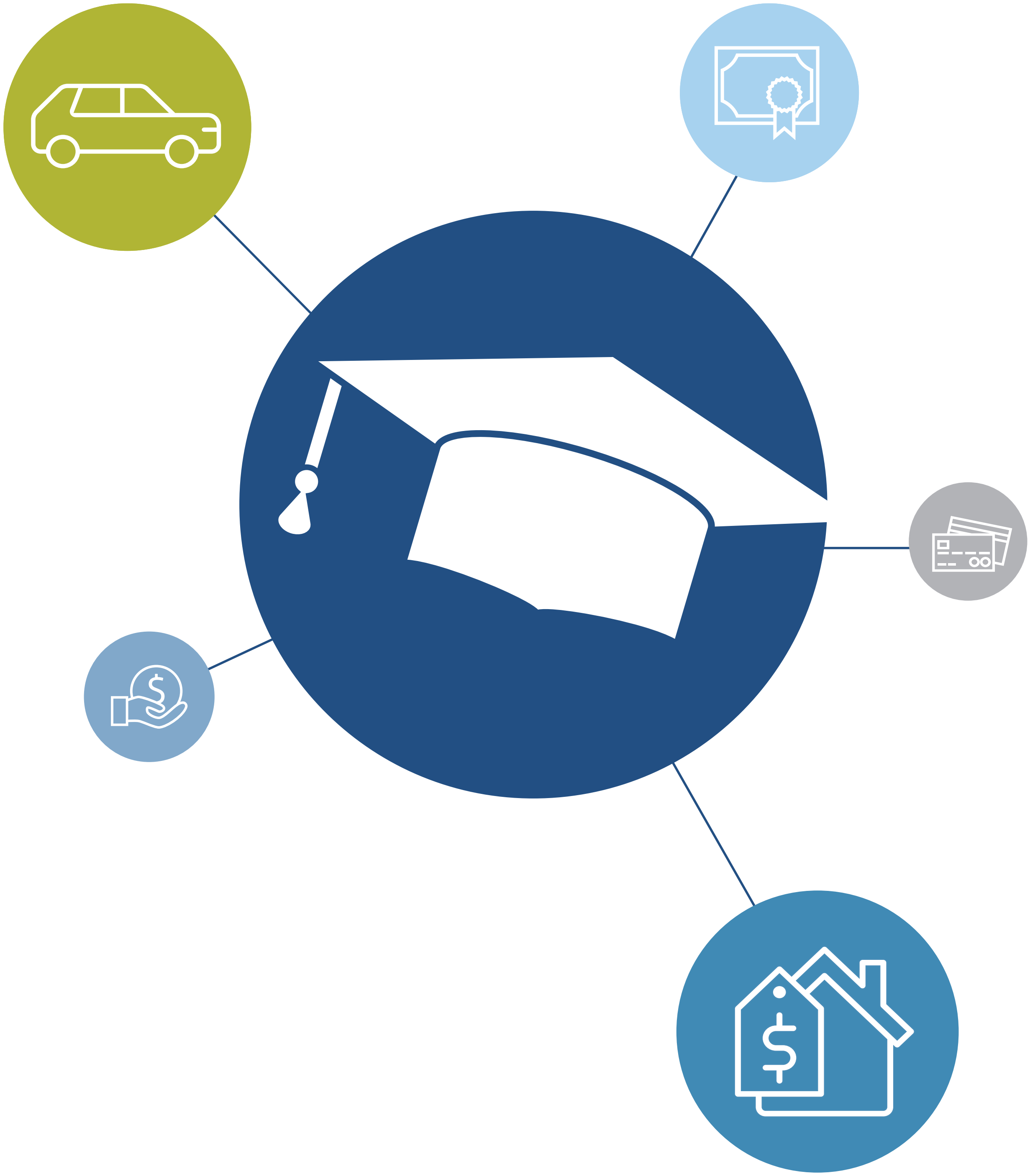


DEBT BY DEGREE:

EDUCATIONAL ATTAINMENT AND DEBT PROFILES

Nefe

PRECARIOUS BEGINNINGS

In early adulthood, financial vulnerability and debt have a complex relationship—for some it facilitates economic mobility, and for others it can hinder financial progress.

New NEFE-funded research investigates financial inequality and insecurity among Americans from age 20 to 30, focusing on individual and household education attainment and the types of debt held. Student loan debt was examined along with secured and unsecured consumer debt to illustrate the broader financial risk experienced by young adults with education ranging from high school diplomas to graduate degrees. The study, conducted by The Ohio State University, suggests that while debt does not always become an unbearable burden, it makes young adults more vulnerable to financial problems when troubles do arise.

Community college attendees are at the forefront of this vulnerability. More diverse and often from lower-income family backgrounds, they represent a financially precarious population attempting to get ahead by investing in postsecondary education. On average they are more likely to start school later and stay in school longer despite a shorter overall degree program—only 39 percent have earned a two-year degree within six years of starting. Furthermore, individuals who obtain associate's degrees carry differing portfolios of debt and the greatest financial burdens, relative both to bachelor's degree holders and individuals who never enrolled in college.

WHEN COMPARED TO OTHER DEGREE HOLDERS, THOSE WITH ASSOCIATE'S DEGREES:

- Have more exposure to vehicle and credit card debt and a higher rate of loan delinquency
- Are more likely to pay higher interest rates on student loans
- Were hardest hit during the Great Recession
- Are more likely to have experienced other major life events such as marriage and childbearing during the same period that they are pursuing educational credentials

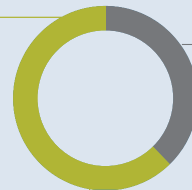
Part of understanding the results of a research project is knowing how not to interpret the findings. For this research study, causal inferences cannot be drawn about the value of an associate's degree versus a bachelor's degree, nor what has led to the difference in debt profiles. Instead, view the results as a series of snapshots. Notice differences in observed outcomes, but do not draw conclusions as to what caused them.

COMMUNITY COLLEGE STUDENT PROFILE

Approximately **6.2 million students** are enrolled

94% are at **public institutions**

About **1.2 million credentials** are conferred annually.

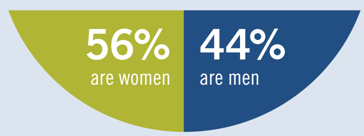


62% are **associate's degrees** (Associate of Arts or Associate of Science)

38% are **certificates**

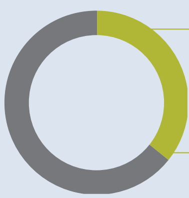
Median age is 24

Average age is 28



56% are women

44% are men



36% are **first generation** college students

Associate's degree holders make up **11%** of the **U.S. workforce**

6 YEAR OUTCOMES

39% have completed a degree

27% complete at the institution they started at

45% are not enrolled and have not completed a degree

12% are students with disabilities

17% are single parents

Source: Statistics compiled from the American Association of Community Colleges, College Board, National Center for Education Statistics and Bureau of Labor Statistics.

COMMUNITY COLLEGE FOCUS GROUPS

A separate NEFE-funded study, *The Effects of K-12 Financial Education Mandates on Student Postsecondary Education Outcomes*, included focus groups to supplement quantitative findings. The two-year college experience touched on the following themes:

- Non-tuition expenses are major financial concerns.
- Students are confused about many of the specifics of financial aid or were given advice that was not necessarily appropriate.
- Life changes can lead to higher-cost choices. Being out of state at a two-year college leads to much higher costs.

DIVERGING PATHS: DEBT EXPOSURE IN EARLY ADULTHOOD

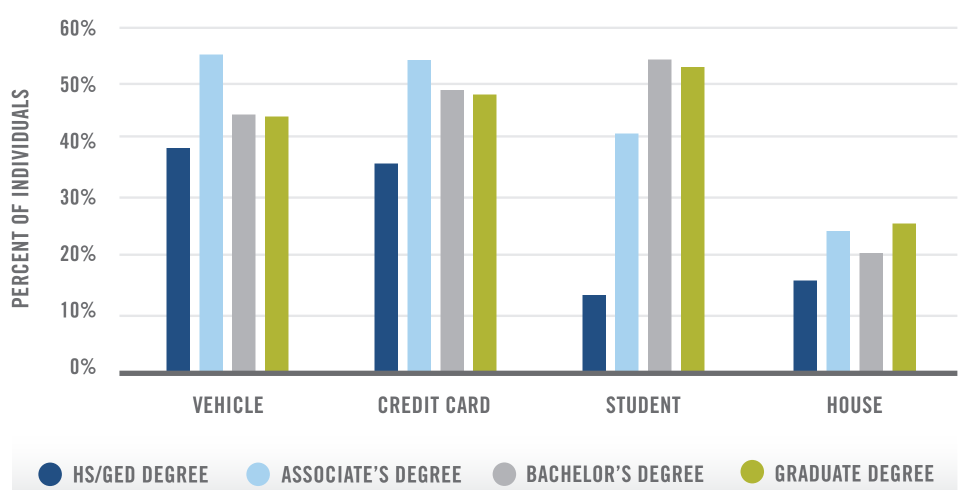
Financial precarity is much broader than student loans. In fact, the overall portfolio of debt holding likely contributes to the difficulty of managing student loan debt, especially in the early years before the returns to any degree come fully to fruition. The composition of one's debt portfolio is a key indicator of financial precarity.

DATA SET: *The National Longitudinal Survey of Youth – 1997* from the U.S. Bureau of Labor Statistics tracks a cohort of approximately 9,000 individuals born in the early 1980s (i.e., Millennials or Generation Y) and interviews them on topics related to the transition into adulthood. Information on associate's degree attainment excludes certificates (awards below the associate's degree level, often in fields such as mechanic and repair technologies and culinary services).

EXPOSURE TO DEBT AT AGE 25

- Individuals who have an associate's degree have the highest exposure to vehicle and credit card debt.
- Bachelor's and graduate degree holders have the highest student debt exposure.
- House debt exposure is highest for those with graduate degrees and is only slightly less for those with associate's degrees.

TYPES OF DEBT BY EDUCATIONAL ATTAINMENT

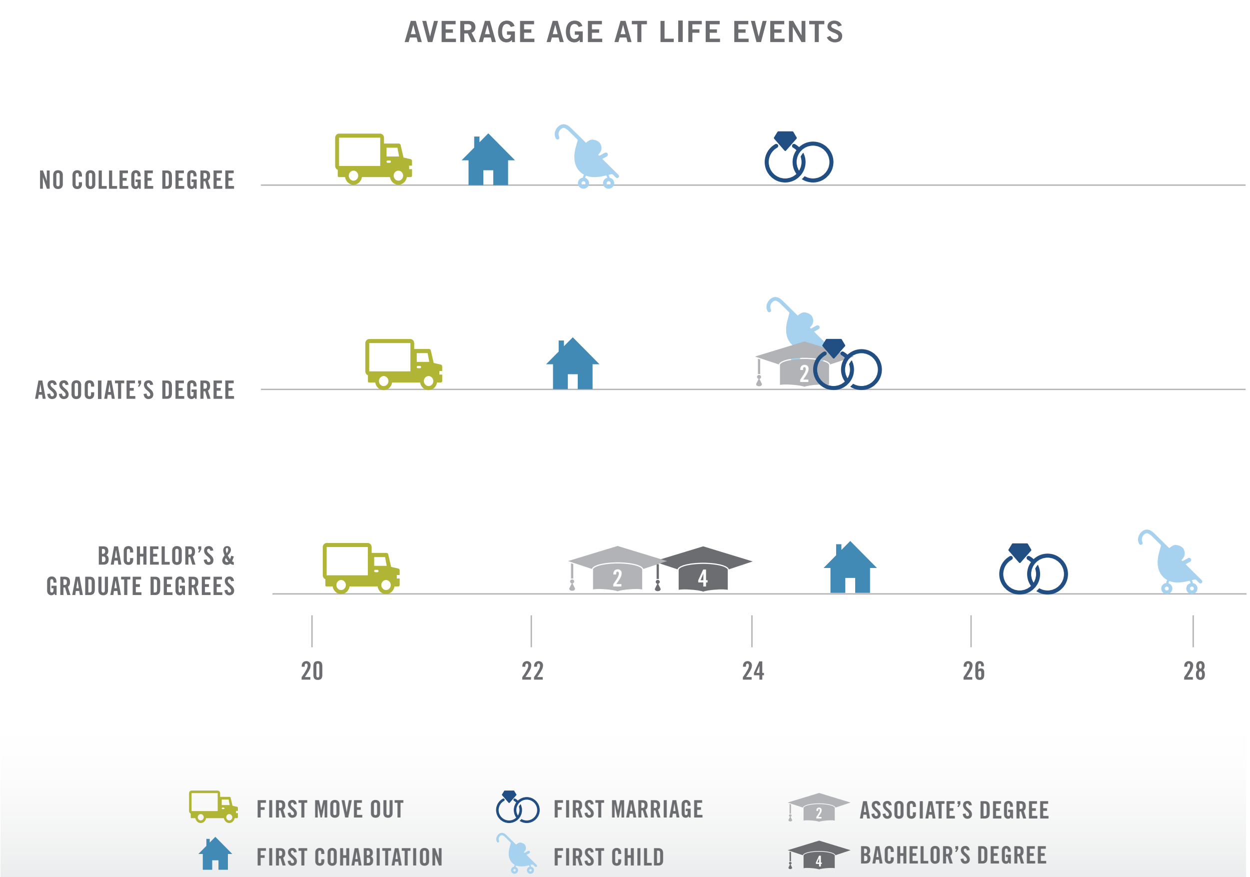


Source: Authors' analysis of National Longitudinal Survey of Youth data

TIMING OF LIFE EVENTS

Those who pursue associate's degrees are more likely to experience a cluster of life events at the same time they pursue their educations.

Degree holders vary in average age of experiencing significant life events such as moving out, living together, getting married, having a child and completing a degree. Associate's degree holders on average experience a clustering of life events—with first marriage, first child and credential earned happening at roughly the same time. Terminal associate's degree holders also earn that degree later than those who complete bachelor's degrees.



Source: Authors' analysis of National Longitudinal Survey of Youth data

DEBT OVER TIME: A COMPARISON OF INDIVIDUALS WITH ASSOCIATE'S AND BACHELOR'S DEGREES

The study captured and compared debt profiles of each type of degree holder at three points in time. From age 20 to 30, debt portfolios between degree pathways begin to diverge.

- Associate's degree holders are somewhat more likely to have any debt at age 20 than bachelor's degree holders. But by age 25, 85 percent of each type of degree holder carries debt. That proportion remains constant through age 30.

- Bachelor's degree holders are more likely to have student debt than associate's degree holders across almost the entire age range, first increasing in proportion and then slightly decreasing. The proportion of associate's degree holders with student debt increases steadily over time.

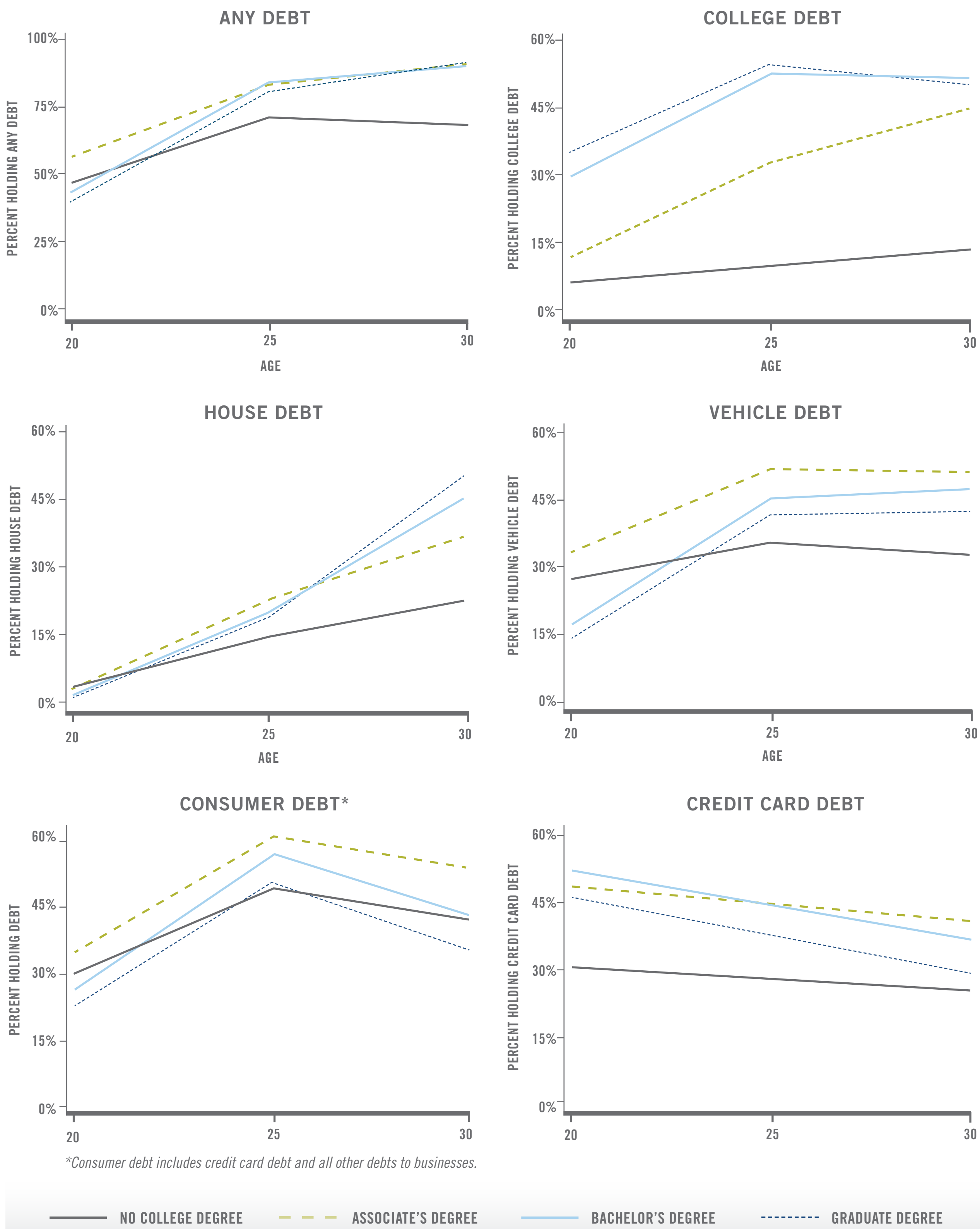
- At age 20, neither type of degree holder is likely to have house debt, but by age 25 about 1 in 5 of each has a mortgage. By age 30, a greater proportion of bachelor's degree holders have house debt.

- Vehicle debt is more common at every age for associate's degree holders.

- Consumer debt is more common at every age for associate's degree holders.

- Both types of individuals are similarly likely to hold credit card debt at age 25. The proportion of bachelor's degree holders with credit card debt drops steadily over time, while associate's degree holders see only a slight decrease.

PERCENT OF INDIVIDUALS CARRYING DEBT



Source: Authors' analysis of National Longitudinal Survey of Youth data

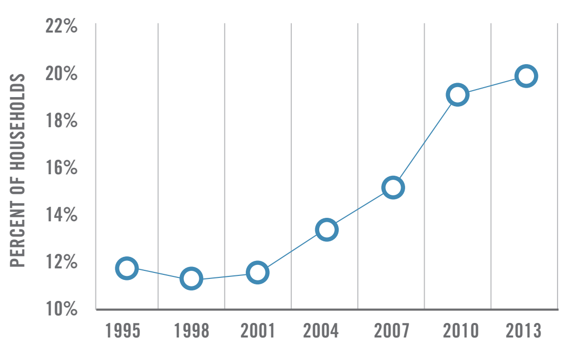
STUDENT LOANS: INDIVIDUAL DECISION, HOUSEHOLD IMPACT

Exposure to student loan debt is not solely an individual issue. Even if an individual does not have student debt themselves, as they travel into adulthood they are likely to be in a household with someone who does carry student debt. Servicing of student debt therefore becomes a household issue, impacted by household finances and circumstances.

DATA SET: *The Survey of Consumer Finances* is conducted every three years by the Federal Reserve Board and collects information on finances including assets, liabilities and income from about 6,000 households. This data set compiles responses by the head of the household. The head of a household refers to the male partner in an opposite-sex couple or eldest partner in a same-sex couple. Information on associate's degree attainment includes certificates.

Student debt has consequences for the entire population, not just those who are incurring it. In 1995, about 12 percent of households held student debt. By 2013, that number was close to 20 percent. Additionally, nearly 1 in 5 households headed by an individual with no postsecondary education (and thus no student loans of their own) contain a member paying off student debt.

HOUSEHOLDS HOLDING STUDENT DEBT



Source: Authors' analysis of Survey of Consumer Finances data

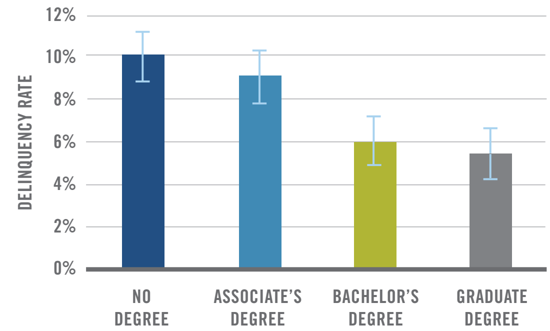
THE GREAT RISK SHIFT

The widening exposure to student loans across the American population occurred at the same time that risks increased from other sources: decreased federal support for public programs, increased job insecurity and decreased prevalence of pensions. Many experts view the increase in student debt exposure as part of this great risk shift.

LOAN DELINQUENCY

Households headed by an individual with less than a bachelor's degree have higher rates of loan delinquency. However, those headed by an individual holding an associate's degree don't statistically differ from those without a postsecondary credential.

LOAN DELINQUENCY RATE BY EDUCATION OF HOUSEHOLD HEAD

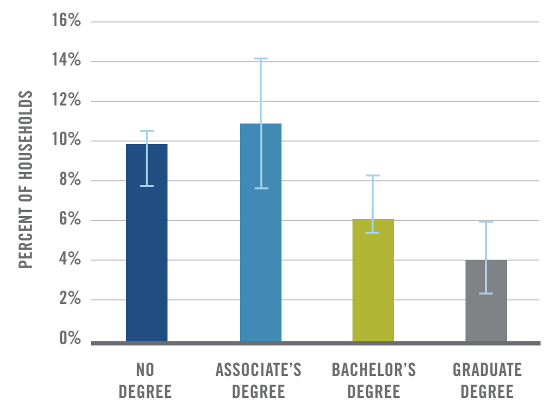


Source: Authors' analysis of Survey of Consumer Finances data

STUDENT LOAN INTEREST RATES

Households headed by associate's degree holders (and non-degree holders) are more likely to pay higher interest rates on student loans. This is likely as a result of taking on more private loans, which often have higher interest rates than federal loans.

HOUSEHOLDS WITH A BORROWER PAYING INTEREST RATES OF 10% OR GREATER ON STUDENT LOANS

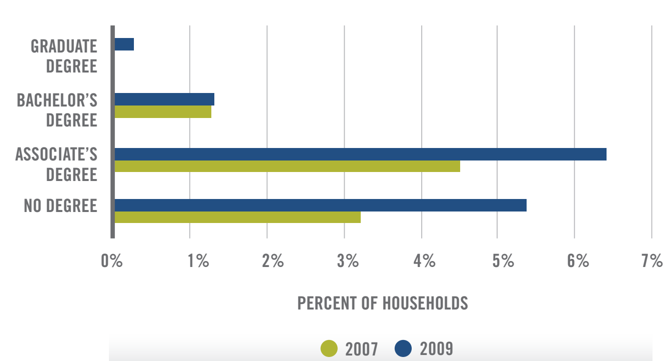


Source: Authors' analysis of Survey of Consumer Finances data

FINANCIAL RISK IN CONTEXT

Debt holdings heighten a household's vulnerability to economic shocks, whether personal or societal. This study examines the Great Recession as an example of such a shock, as it was a challenge for many households. Households headed by someone with less than a bachelor's degree fared worse as measured by utilization of payday loans—specifically those with associate's degrees. In fact, households headed by an associate's degree holder were the most prevalent users of payday loans in both 2007 and 2009.

HOUSEHOLDS WITH A PAYDAY LOAN

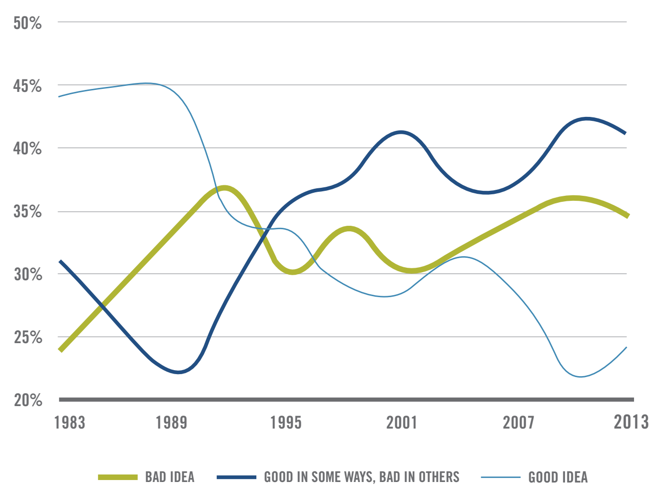


Source: Author's analysis of Survey of Consumer Finances data

ATTITUDES ABOUT BORROWING

Over the past several decades, the proportion of households who think borrowing is strictly a good idea has been trending downward. Those thinking borrowing is a bad idea initially increased and then has oscillated in the low- to mid-30 percent range. For respondents stating borrowing has pros and cons, the proportion decreased through the 1980s, then rose through the 1990s, and since has settled into the 40 percent range.

TRENDS IN ATTITUDES TOWARDS BORROWING



Source: Author's analysis of Survey of Consumer Finances data

CONCLUSION

Inequality in the experience of student loans likely is driven not only by differential returns to degrees, but also by the financial circumstances of the student populations who pursue different degree programs. Two-year college attendees experience major life events and transitions in a significantly different manner than most four-year students. Getting married, going to school and having children at the same time have profound, long-term effects on debt holding and financial precarity.

Most data and assumptions about college focus on bachelor's degrees, but these are not universally translatable to two-year degree pursuers. Understanding their unique challenges forces the field to treat them as a distinct group rather than lumping them in with traditional four-year students.

Implications are clear for both financial education providers and for the research community:

- In delivering financial education for community college students, there is an opportunity to address situations common to their experience. Individuals seeking an associate's degree are a distinct group that deserve consideration, especially when it comes to the financial education resources that colleges provide.
- In conducting research about associate's degree holders, design, analyze and interpret data sets to distinguish between levels of educational attainment, rather than aggregating all college attendees together regardless of what degree they are pursuing.
- Conduct additional research on the life experience and circumstances faced by those who ultimately complete two-year degrees to understand their challenges and how they make educational decisions.

ABOUT THIS STUDY

This summary presents key findings from *Diverging Paths: Youth Debt, College, and Family Background*, funded by the National Endowment for Financial Education® (NEFE®). The principal investigator is Rachel E. Dwyer, Ph.D., at The Ohio State University Department of Sociology. Research assistance is provided by Laura DeMarco, Ph.D., (The Ohio State University) and Emily Shrider, Ph.D., (University of Wisconsin-Madison). Two nationally representative samples were analyzed for this research: the *National Longitudinal Survey of Youth – 1997* from the U.S. Bureau of Labor Statistics and the *Survey of Consumer Finances from the Federal Reserve Board*.

National Endowment for Financial Education

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