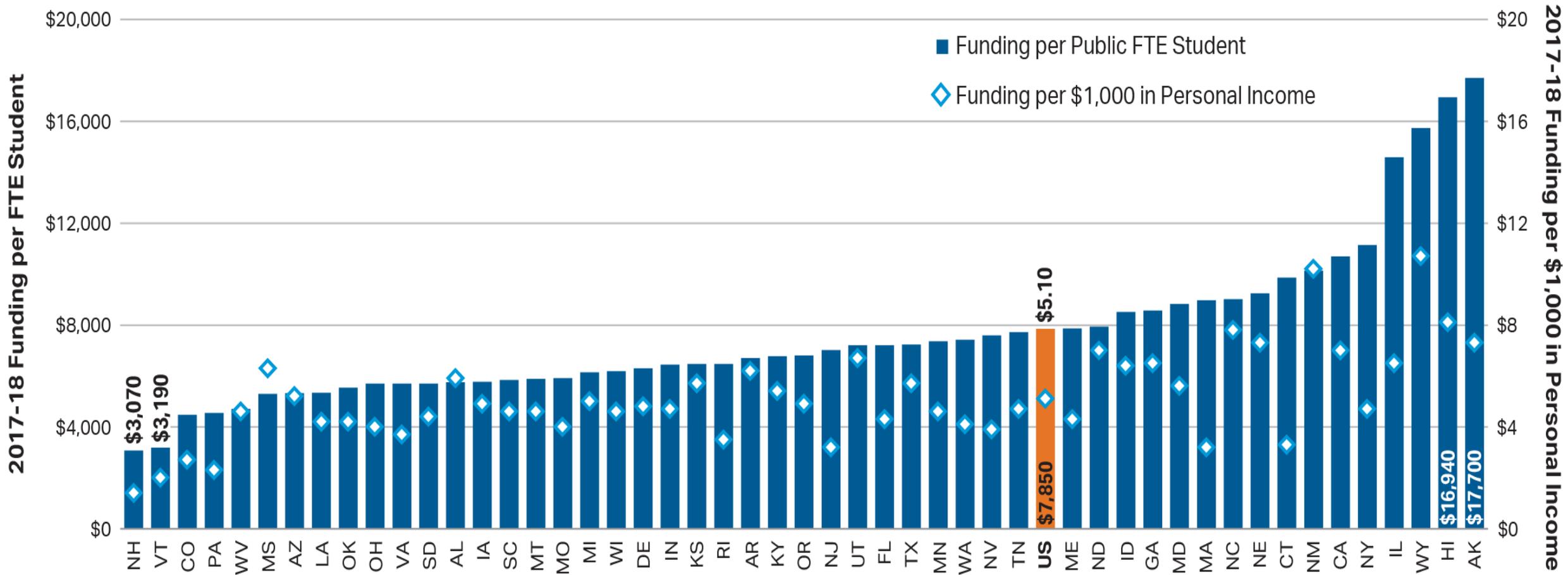
What?	Why?	Where?
A comparative measure of how much a family can be expected to contribute over the course of an academic year	Used to determine a student's eligibility for most federal and state assistance	Shown on the Student Aid Report (SAR), the output document sent to a student after the FAFSA is processed

Maximum and Average Pell Grants in 2018 Dollars, 1978-79 to 2018-19



Source: The College Board, Trends in Student Aid 2019, Figure 21A.

2017-18 State and Local Funding for Higher Education per Student (bar) and per \$1,000 in State Personal Income (star)



Subsidized vs. Unsubsidized Loans

Type	Need or No Need	Interest
Subsidized Loan	A need-based loan	Interest is paid by the federal government while a student is in school at least ½ time, and during authorized periods of deferment
Unsubsidized Loan	NOT a need-based loan	A student is always responsible for paying interest

Private Student Loans

Sold by schools or directly

- Generally higher interest rates
- Less repayment flexibility than federal loans
 - Fewer workout alternatives
- Pay interest while in school

Cosigners often required

- May not be dischargeable in bankruptcy; death and disability may not discharge

Wide dispersion of rates and terms

Costs of College Rising?

Tuition – instructional costs

- Rising compensation to top faculty
- Low productivity of faculty?

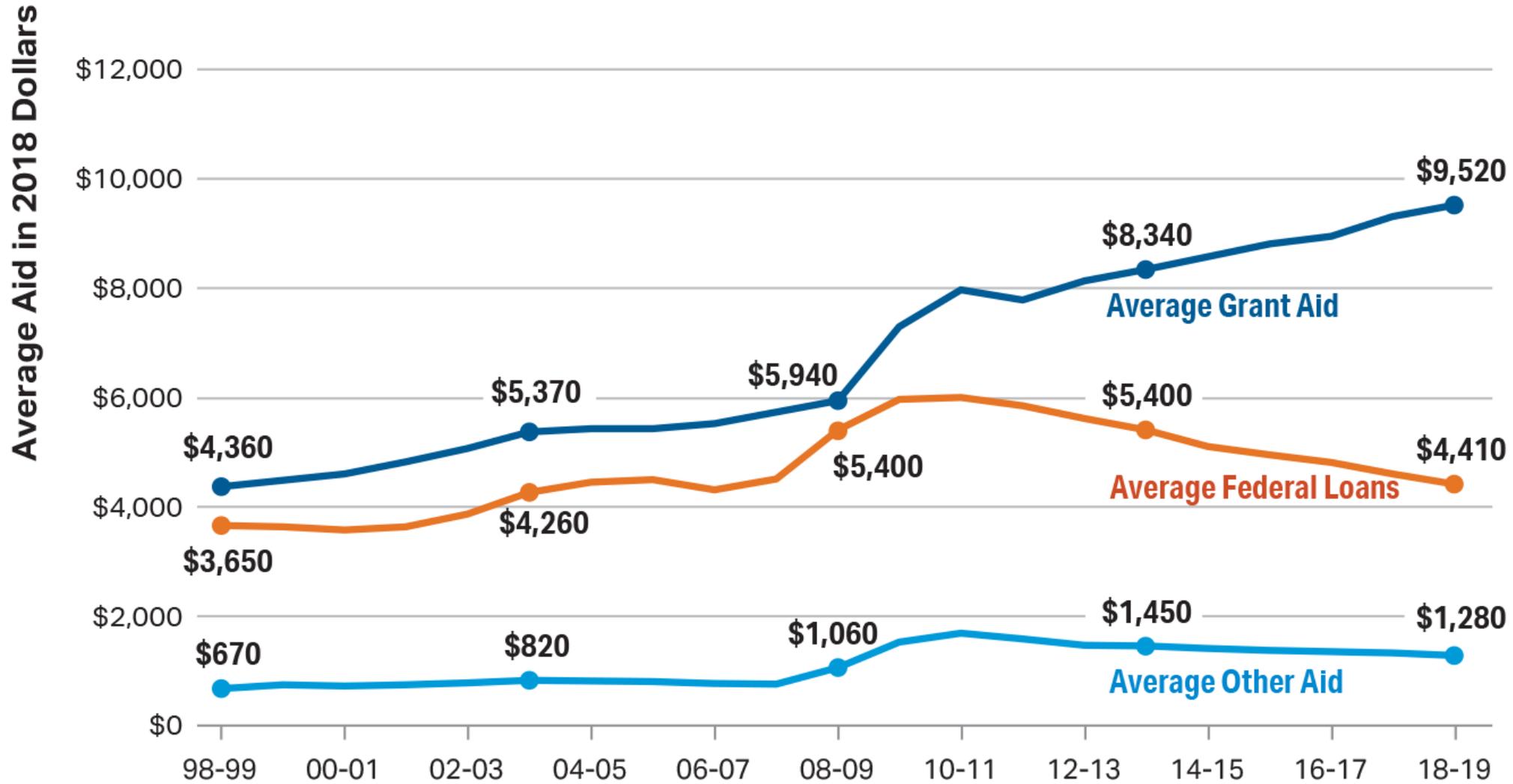
Amenities

- Gyms, Mental health services
- Career services

Administration (rising faster than instruction)

Sticker price vs. Net price

Average Aid per Full-Time Equivalent (FTE) Undergraduate Student in 2018 Dollars

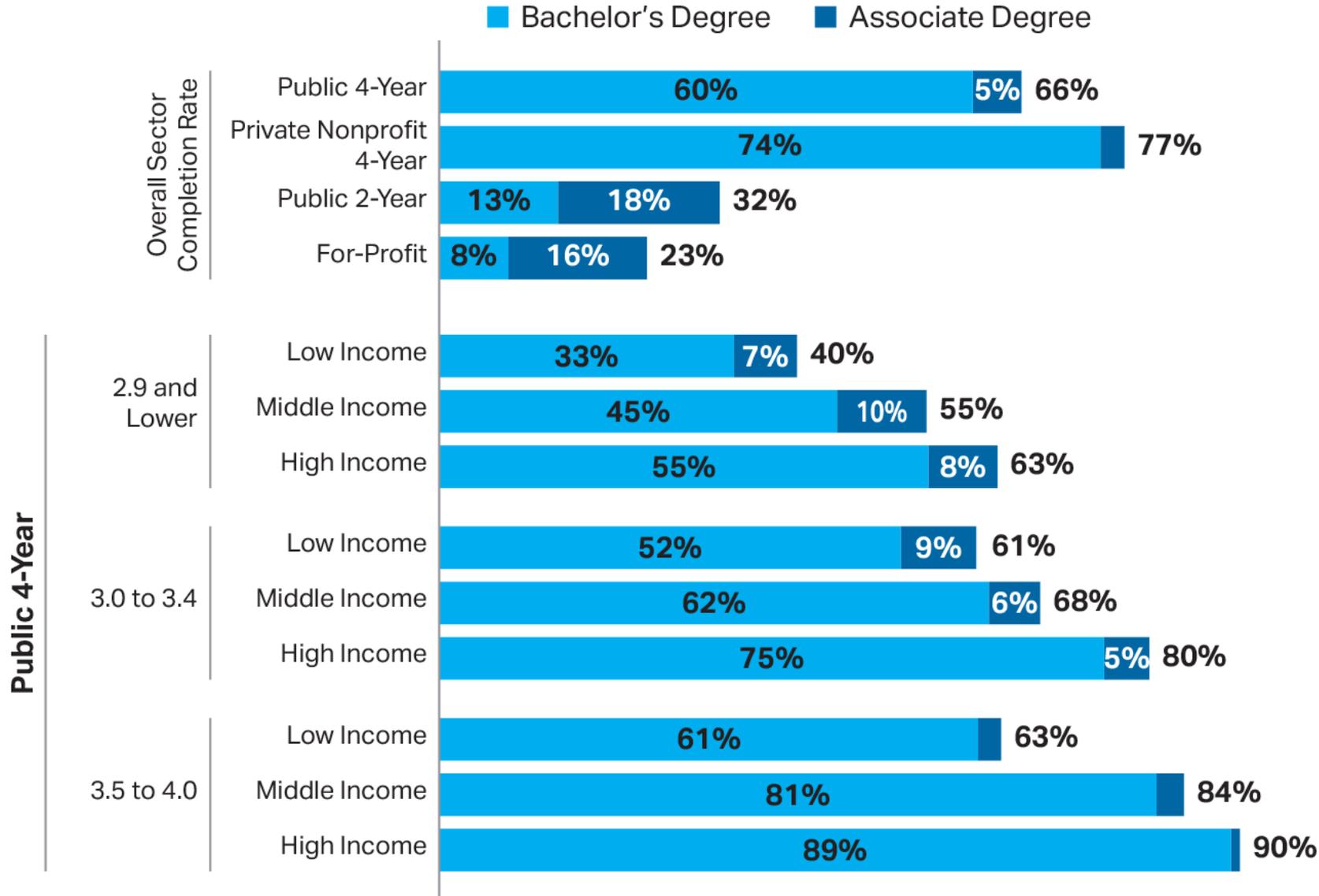


Source: The College Board, Trends in Student Aid 2019, Figure 1.

Vulnerable Groups Who Trigger More Oversight

- Students from families with limited education experience
 - Lower-performing high-schools
 - Those with limited financial experience
 - Service members
-
- Students who fail to graduate
 - Students who take a long time to graduate

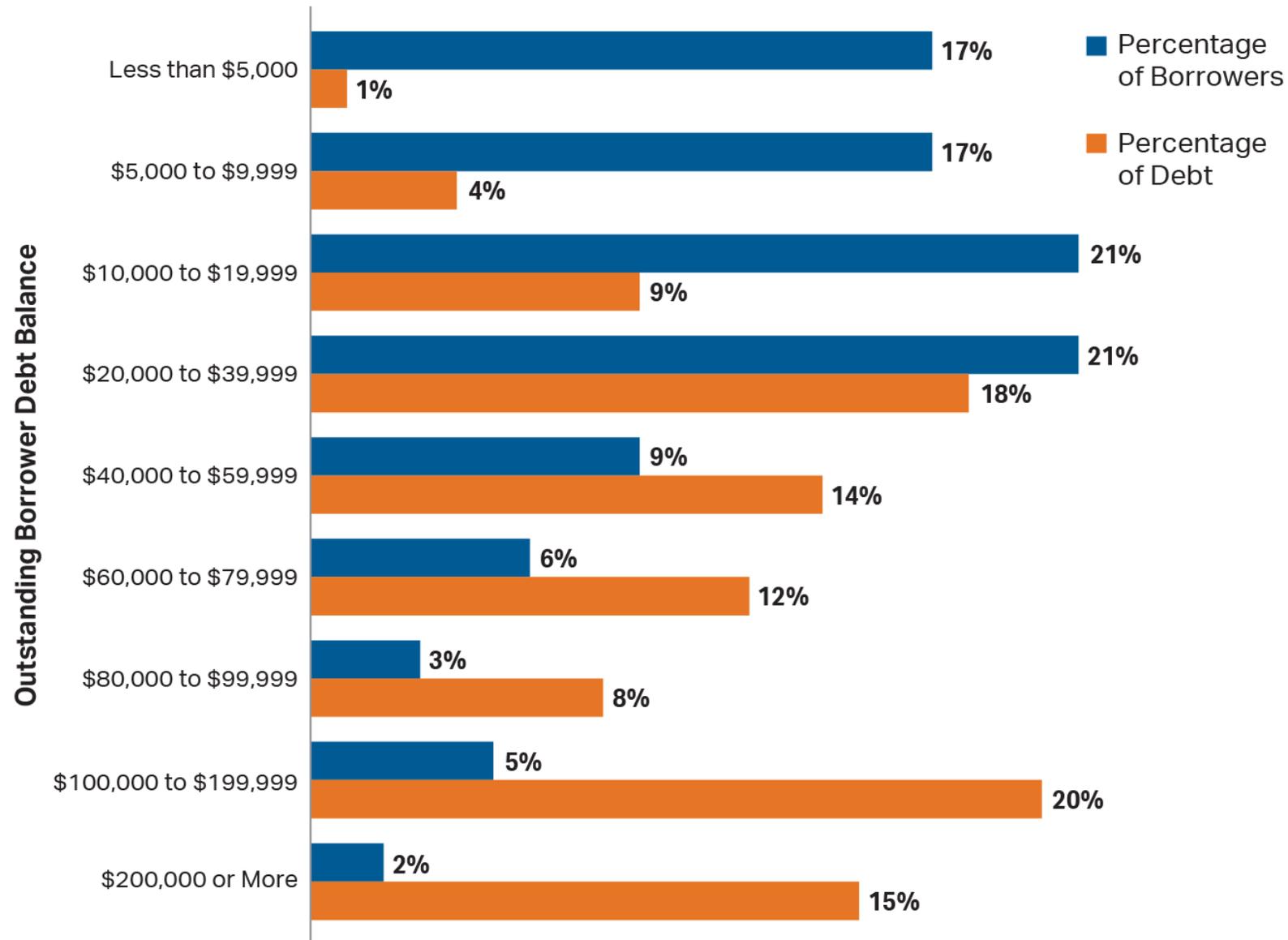
Six-Year Completion Rates by Sector, High School GPA, and Family Income: 2011-12 Beginning Postsecondary Students



Completion matters.

• SOURCE: The College Board, *Education Pays 2019*, Figure 1.4

Distribution of Borrowers and Debt by Outstanding Balance, Second Quarter of FY2019



Small numbers of borrowers have large debts

Source: The College Board, Trends in Student Aid 2019, Figure 10.

Distribution of Full-Time Students, 2015-16

	Private Nonprofit Four-Year	For-Profit
Independent Students	20%	75%
Dependent Students	80%	25%
Dependent Students: Parents' Income		
Less than \$35,000	19%	49%
\$35,000 to \$69,999	20%	28%
\$70,000 to \$119,999	23%	14%
\$120,000 or More	38%	9%
\$120,000 to \$199,999	23%	—
\$200,000 or More	15%	—

Different types of students enroll in different types of schools

Racial Disparities in Student Debt, 2001-2013

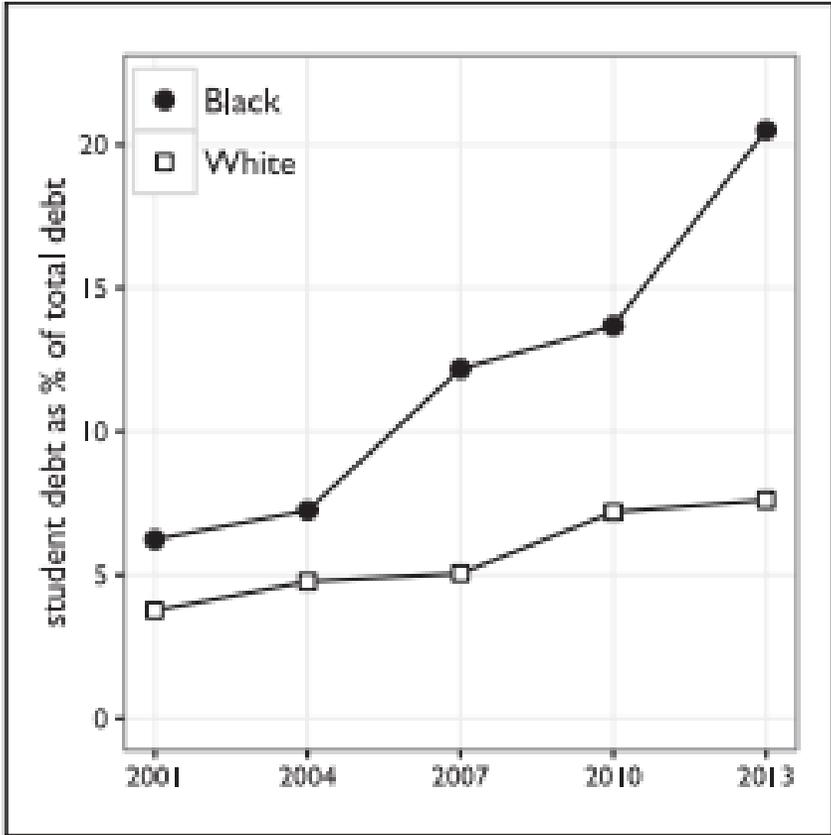


Figure 4. Student debt as a percentage of total household debt.

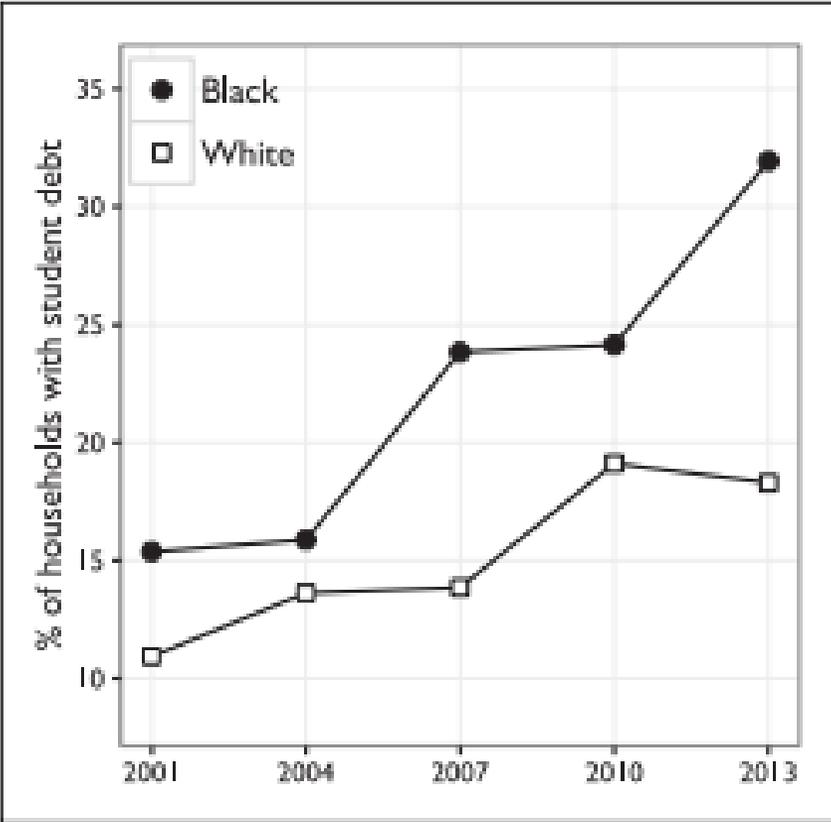
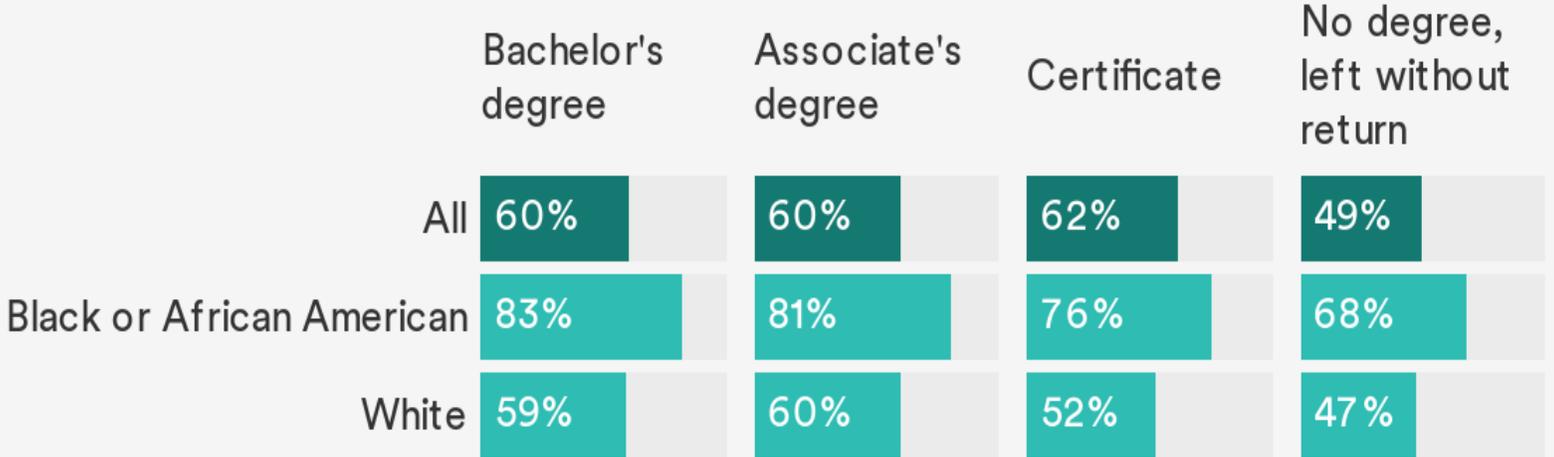


Figure 3. Proportion of households with any student debt.

Black borrowers borrow more.

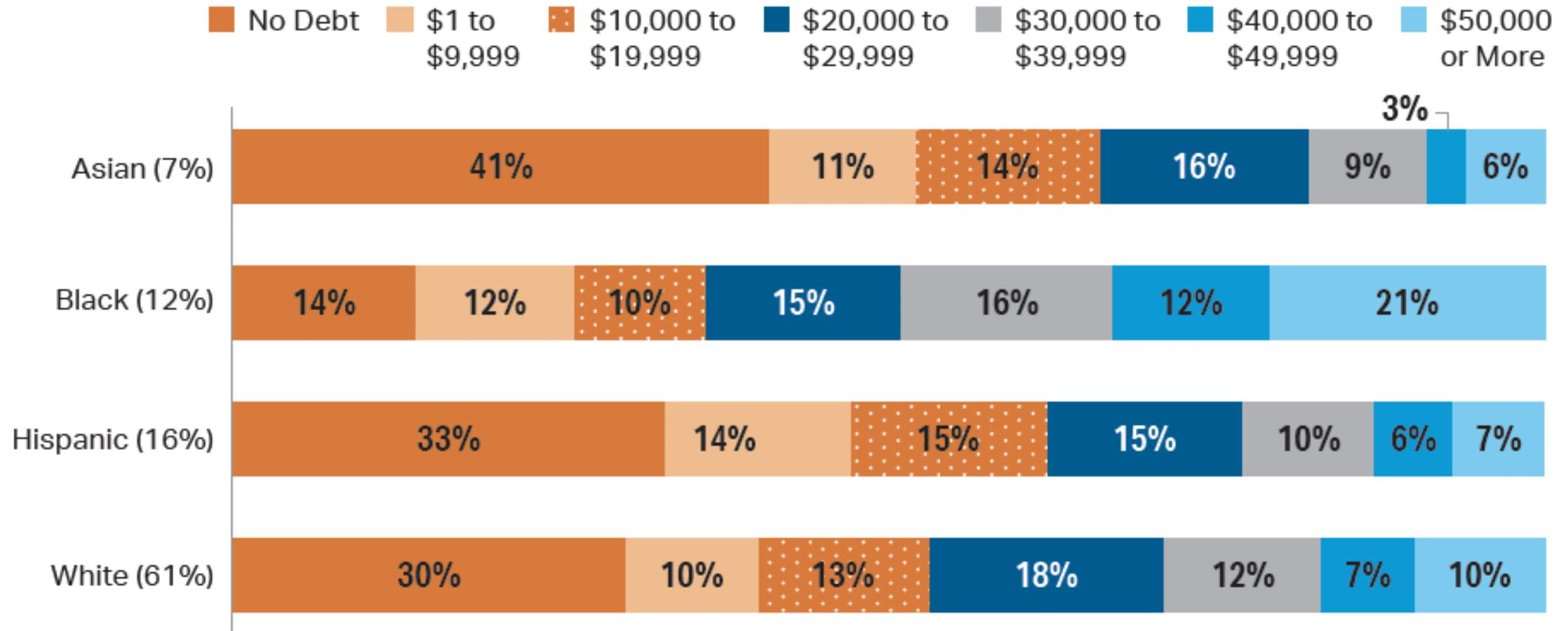
Percent of students who started higher education in 2004 who borrowed for their degrees



Source: U.S. Department of Education, National Center for Education Statistics, 2004-2009 Beginning Postsecondary Student Survey (BPS 04/09). Accessed August 26 2019.

NEW AMERICA

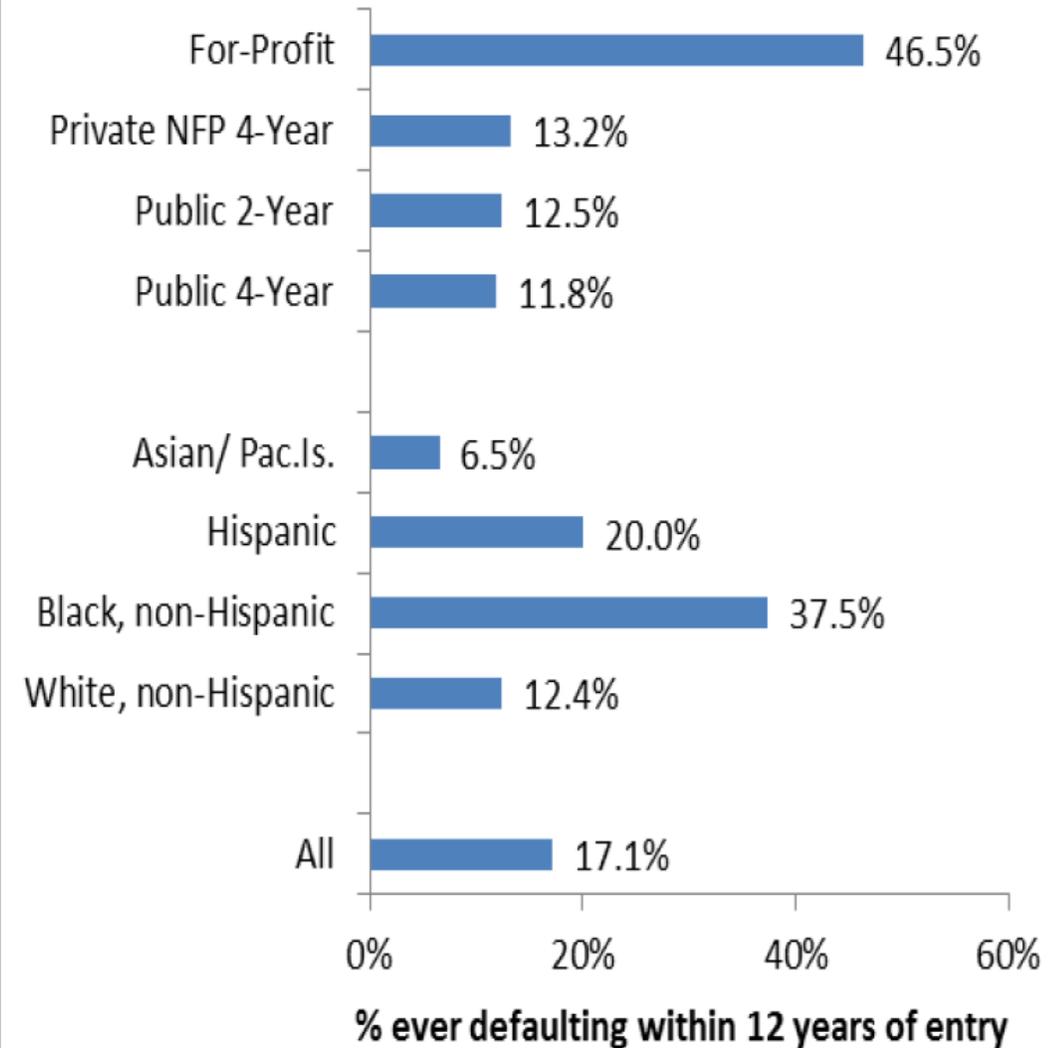
Cumulative Debt of 2015-2016 Bachelor Degree Recipients, by Race/Ethnicity



Source: The College Board 2019; NCES, National Postsecondary Student Aid Study, 2016

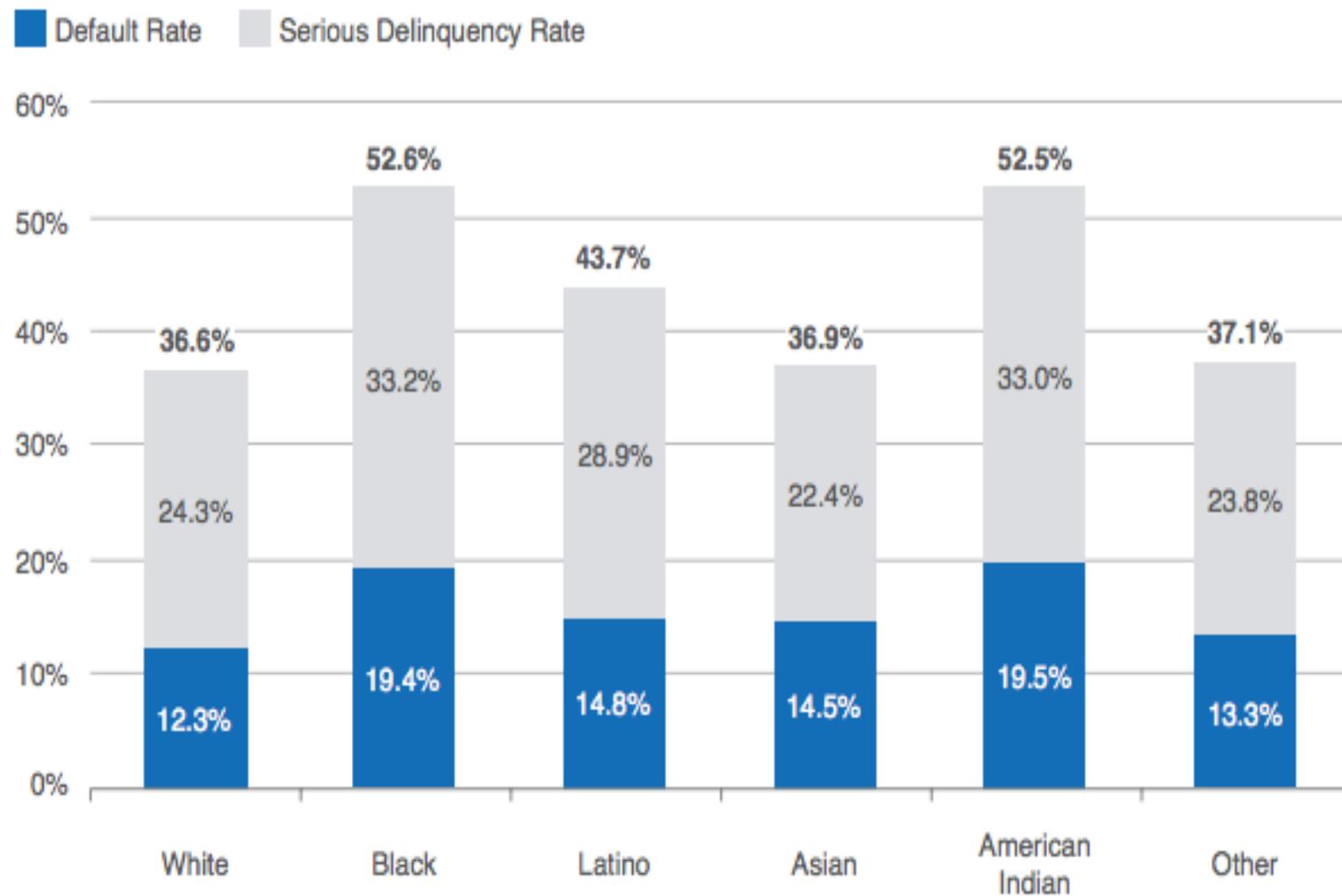
Black and Latinx borrowers have higher default rates.

Figure 1. Ever defaulted, by sector and race (All entrants)



Source: Scott-Clayton, J. (2017). What Accounts for Gaps in Student Loan Default, and What Happens After. Evidence Speaks Reports, Vol 2, # 57. Center on Children and Families at Brookings. Source: BPS 2003-04

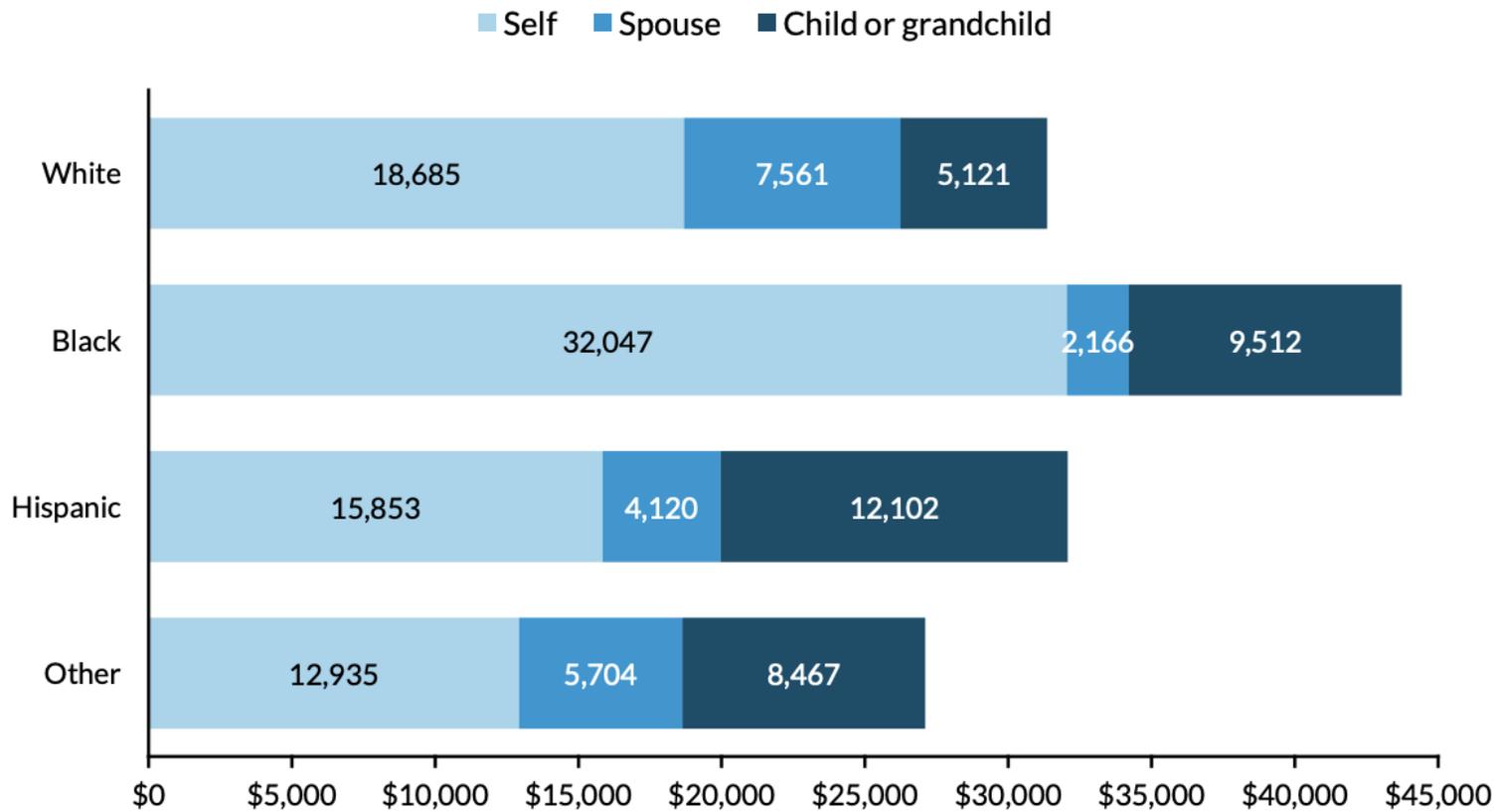
Default and delinquency risks, by race/ethnicity



Source: Demos analysis of 2014 Experian data

Amount of Student Loan Debt Differs Notably across Race and Ethnicity

Average debt for adults ages 25 to 55 by race/ethnicity and loan beneficiary



Student debt story is intergenerational and varies by race/ethnicity.

Source: Author's calculations using the 2014 SHED.

Notes: All averages are weighted using the SHED person weight. Adults classified as white, black, and other are non-Hispanic. Hispanics may be of any race.

Racial Disparities in Education Debt

Families have less economic resources to protect adult children from high debt burdens

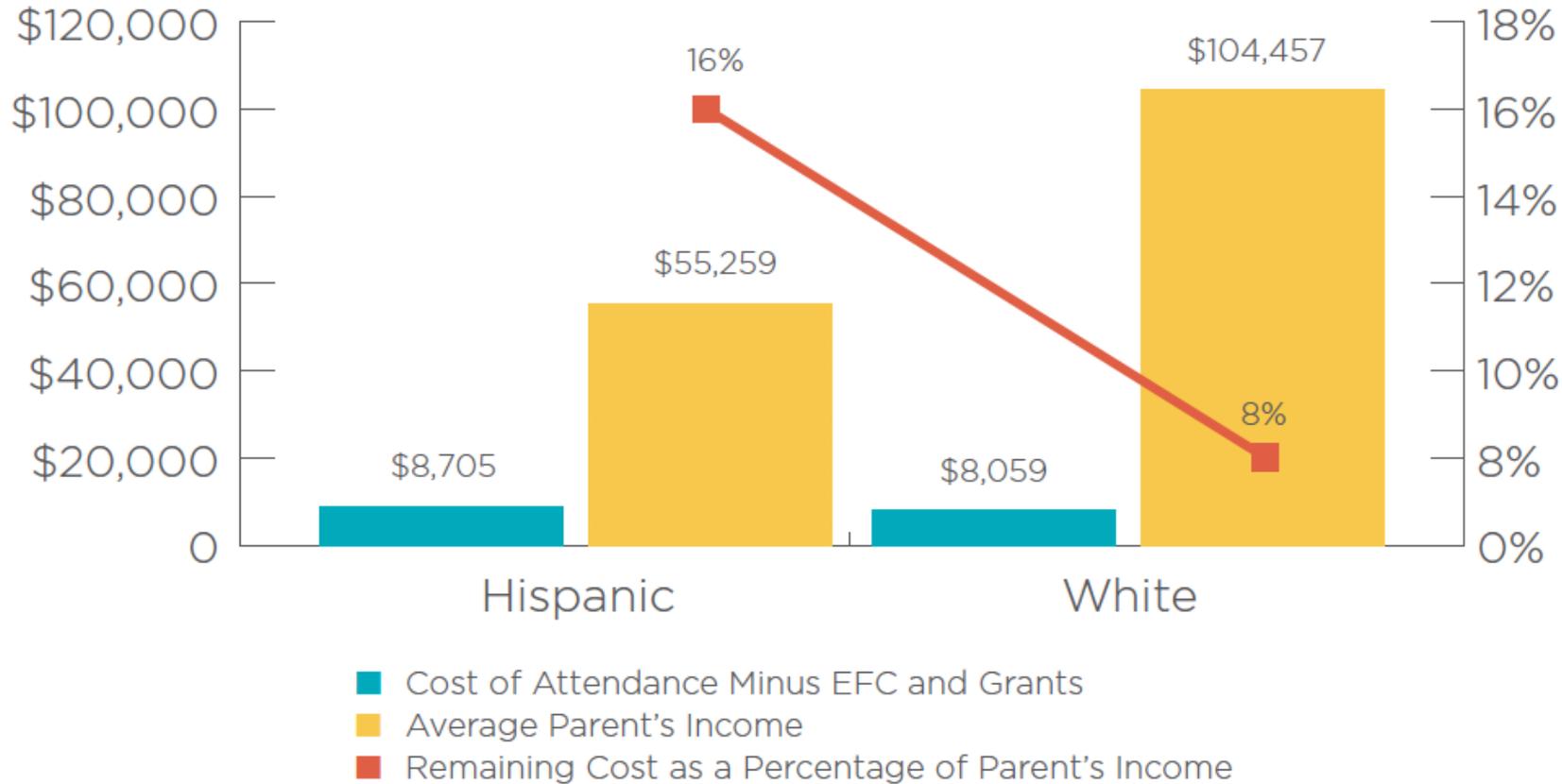
Why does wealth not protect against student debt accrual for Black students?

Top Quintile (\$191,000+)	Average Amount (\$)		t-test
Wealth Holdings	<u>White</u>	<u>Black</u>	
Financial Assets	81,827	46,579	***
Home Equity	154,627	92,555	***
Retirement Accounts	116,960	91,915	
College Savings Account (CSA)	12,323	14,023	
Other Assets	30,374	51,655	
SOURCE: National Longitudinal Study of Youth, 1997 Cohort			

- Wealth is less transferable or “fungible” for black families

Addo, F., J. Houle, and D. Simon. 2016. “Young, Black, and (Still) in the Red: Wealth, Race, and Student Loan Debt.” 2016. *Race and Social Problems* 8:64-76.

Figure 2: Average Cost of College Average Parent Income, Average Cost as Percentage of Income

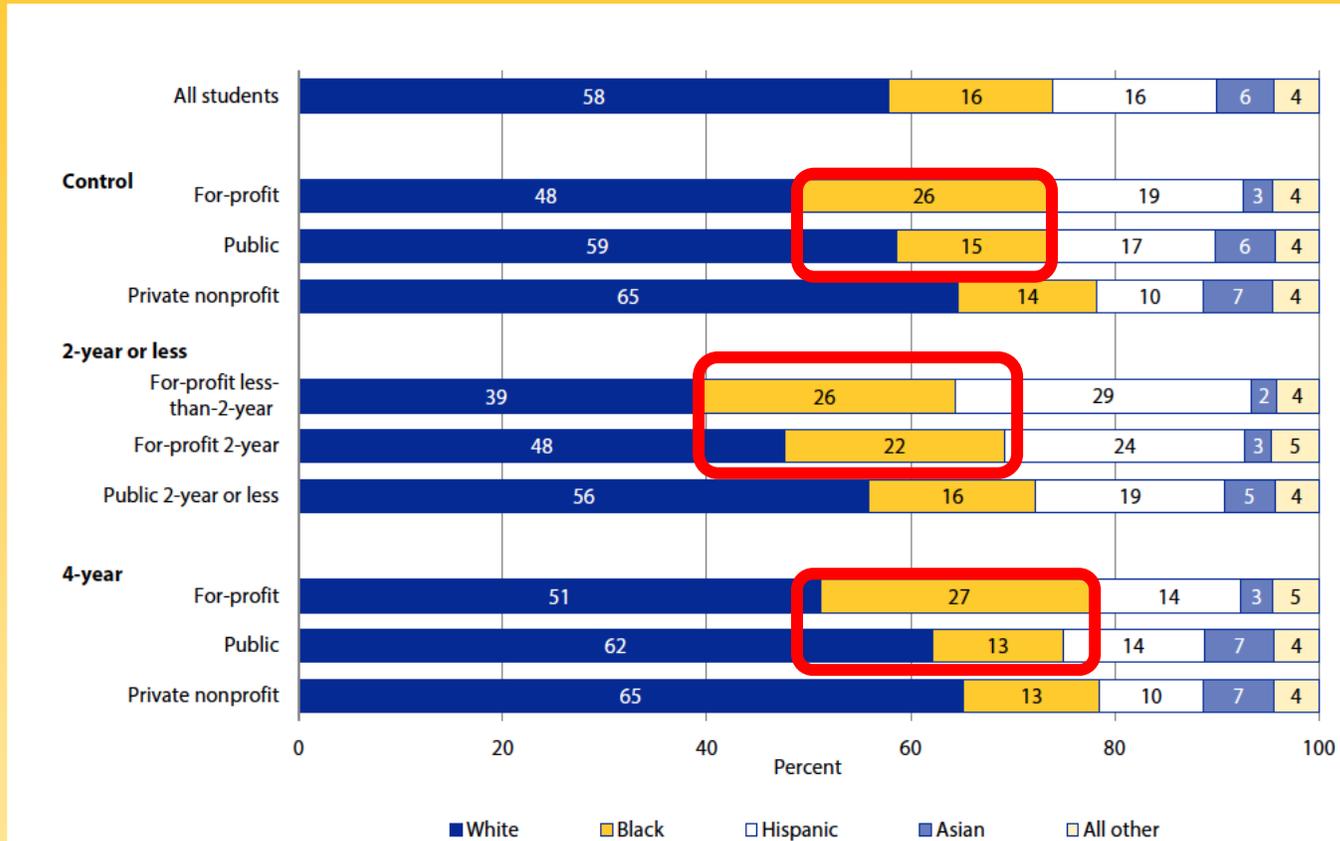


Note: Parent income here is different from income on Table 1 due to differences in sources. Income in Table 1 is based on Census bureau data from the American Community Survey.

Source: UnidosUS calculation using U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study, NPSAS:16." Washington, DC, 2017.

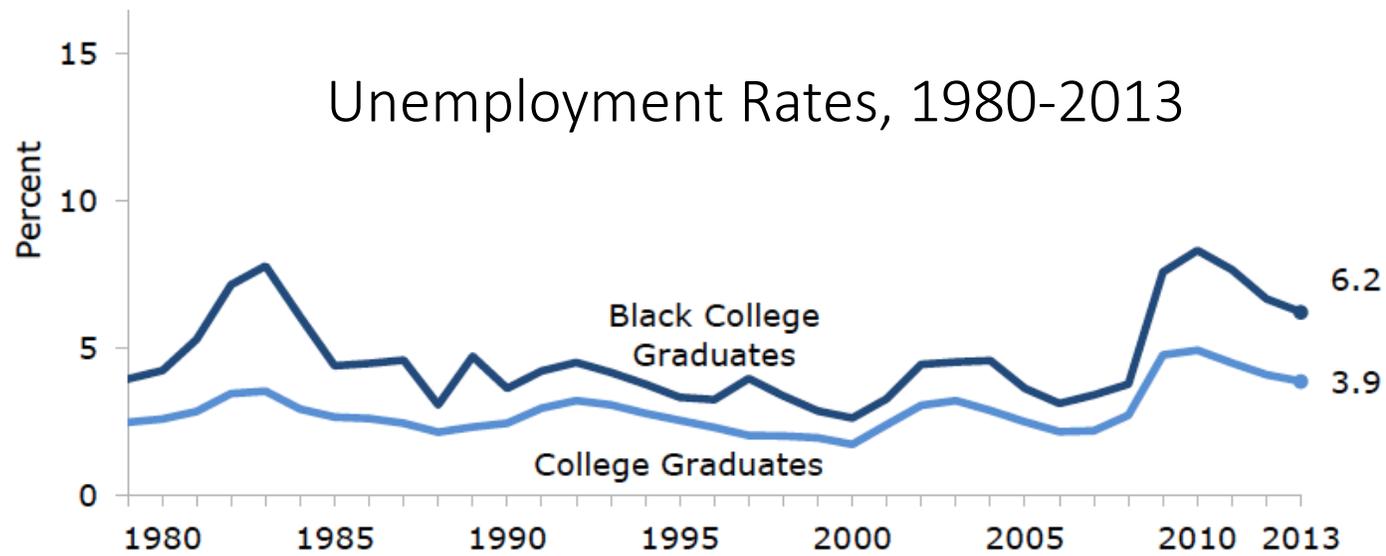
Latinx families use a greater proportion of their incomes to cover college costs.

For-profit Institutions and Race



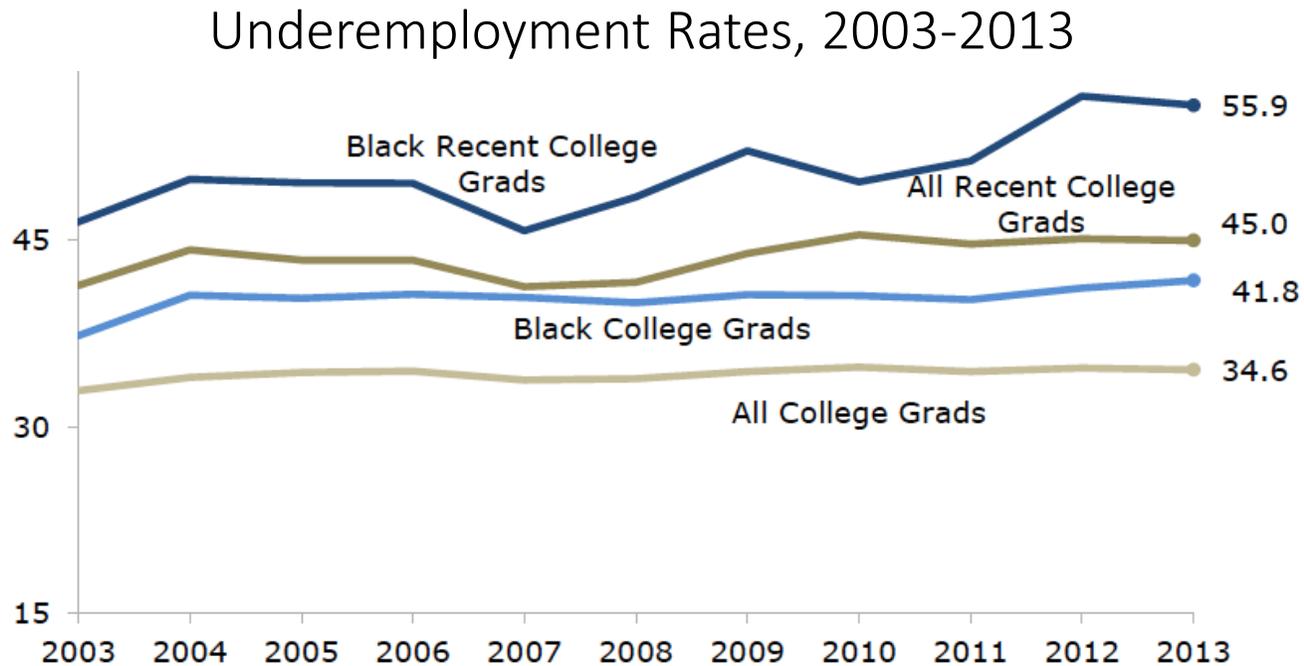
NOTE: Black includes African American, Hispanic includes Latino, and all other includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, or students who are more than one race. Race categories exclude Hispanic origin unless specified. Total includes undergraduate students who attended private nonprofit less-than-4-year institutions and more than one institution, which are not shown separately. The private nonprofit institution estimates under "Control" include data from less-than-4-year institutions and therefore do not match the private nonprofit institution estimates under "4-year." Public less-than-2-year institutions are combined with public 2-year because so few undergraduates (less than 1 percent) attended these institutions. Estimates include undergraduate students who were enrolled in Title IV eligible postsecondary institutions in the 50 states and the District of Columbia. Detail may not sum to totals because of rounding.

SOURCE: U.S. Department of Education, National Center for Education Statistics, 2011–12 National Postsecondary Student Aid Study (NPSAS:12).



Source: Current Population Survey Outgoing Rotation Group (CPS ORG).

Trends in labor market success of recent grads, by race



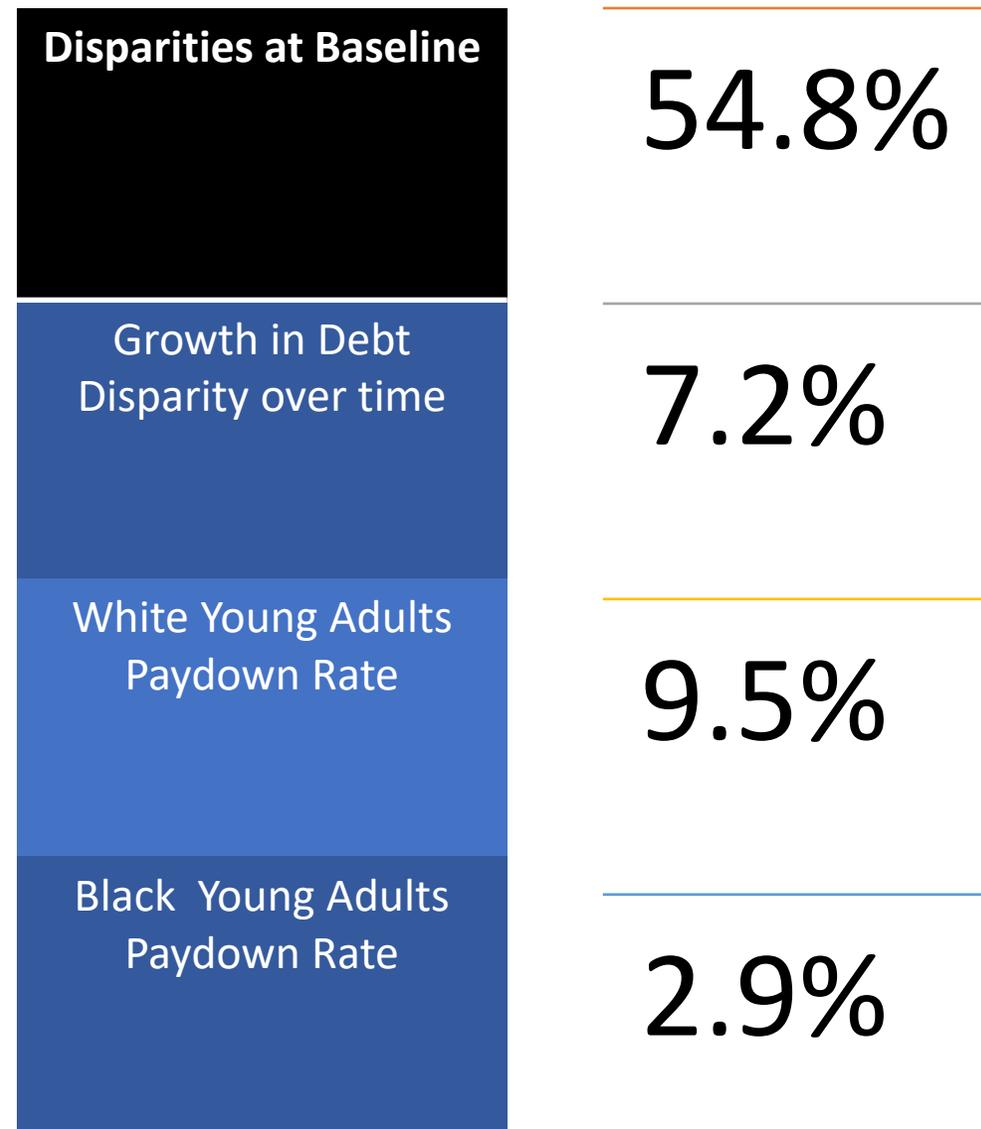
Source: Current Population Survey Outgoing Rotation Group (CPS ORG) and O*NET.

Racial Disparities in Education Debt

Black families have less economic resources to protect adult children from high debt burdens

Racial disparities in debt are large and increase across the early adult life course.

How do
Black/White
differences in
student debt
change over
time?



Houle, J. and F. Addo. Racial Disparities in Student Debt and the Reproduction of the Fragile Black Middle Class. 2019. *Sociology of Race and Ethnicity*. 5(4), 562–577.

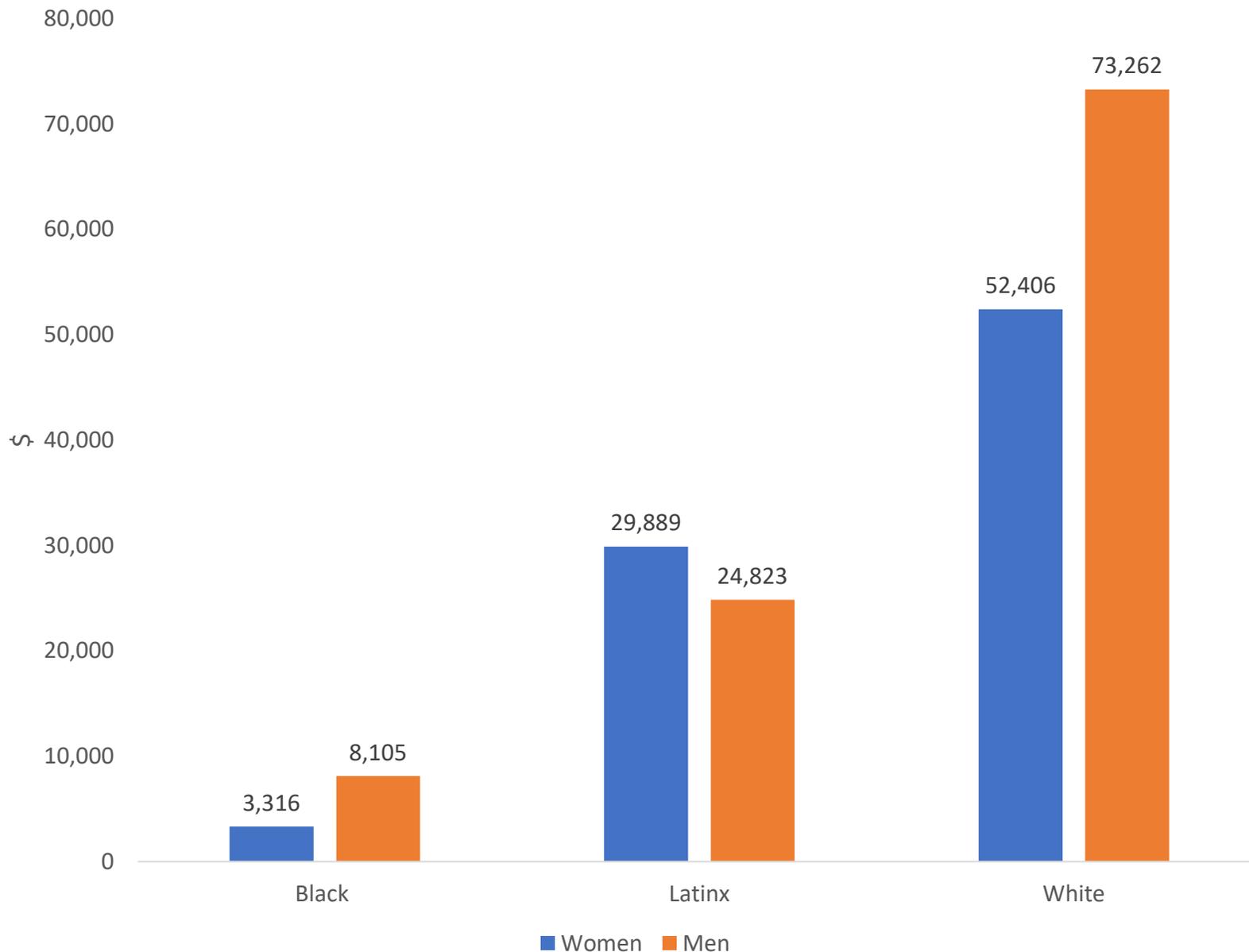
Racial Disparities in Education Debt

Black families have less economic resources to protect adult children from high debt burdens

Racial disparities in debt are large and increase across the early adult life course.

Descriptively and compositionally, racial disparities in debt account for a portion of the racial wealth gap in early adulthood

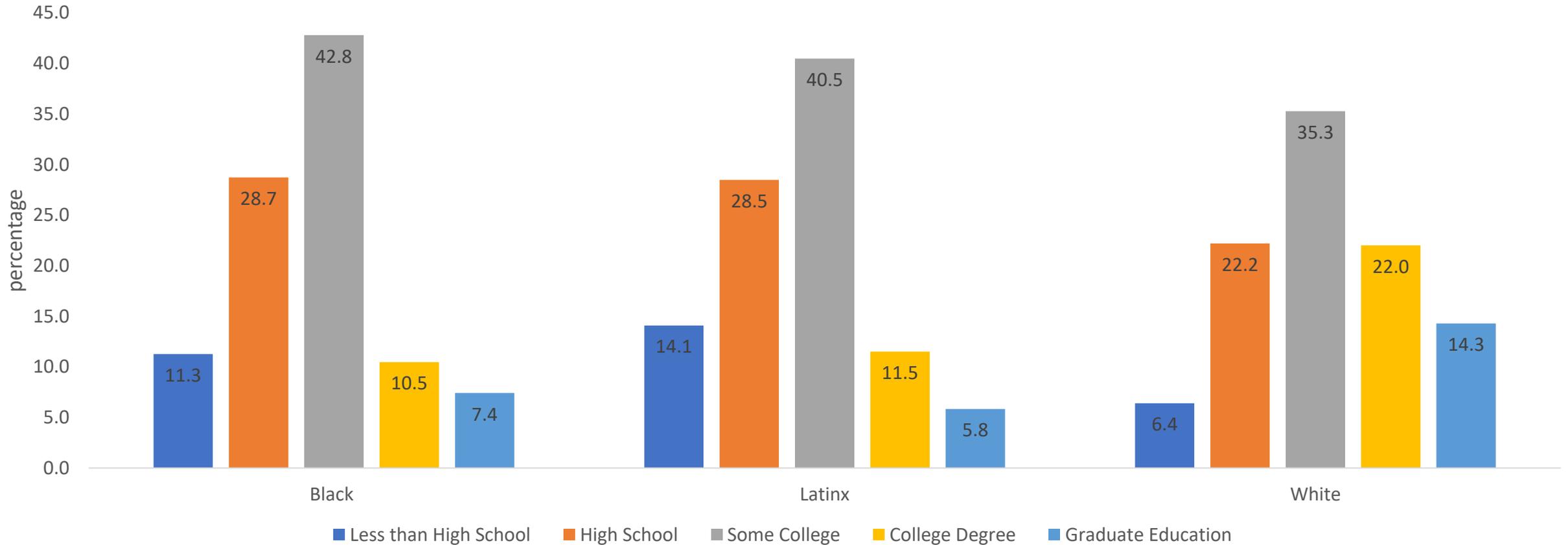
Median wealth with college degree or more (\$)



Black young adults hold **10.4% less wealth** relative to their white counterparts due to higher student debt burdens (Houle & Addo 2018)

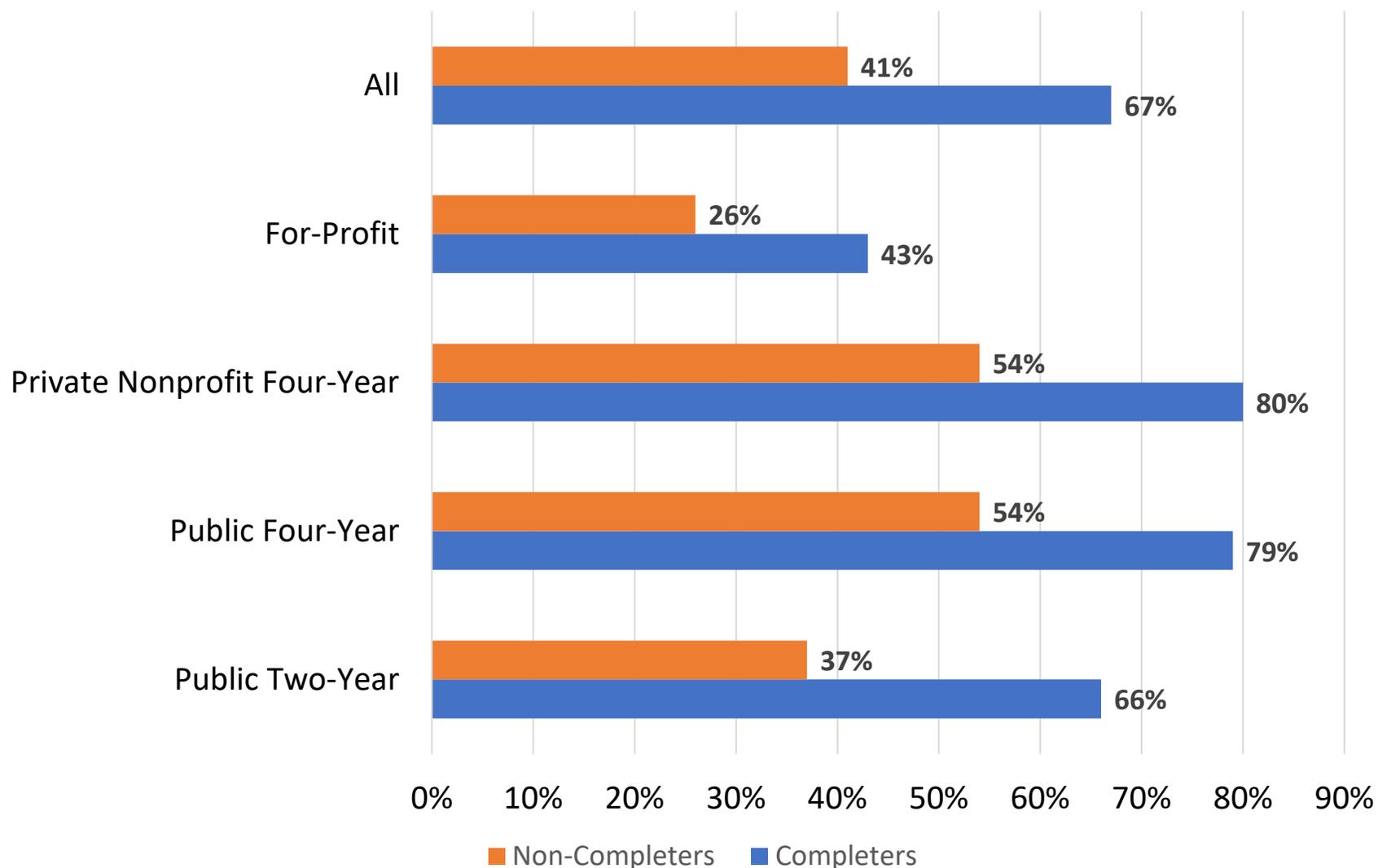
Most Millennials have some post-secondary experience.

Educational Attainment By Age 30, By Race/Ethnicity



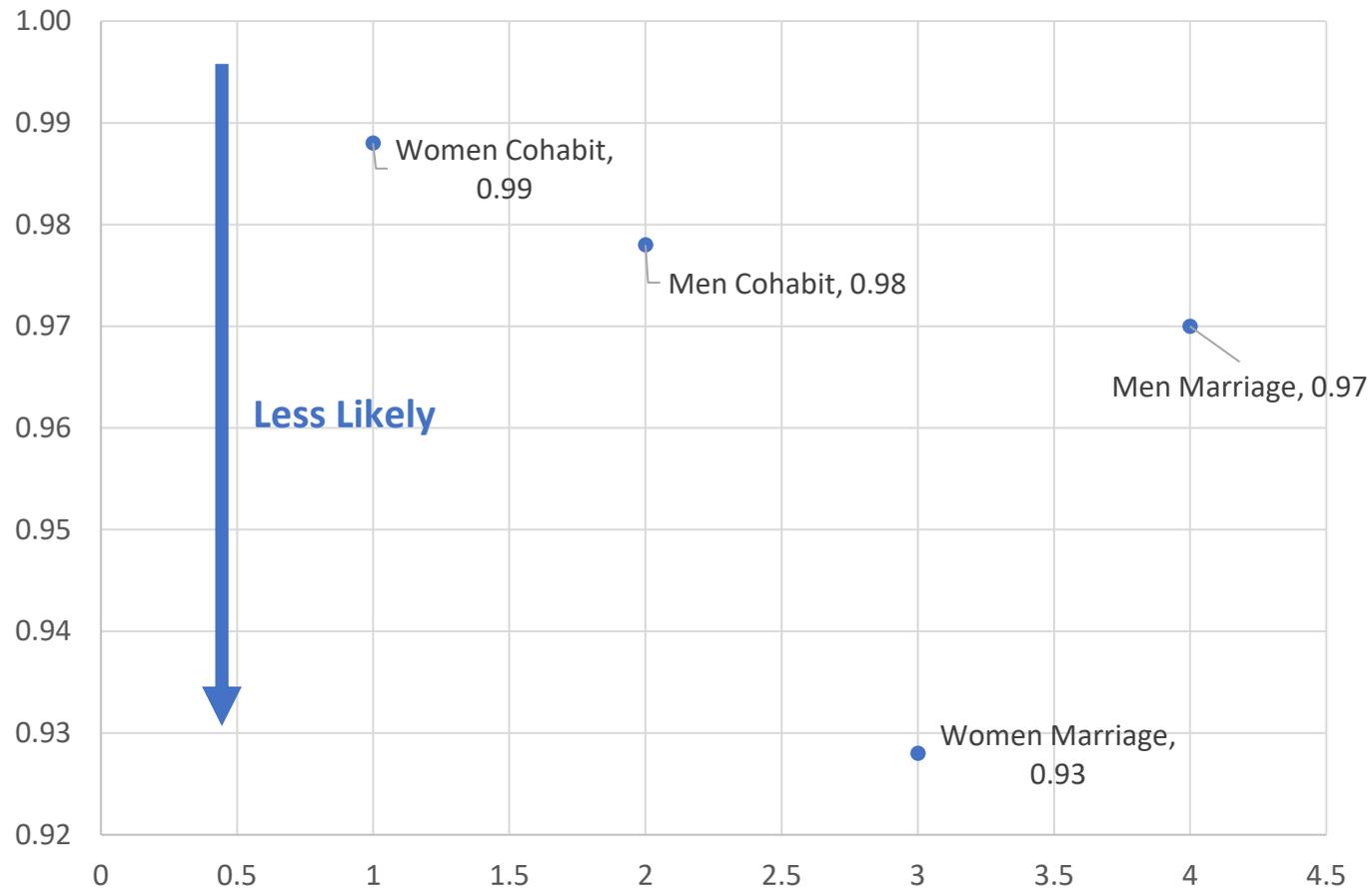
Data Source: NLSY97 Age 30 Asset Module

Federal Student Repayment Rates by Sector and Completion Status



Repayment rates are lower among non-completers independent of institutional sector. For-Profit attendees have the lowest repayment rates, independent of completion status.

Holding Positive Education Loan Debt and Entry into First Marriage or Cohabitation



Education loan debt decreases the odds of marriage relative to remaining single and increases the odds of cohabitation relative to marrying directly for young women.

June 18, 2018

The Honorable Betsy DeVos
Secretary of Education
U.S. Department of Education
400 Maryland Avenue, S.W.
Washington, D.C. 20202

Dear Secretary DeVos:

We write to express serious concerns regarding the challenges facing students of color in our federal student loan system, which are the result of long-standing inequities between racial groups and have been exacerbated by recent decisions by the U. S. Department of Education ("Department"). We urge the Department to fully enforce borrower protections, continue to process pending borrower defense claims, fully discharge and refund the loans of students who have been cheated by their college, and collect and report data on student loan repayment status disaggregated by race and ethnicity.

Barriers Facing Student Loan Borrowers of Color

HBCU EDUCATION

Robert Smith's pledge to pay grads' loans is 'a dream I couldn't have imagined'

Billionaire has given much to Morehouse College, cancer research, UNCF and Smithsonian African American museum



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CHOICE

UP NEXT FROM HBCU

Robert Smith's pledge to pay grads' loans is 'a dream I couldn't have imagined'
By Jonathan X. Simmons

Robert F. Smith (left) laughs with David Thomas, (center) and actress Angela Bassett (right) at Morehouse College in Atlanta on May 13. Smith, a billionaire technology investor and philanthropist, said he will provide grants to wipe out the student debt of the entire graduating class at Morehouse College — an estimated \$40 million. Atlanta Journal-Constitution via AP

Education

Student debt is hitting African Americans the hardest. These experts have a plan to fix it.



Graduates line up before the start of commencement at a community college. Some experts advocate greater public support for community colleges to help alleviate black student debt. (Seth Wenig/AP)

By **Danielle Douglas-Gabriel**
September 20

The statistics are startling: African American college students borrow more often, owe more money and default more frequently than any other racial group on their education loans.

BUYPOWER CARD

TO PUT IN YOUR GARAGE

Considerations / Recommendations

1. **Who is the Target?** Students and student debt are widely varied: by race/ethnicity, age; type of school; amount of debt, etc.
2. Will the proposed solution(s) **perpetuate existing societal inequalities?** Consider short- and long-run consequences, and for whom.
3. **Are we cherry-picking?** Refinancing smaller amounts debt for higher-risk borrowers is much harder than larger loans for low-risk borrowers.
4. **Getting In vs. Getting Done?** Loan repayment depends on completing a credential. Include college completion and labor market success as an objective.
5. **Alternatives to Loans?** Grants can better target aid to promote college access, and may have less long-run negative effects, than loans.